An-Najah National University
Faculty of Graduate Studies

THE EXTENT TO WHICH FINANCIAL INFORMATION COMPARABILITY IS AFFECTED BY ACCRUAL QUALITY AMONG SELECTED PALESTINIAN AND JORDANIAN INDUSTRIAL AND SERVICES LISTED COMPANIES

By
Nour Abdul-Rahman Arafat

Supervisors
Dr. Ghassan Daas
Dr. Muiz Abu Alia

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This Thesis was Defended Successfully on 07/07/2022 and approved by:

Dr. Ghassan Daas Supervisor	Signature
Dr. Muiz Abu Alia Co-Supervisor	Signature
Dr. Ibrahim Ateeq External Examiner	Signature
Prof. Dr. Abdul Naser Nour Internal Examiner	Signature

Dedication

To my parents who are my first teachers

To my beloved husband Hazem, who trusts my abilities to complete this work

To my father in law who inspired me to this journey

I thank you for your love and care

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I would firstly give my thanks to Almighty Allah for allowing me to take this journey which gives me a lesson in will and determination. Also, I would like to thank my supervisors Dr. Ghassan Daas and Dr. Muiz Abu Alia for their guidance, support and inspiration. This work would not have made without their generous help.

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Last but not least, thanks to my family, parents, husband, parents- in-law and my friends for you encouragement and endless support.

Nour Abdul-Rahman Arafat

Declaration

I, the undersigned, declare that I submitted the thesis entitled:

THE EXTENT TO WHICH FINANCIAL INFORMATION COMPARABILITY IS AFFECTED BY ACCRUAL QUALITY AMONG SELECTED PALESTINIAN AND JORDANIAN INDUSTRIAL AND SERVICES LISTED COMPANIES

I declare that 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.

Student's Name: Nour Abdul-Rahman Arafat

Signature: Nour Arafat

Date: 07/07/2022

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Abstract

This research aims to investigate whether accrual quality has an effect on financial statement comparability in Palestinian and Jordanian listed companies. Financial statement users are in a better position to have the ability to compare financial statements that are characterized with high quality; thus making the correct decision. The research has chosen the industrial and service sectors as the research sample, covering the period (2010-2020).

Research results have shown that accrual quality is insignificantly related to comparability among all the selected sectors. This research refers the insignificance results to financial statement comparability. According to De Franco et al. (2011), Comparability is defined as a mapping from economic events to financial statements. Earnings are taken as a proxy for financial statement and stock price return as a proxy for economic events. Comparability regression results have shown that this relation does not explain the variation in the variables and the model does not fit well in our setting. The change in stocks prices both in Jordanian and Palestinian selected sector is not that much changeable; as a result, it could not have an effect on net income. This research concludes that using market measures may not be reliable in comparing firms.

Adopting such comparability models that highly depend on market value measures may not provide reliable answers. These models are likely to be applicable appropriately in developed countries that are characterized with high capital markets. Whereas developing countries, are characterized with weak capital markets, thus will lead to information asymmetry.

The research recommends investors and any type of financial statement users, who are concerned in financial statement comparability, must be cautious in selecting a

comparability model that suites the surrounding economic setting, so as to get validating answers. Future research would investigate an output based comparability model fits the regions where may not actually present markets value measures and have variation in market efficiencies.

Keywords: Financial statement comparability, accrual quality.

Chapter One
General Framework of Research

1.1 Introduction

The paradigm shift in economic globalization and cross-border investments necessitated exerting more efforts to enhance the comparability of the financial statements. The international convergence efforts were culminated by the wide adoption of the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) (Branson & Alia, 2011). As an international standards setter, the IASB asserted the significant role comparability plays as a qualitative characteristic of the financial statements.

According to the IASB, the adoption of the IFRS unites the basis on which different entities worldwide prepare their financial statements. Thereby, comparisons between entities become easier internationally (IASB, 2021). A large body of accounting literature tackled comparability by investigating IASB's assertion and has reported that it increases both comparability and accounting quality. (Richardson et al., 2005; Lang et al., 2010 ; Brochette et al., 2012; Zegal et al., 2012).

Information comparability is defined as the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena (Financial Accounting Standard Board, 2018). In addition, the Financial Accounting Standards Board further states that "greater comparability of accounting information, which most people agree is a worthwhile aim, is not to be attained by making unlike things look alike any more than by making like things look different" (Financial Accounting Standard Board, 2018),(International Accounting Standard Board, 2018) These statements assert that there are two equally important facets of information comparability, namely: the similarity facet and the difference facet. The former indicates whether firms engaged in similar economic activities report similar accounting amounts while the latter indicates whether firms engaged in different economic activities report dissimilar accounting amounts (Yip & Young, 2012).

Comparability benefits are not only limited to eliminating the barriers of consolidating different financial information, but it also leads to an increase in the flow of

international investment due to reducing the misunderstanding of foreign financial statements so that reducing the cost of acquiring information (Diaconu, 2007). Furthermore, comparability helps investors to determine where to allocate their investments by providing them with a benchmark of a comparable firm. This is in turn enables users to know how a firm's economic events are translated into accounting figures. If there is no accounting comparability, investors cannot specify where the variation of performance across firms comes from (Choi et al., 2018).

Comparability and accounting information quality have been received a great attention, particularly after the adoption of IFRS. Taking into consideration that comparability focuses implicitly on information quality. This research focuses on earnings quality (proxy for accounting quality) as one possible determinant of financial statement comparability. Assuming that earning quality must occur first to achieve information comparability goals. Dechow et al., (2010, p. 344) has defined earning as being high quality if it "provide more information about the features of a firm's financial performance that are relevant to a specific decision made by a specific decision-maker." Consequently, comparability is useless if information does not possess earnings quality.

Accounting literature has mainly studied comparability using earnings and cash flow as proxies considering them as summery indicators for financial statement comparability. On the other hand, earnings comparability are more used in research than cash flows); De Franco et al.2011, Cascino & Gassen, (2014); Chen et al., (2016) and Choi et al., (2018).

1.2 Research Problem and Questions

IASB main objective is to provide a high quality set of accounting standards to ensure financial information transparency and comparability. This has forced the interest for a considerable stream of accounting literature to study whether IFRS adoption increases accounting quality Indeed, it has increased accounting information quality. Lang et al. (2010), Brochet et al. (2012).However, Prior studies have argued that accounting standards are not the only influencer on financial reporting outcomes, but rather the ways accounting standards are applied in addition to the role of economic agents (Majeed et al., 2018) (Kawada, 2014).

Accounting standards allow some flexibility in accounting choices. There is a space where judgment and estimation errors exist; this will cause different amount results. The different application will in turn result earnings to be featured with different quality (Wan Ismail et al., 2010). Furthermore, Zegal et al., (2012) addressed that comparability is determined by firm specific factors and economic factors. Therefore, comparability will reflect all of these factors on operating environment and similarities in financial reports behavior.

Taking together all the previous issues, financial numbers might introduce less reliable and relevant information to decision makers, this is important to address, especially when an investment decision situation is being taken, a financial statements user usually compares a particular firm's financial performance to certain benchmark either time series performance for the same firm (ex: net income), or cross sectional among other firms in the same financial period. The more this benchmark is characterized as being high quality, the better the user can compare. In other words, there must be certain aspects of accounting quality (earnings quality) that enable the financial statement user to compare and take the right investment decision. Earnings quality is a considerable aspect of financial information; this importance is generated from investors' interest to buy future earnings (Penman, 2002).

Several studies have shaded light on comparability through various research areas. For example De Franco et al., (2011) focus on the benefits of comparability, Cascino and Gassen, (2014) studied IFRS's impact of comparability use, Chen et al., (2016) addressed the comparability effect on acquisition decision. Hence, little research studied the relation of comparability and earning quality directly. For example, the literature has mainly focused on earnings management as proxy for earnings quality and relates it to comparability Sohn, (2016) has shown that accrual-based earnings management is associated with lower comparability. However, there is limited evidence on the relationship between earnings quality and financial statement comparability. Therefore, this research aims to investigate the extent to which the financial statements comparability are affected by earnings quality cross sectional (as a one possible determinant of financial statements comparability). Cross sectional aims in collecting data regarding research variables at a same single point of time for different objects. In contrast to longitudinal data, aims in collecting repeated data for a same single object

over specific period of time (Thomas, 2020). However, this research does not differentiate between the unintentional action characterized by estimation errors and judgment and intentional actions characterized by earnings management,, because they are both considered as distortion in earnings quality.

More specifically, this research is an attempt to answer the following question:

- To what extent is the financial statement comparability affected by accrual quality among Jordanian industrial firms.
- To what extent is the financial statement comparability affected by accrual quality among Jordanian service firms.
- To what extent is the financial statement comparability affected by accrual quality among Palestinian industrial firms.
- To what extent is the financial statement comparability affected by accrual quality among Palestinian service firms.

1.3 Research Objectives

The main objective of this research is to investigate the accrual quality effect on financial statement comparability in Palestine and Jordan, specifically in the industrial and services sector. the research covers ten years period (2010-2020). To achieve this objective, the following are required:

1. Investigate the extent of accrual quality by collecting data from the annual reports of the listed companies in Palestine (PEX) and in Jordan (ASE).
2. Investigate the extent of financial statement comparability through collecting data from annual reports of listed companies in Palestine (PEX) and in Jordan (ASE).
3. Examine the effect of accrual quality on financial statement comparability
4. Establish a comprehensive understating of financial statement comparability and its importance.
5. Discuss the approaches are used in literature to measure accounting comparability and present the pros and cons for each approach.
6. Interpret the analysis findings generally. Also, discuss the meaning of these results specifically in Palestine and Jordan setting.

1.4 Importance of the Research

The contribution of this research to the growing body of accounting literature can be drawn from many points. It extends previous works by providing evidence on the degree on financial statement comparability, earnings quality and their association. One can posit that comparability has been well studied; however, its association with earnings quality has little evidence. In addition, this research views comparability in this area differently. Studies linked comparability with earnings management as comparability the independent variable, while this research considers comparability as the dependent variable. Furthermore, most prior researches investigated comparability cross sectional among firms using short longitudinal data within maximum four years period such as Yip & Young, (2012); Wang, (2014), while this research takes ten years data. Besides, this research provides evidence on two countries' comparability and earnings quality (Palestinian and Jordanian listed companies) that rare studies are conducted on regarding this topic, especially those two countries where investment and capital allocation is highly frequent. More specifically, collecting data for ten years regarding Palestinian and Jordanian firms (longitudinal) and analyzing depending on each single time period (cross sectional).

Finally, by providing evidence on Jordanian and Palestinian market specialty, results can offer researchers new horizons for new models that suit these regions reasonably, since accounting comparability is an important characteristic to be focused on.

1.5 Research Limitation

This research has some limitation that should spot the light on. Firstly, this research is limited by the lack of prior research which studies regarding earnings quality and comparability generally and specifically in Palestine and Jordan. Since, little research that directly links between earnings quality effect on comparability.

Furthermore, the complexity of comparability model limits the application on a large size of sample, especially on the Jordanian sectors, whereas Palestinian sectors include less considerable number of listed companies. Measuring comparability involves particular steps that need special caution and notice, while there might be special programs can solve this problem, but the of access to such programs is another

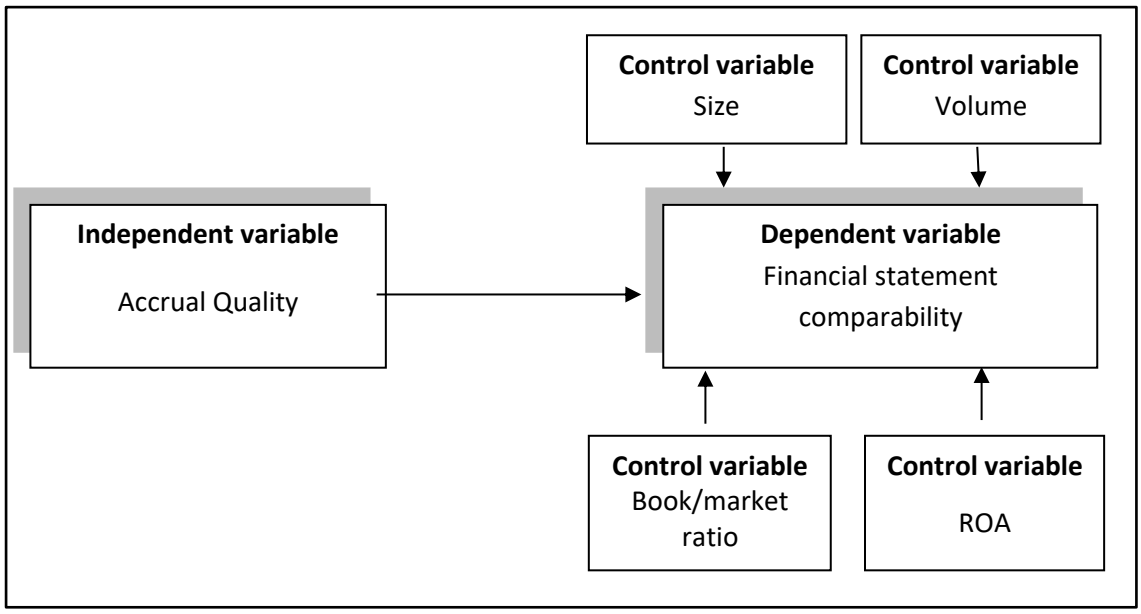
limitation to broaden size sample; so as to include more sectors and might have different results across.

1.6 Research Model

The following chart demonstrates variables in research model.

Figure (1)

Research Model



Chapter Two
Theoretical background,
Literature review and Hypotheses Development

2.1 Introduction

This chapter presents the theoretical background of financial statement comparability and earnings quality. Taking into account the concepts of them, the related theories around and the measurement methods are used to both comparability and earnings quality. Furthermore, it presents how related theories explain the relation. Finally, this chapter develops research hypothesis depending on related literature.

2.2 Related Theoretical Framework

2.2.1 Earnings Quality

Earnings quality (EQ) is an area of research that has been receiving a great attention among regulators and researchers especially after an important event; the International Accounting Standards Board (IASB). IASB has aimed to develop a high quality set of accounting standards that need financial statements to be transparent and comparable.((International Accounting Standard Board, 2007). IASB wide acceptance, adoption and IFRS implantation have generated the interest for many researchers to study the extent to which these standards are a high quality Lang et al. (2010), Chen et al., (2016). Furthermore, accounting scandals have forced to examine accounting quality (Morais & Curto, 2008).

Although accounting quality is not specifically defined by IASB, many proxies have been used to study it. For instance earnings quality, earnings management, timely loss recognition and value relevance are all considered as proxies for accounting quality. However, this research will focus on earnings quality.

Prior researchers have given several definitions to earnings quality. For instance, Dechow et al., (2010) has provided the most comprehensive definition of earning quality (DeFond, 2010). Dechow et al., (2010; p.344) has defined earning as being a great advantage if it “provides more information about the features of a firm’s financial performance that are relevant to a specific decision made by a specific decision-maker.”

Dechow et al., (2010) further notes that EQ alone is not meaningful, but it should be related to particular decision relevance of information. In addition, EQ depends mainly on a firm's financial performance and the ability of its accounting system to measure this performance.

Penman, (2002) suggests that earnings quality is a considerable aspect of financial information; this importance is generated from investors' interest to buy future earnings. While (Cohen, 2003) defines earnings quality as the extent to which accurate accounting numbers are accurate to reflect firm's economic fundamentals and the extent earnings map into realized cash flows from operations. Also, some researcher such as(Penman & Zhang, 2002) sees earrings quality as the extent to earning reported earnings associated with conservatism.

Earnings quality is also defined by Schipper & Vincent, (2003) as the extent to which earnings represent Hicksian income faithfully. Hicksian income is (maximum amount that can be consumed consistent with the maintenance of wealth). Also, they define faithful representation as the agreement between the measure and the phenomena that is intended to represent. Some certain aspects in Hicksian income avoid involving the management's judgments and estimates impact, and accounting rules that must be applied, so this is what earnings look like far away from these aspects. In another words, the higher earnings quality, the more are closely to Hicksian income. However, Schipper and Vincent, (2003) and Zegal et al., (2012) argue that no agreed definition has been yet given to earnings quality.

2.2.2 Measuring Earning Quality

Accrual quality, properties of earnings, earnings attributes or are all used interchangeably in the literature (Peterson et al., 2015). Also, it is important to clarify that wherever earnings quality is mentioned, it is the same as earnings quality, since earnings are also considered as accruals. Reminding, all the previous are used as proxies to measure accounting quality. However, this category focuses on accrual quality proxies which are: earnings smoothness, earnings persistence, abnormal accruals, asymmetric timeliness and loss recognition. (Dechow et al., 2010).. Since (AQ) is selected as the independent variable in this research..

2.2.2.1 Earnings Smoothness

Earnings smoothness refers to the extent to which managers use the opportunistic of accounting standard to smooth earning by altering accruals to achieve certain goals, where smoother income indicates lower accrual quality. (Lang et al., 2003; Dechow et al., 2010).

Zegal et al., (2012), Barth et al., (2008), Lang et al., (2003) used the change in net income scaled by total assets to measure the extent to which earnings are smoothed. In this measure, the smaller variance indicates a smoother income.

2.2.2.2 Earnings Persistence

This proxy is one of time series earnings properties. Earnings persistence is referred as the sustainability of income, in which income is permanent and less transitory. In addition, it has been considered in decision usefulness specifically to equity investors' valuations (Dechow and Dichev, 2002). This proxy is grounded on the idea that the more earnings are persistent, the better valuation inputs investor get, thereby a higher earnings quality. (Schipper & Vincent, 2003; Dechow et al., 2010). Peterson et al., (2015) measured earning persistent by calculating coefficient value of the regression of the firm's earnings per share on earnings per share that lagged.

2.2.2.3 Abnormal Accruals

Another important proxy of earning quality and the most used in the literature is the abnormal accruals. Prior literature presents the adjustments that inherently reflect a firm's fundamental performance and referred to non-discretionary accruals. However, the latter presents the distortion made by the application of earnings management or accounting rules and referred to discretionary accruals. Thus, researchers constructed accrual models so that they model the normal portion properly and the residual from the general model demonstrate the abnormal portion (Dechow & Dichev, 2002; Dechow et al., 2010). It's important to distinguish between earnings quality and earnings management. Earnings management also refers to abnormal accruals because they are both implicitly indicate intentional adjustments made to accruals, since abnormal accruals is also considered as one of earnings management proxies, thus all of them are proxies of earnings quality (Peterson et al., 2015).

This section will present the most widely and commonly used models in earnings quality literature.

1. Jones, (1991) was the first to construct an abnormal model. His model was built on the notion of working capital and depreciation as a function of sales growth and property plant and equipment, considering these two variables are the main drivers for a firm's value. Jones aimed to separate the discretionary portion from the non-discretionary and referring the residuals to earnings management. (Jones, 1991). The following equation regression presents Jones, (1991) model:

$$Acct=a+b1DRevt+b2PPEt+et$$

However, McNichols, (2002) criticized Jones model for the lack of certain variables such as cash flows that reflect the firm's economic fundamentals. Jones, (1991) has been widely used in earnings management literature (Xie et al., 2003; Roychowdhury, 2006; Zegal et al., 2012).A second important measure is by Dechow and Dichev (2002) which examines the relation between accruals and cash flows. It is built on the notion that firms are encountered with economic transactions that their timing differs from the timing of their related cash flow. In this context, the beneficial role of accruals arises, which provide temporary adjustments that shift cash flow recognition over time. In addition, it uses earning as a measure of an entity's financial performance. The change in working capital as a proxy for accrual and cash flow from operation (CFO) as a proxy for cash flow. By using working capital as a proxy, this will better trace the cash flow related to accruals particularly within one year. The following equation presents Dechow and Dichev, (2002) regression model:

$$\triangle WC = b_0 + b_1 CFO_{t-1} + b_2 CFO_t + b_3 CFO_{t+1} + e_t$$

More specifically, the above equation demonstrates that accruals are temporary adjustments leading to shift cash flow recognition over time with an estimation error included. This error detects the extent to which those accruals map into realized cash flow. However, the residuals from the regression above present the cash flow that do not relate to any accrual. The standard deviation of the residuals is the measure for a firm specific accrual quality; the higher standard deviation conveys lower accrual quality. It should be noted that Dechow and Dichev, (2002)model was contrary to Jones. Dechow and Dichev, (2002) aimed to examine accruals as a whole and did not

refer this error to any unintentional (estimation error) or intentional error (earnings management).

Dechow & Dichev, (2002) model has been widely used in earnings quality literature. For example, Francis et al., (2005), De Franco et al., (2011), Peterson et al., (2015), Zegal et al., (2012) and Sohn, (2016) employed it as a proxy of EQ.

2. A third commonly used measure of accruals quality is by McNichols (2002). This model closely follows both Jones, (1991) and Dechow & Dichev, (2002odel by combing them into one single model. McNichols (2002) argues that Jones's model omits particular variable that are necessary to reflect economic fundamentals such as cash flows. Moreover, he has provided evidence that Jones model has estimation error that it does not capture all the discretionary accruals (DA), rather it also reflects some non-discretionary accruals (NDA). While he also suggests regarding DD model, that it would be better including Jones variables (sales and PPE). These two variables provide a better check of accruals and cash flows relation.

The statistical results have shown after including all the above variables in one model, that the explanatory power (R square) has increased to.30. Additionally, the results indicate that cash flows are significantly correlated with residuals in Jones model. Regarding sales and PPE are also significantly correlated with DD residuals model. McNichols,(2002) has been used by Doyle et al., (2007).

2.2.2 Financial Statement Comparability

Comparability, verifiability, timeliness, and understandability are the main qualitative indications. (International Accounting Standard Board, 2018) Comparability makes a choice between two contrastive selections to other qualitative indications. Furthermore, it is not uniformity at all. In order to have comparable information, similar information should not look the same. It's not improved by things appearing similar when they aren't. However, achieving basic qualitative characteristics can achieve some comparability (International Accounting Standard Board, 2018).

Previous conceptual frameworks have had a debate on the significance of comparability, as the framework said that "comparability is as significant as relevance and fidelity." Still, the basic indication of relevance and fidelity is an advantage when

the financial information can be compared from the same company at a different time or to other companies ("Concepts Statement No. 8-Conceptual Framework for Financial Reporting", 2021).

According to Branson and Alia (2011), previous studies have used harmonization, which has two indications, to mean comparability. The first is de jure harmonization, which means the degree of harmonization of accounting standards formality. The other is defined as de facto harmonization; the so-called degree of harmonization of accounting practices and methods is also known as substantive harmonization. De facto harmonization of assessment is “an increase in the degree of comparability which leads to having more companies apply the same means to an event in the same circumstances, or provide additional information, so that more companies' international reports can be compared” (Canibano & Mora, 2000, p.353).

2.2.2.1 Comparability Measurement Methods

The accounting literature on accounting comparability can be mainly divided into two categories according to the methodologies used. The first is input based and the second is output based measures. The former is referred as the use of particular accounting policies and investigate how much those accounts are comparable across firms, especially where accounting choices exist in some accounting standards as the case in IAS 16, IAS 38 and IAS 40[*]etc. The second methodology is based on regression equations to investigate the similarity across firms using firms’ economic characteristics, such as earnings and cash flows (De Franco et al., 2011).

As for input-based measures, a harmonization or comparability indices gives (01-) measurements ranging from zero compatibility to total compatibility. Van der Tas, (1988) was one of the beginners to construct input-based indices such as H, I and C.

H index is able to quantify where choices are concentrated across firms. The I-Index is for two countries with multiple comparisons, but needs to be lower if a larger sample of companies is used. Van der Tas (1992) solved this problem by model correction. As for C index which is specialized in taking into consideration multiple accounting practices.

[*] IAS 16: Property, Plant and Equipment, IAS 38: Intangible Assets, IAS 40: Investment Property.

However, the C-Index has been criticized by Archer et al (1995) for not distinguishing between national and international comparisons. To solve this problem, Archer et al (1995) divided and constructed the C index into an index for comparison between countries (Cb index) and another for comparison within countries (CW index). These indices were used by Canibano and Mora (2000) to test income tax, capital gains on leases, and foreign currency translation, and Ali et al., (2006) focusing on inventory, PPE, long-term investments, leasing and intangible assets in South Asian countries.

They found that among South Asian countries there is a higher degree of international comparability in the areas of PPE, foreign currency translation and long-term investments, while there is a lower degree in inventories, leasing and goodwill amortization. They suggested that these uneven results are due to the flexibility of reference treatments in IFRS and there is not full compliance by entities with the requirements of IAS.

For contemporary studies, De Fond et al., (2011) studied the effect of comparability after IFRS adoption on foreign mutual funds ownership using two proxies. The first in which he argues that comparability is achieved by the faithful and credible implementation of IFRS by managers. He used to measure this point by the earning management model [i]introduced by (Leuz et al 2003). The second proxy is the increase change in uniformity of the same accounting standards applied across industry peers respecting the national standards.

However, Strouhal et al., (2011) measured the degree of comparability achieved through IFRS adoption and compared it to national standards that the accounting practices are similar to the previous research mentioned above. Strouhal et al. (2011) used Jaccard and Spearman's correlation coefficients to test the comparability of small and medium-sized enterprises in Central and Eastern Europe. They have provided evidence that Estonia is the most comparable country, Romania is the least harmonized. Such differences can be seen in tangible assets.

Taplin, (2011) has constructed T index that indicates the probability that two randomly chosen companies have comparable accounts. The researcher created the index for an international level of comparability and weighted countries according to their size based on the number of companies exist in each.

Taplin (2011) criticized previous comparability indices because of the lack of statistical methods. This problem is related to the lack of an indication of the difference between the level of harmonization in the sample and the population and the lack of a clear reference point when a particular value does not securely relate to a known scale between high, medium and low.. The T-Index solved the above problem by providing a benchmark of comparability between 0.75 and 1, which was considered high, as moderate comparability between 0.55 and 0.74 and was low between 0 and 0.54.

Souza and Lemes, (2016) examined the degree of comparability in the accounts of tangible and intangible assets using the T-index within and between Brazil, Chile and Peru. They pointed out that higher levels of comparability of PSA and intangible assets tend to be lower.

Some researchers were interested in a specific accounting, such as B. Gordon and Gallery (2012) who created a specific comparability framework for pension accounting. Associate similar or different events with similar or different accounting. The framework distinguishes between four types of comparability: shallow, deep, non-convergent, and intrinsic. Superficial comparability is the situation where the same accounting policy is applied to different economic events.

However, when similar economic events are treated the same even though there are no alternatives at all, this is a deep comparability. A non-converging comparability exists when alternative accounting treatments may be applied to similar transactions. The prerequisite for using dissimilar economic events with different accounting methods is the comparability of the intrinsic differences.

Input based measures are associated with some problems. Prior researches chose particular accounting choices to be examined, but there was no clear guide of this selection, weight assignment and whether weights are assigned correctly. This might be one of the justifications that newer studies go to output based measures.

For output-based measures, De Franco et al., (2011) have given to accounting literature some evidences about the benefits of comparability through constructing two empirical measures. Its purpose is to measure comparability from the perspective of users who evaluate the company's historical performance or make decisions based on the

company's financial statements. They have evaluated comparability by measuring the similarity of earning return by taking stock return as a proxy. Also, the first measure model is derived from the perception that two firms are considered comparable if their accounting systems produce similar economic events. They have assumed that having comparable firms would benefits analysts by covering more firms, improving forecast accuracy and reduce forecast dispersion by using actual earnings so they have been taken them as proxies of earnings quality. De Franco et al., (2011) found that comparability is positively associated with analysts' coverage, accuracy and with lower dispersion. The sample has been selected according to economic characteristics to reveal any variations in the measure. However, as the case for most studies, there is no specific scale for results. They refer those greater values indicate a higher comparability.

The second measure (prices lead earnings) is an alternative measure of the first model because it may have some limitations of using only earnings. The approach assumption is based on the rate at which economic information is conveyed to prices is equal among firms' pairs. It aims to capture differences in accounting system timelines to classify firms using predicted earnings, since two firms are considered to be not comparable if they have the same accounting earnings time.

De Franco et al. (2011) earnings similarity model has been widely used in accounting literature. We can see his model in Lang et al. (2010), Brochet et al. (2012), Yip and Young (2012) and Cascino and Gassen (2014) who all have studied the effect of IFRS adoption on comparability. Barth et al. (2012) investigated comparability between firms applying IFRS and those apply; GAAP, Chen et al., (2016) studied the comparability effect on acquisition decisions; Campbell & Yeung, (2017) showed that comparability can also be related to negative outcomes such as firm's restatements; Black et al., (2021) gave some evidences about the degree of comparability in non-GAAP earnings and Choi et al., (2018) examined the comparability effect on stock prices informativeness,

Yip and Young (2012) have investigated comparability in a different way. They have invoked two facets to estimate comparability, firms with similar economic actions and firms with different economic action within and across countries, by using. However,

this research does not agree with the different facet of comparability, it is not logical to test comparability across firms with different economic actions because they do not possess any equivalent characteristics at all.

Furthermore, they used three proxies to estimate comparability. The first one is based on (De Franco et al., 2011) model as we previously explained. The researchers have added new modification for (De Franco model of comparability. Thus, they have taken (ROA) as a proxy for financial statement rather than net income to market value of equity. Also, they have included variable that control for firm size institutional settings and stock listing. The second proxy is informational transfer which uses abnormal returns as a measure, since it's based on the correlation between two firms accounting earnings. This idea is grounded on identifying how a firm's information signal influences the other firm's valuation. In case of achieving comparability, non-announcing firms' reactions to announcing ones will be higher, by allowing investors to have more additional information through earning signal by the announcing firm to value the non-announcing one. A low of information transfer means that if earnings are not comparable, we cannot predict the value of the non-announcing firm. The third is the similarity of information content earnings (ICE) and information content of book value of equity (ICBV). The latter aims to capture the extent to which ICE and ICBV are similar to reflect firms' economic performance of. It's derived from which similar firms' activities would have similar ICE and ICVB if accounting systems are comparable. However, information transfer which aims to measure comparability is also used by Brochet et al., (2012), Wang, (2014) and Cascino & Gassen, (2014).

Cascino & Gassen, (2014) closely follow Yip & Young, (2012). They have carried the work on by developing a cash flow comparability measure to predict earning that is not influenced by market capitalization and so to validate the results. However, their methodology went through several stages to interpret the reasons behind the result of comparability. First, they have tested the effect of it at industry, country, and peer country level before and after IFRS adoption. Second, they have examined the extent of compliance toward IFRS and determined the incentives behind it. Third and the last, they have taken these determinants of incentives to see if its moderate compliance, taking also into consideration the enforcement role at country level.

Barth et al., (2012) who constructed a value relevance metric to measure comparability. They considered comparability to exist when accounting amounts can interpret the same differences in economic outcomes, since value relevance is actually used as a measure of the ability of accounting amounts to reflect an entity's economics. However, the metric is; based on the power of the stock price, stock return and cash flow regression model, considering them as economic outcomes. Power is the difference of each model, including fixed effects and accounting amounts, minus the nested model, which contains only fixed amounts.

Cash flow measures have also been used to estimate accounting comparability that captures the mapping of economic events. Cascino & Gassen, (2014) argue that using a cash flow measure avoids the effects of variations in market efficiencies; so that it solves the problem by depending on stable levels of markets across countries. Barth et al., (2012); Cascino & Gassen, (2014); Chen et al., (2016) and Choi et al., (2018) who all used cash flow measure as an alternative model beside De Franco et al., (2011)'s model by replacing earnings, stock return with accruals and cash flow respectively. Yip &Young, (2012) also added a cash flow model for robustness tests in order to not only depending on equity-based measures.

2.2.3 Related Theories

2.2.3.1 Information Asymmetry

Accounting information plays a significant economic role in enabling users, specifically capital providers to evaluate their investment return to any particular firm. Also, once capital providers invest their capital, accounting information enabling them to monitor the use of their investment. (Beyer et al., 2010)

The previously mentioned are the main characteristics that shape any corporate information environment. The evaluation point relates to information asymmetry problem and the second points relates to the agency cost problem. These two problems have shed light on disclosure regulation.

Information asymmetry is addressed by signaling theory, that signaling is formed in any market with information asymmetry. Information asymmetry arises when firm's managers keep private information related to particular firm's information, before

market. Furthermore, this theory is accounted high when managers keep large amount of information hidden. Besides, managers usually possess more specific information about the firm's profitability (the value of firm) in the current and future periods than outsiders. It is indicating that mangers may have incentives to alter profitability projections. (Beyer et al., 2010) Thus, this will create asymmetry between managers and investors and may lead to adverse selection problem. However, asymmetry will be resolved through the passage of time or by a releasing event (Dierkens, 1991).

Still, earnings quality is considered as one of the causal variables that affects information asymmetry (intentional and unintentional practices). For instance, Lambert, (2006), Bhattacharya et al., 2011) investigated the association between information asymmetry and cost of equity that they suggested that earnings quality proxied by information risk is a mediating variable of information asymmetry. This is a natural explanation of the results, since EQ is an output of a specific firm's operational settings and a result of accounting standards application.

In summary, financial numbers that are characterized with high earning quality would, reduce information asymmetry and allow investors to compare accounting information and interpret firms' financial numbers. Still, a low earning quality increases information asymmetry and lower accounting comparability; investors will not be able to make inferences about firm's true performance. Thus, EQ must be achieved firstly to set the goal of comparability.

2.2.3.2 Agency theory

Agency problem or principal- agent problem has been considered as one of the most important theories in recent decades. Agency problem is associated with the separation of ownership and recourses controllers. Principal provides capital and takes risk, while the agent controls resources and bears risk too. Besides, it has been defined by Jensen & Smith, (2000), as a contractual relationship where the principal employs the agent and delegates authority power to perform certain tasks in principal's favor, however, the agency problem arises when the agent behaves in a way that is inconsistent with principal goals, agents' intent to maximize their objectives, both the principal and agent are encouraged with different incentives and self-interest (Ross, 1973).

Agency theory demonstrates two major costs, equity and debt costs. the former presents decline in firm's value when managers do not efficiently work on shareholders goals and interests. Managers might be involved in projects that are not successfully profitable for shareholders. Furthermore, the costs of monitoring managers are also included in this consideration and the agency costs of debt are essentially resulted from the conflict between shareholders and debt holders. The major problem is that Shareholders are often committed to dividends payments. Debt holders are becoming aware to this case and they implicitly incorporate firm's debt price (Eisenhardt, 1989); (Boučková, 2015).

Prior literature has argued that agency problem is associated with information asymmetry and the latter leads to adverse selection problem (Akerlof, 1970); (Beyer et al., 2010). Furthermore, it is suggested that signaling and agency theories are consistent, that is, if one theory is correct, the other theory is also correct. (Morris, 1987) Another natural explanation is that the agent has more information than the principle due to his involvement in the entity operations and also due to the specific type of an agent-principal relationship.

It is noted that both theories can shed light on particular accounting issues such as accounting policies choice. In this case, behind choosing some specific accounting methods, there is often an agency problem (Morris, 1987). Furthermore, firms with management compensation and debt covenants try to choose accounting policies that reflect a higher income so that earnings management schemes may be involved and motivated by the mentioned reasons. Here, it appears that the role of signaling theory is to give the prediction that firms characterized with high quality will choose accounting policies reflecting their high-quality performance, whereas firms with poor quality will choose accounting policies that hide the poor performance.

It can be seen the extent to which agency problem has an impact on accounting numbers, accounting information is placed with a great value due to the role of decision making. Accounting comparability is another important aspect that gives accounting numbers more value which should be taken into account in such cases resulted by agency problem. Nguyen & Nguyen, (2021) have noted that both Information asymmetry and agency cost will be more likely mitigated by enhancing financial

statement comparability. Managers are constrained by abusing firms' resources if the firms are more comparability with its peers.

2.2.3.3 Shareholders theory

Shareholder theory was firstly introduced by Friedman. Friedman considers that managers' main responsibility is the maximization of shareholders wealth (Zhang, 2011). This theory is however, mostly accepted by companies. Based on this theory, the investor invests in a company and becomes a shareholder; a specialized asset is referred to his capital and is considered the first to suffer from any financial difficulties the company may face. Shareholder theory is one kind of corporate governance theories, which refers the interest of the firm to the best interest to shareholders (Zhang, 2011).

However, shareholder theory was criticized for motivating managers to concentrate their objectives on the short term thinking, this may encourage managers to commit unethical behavior (Danielson et al., 2008). It is important to address that shareholders have a significant influence on financial reporting. They want to see favorable reported numbers so that the maximization of their values. Managers will do anything to satisfy shareholders and may involve in unethical behavior to meet earnings projection so as to increase stock value.

Shareholder theory is important to be discussed; since the quality of decision making by shareholders will depend on the quality of financial information. Paz & Griffin, (2011), address that the complexity of the growing accounting standards and some changes in accounting policies, may limit the user understating the financial numbers. However, in assessing the quality of financial numbers, users must be careful about financial statement comparability which one significant aspect should be taken into consideration.

In addition, researchers have considered shareholder theory as a tool to explain earnings quality. More specifically, the theory is used as a framework to explain earnings management and using conservative accounting policies.(How et al., 2019). A huge responsibility fall upon management to be effective in achieving high level of earnings quality, achieving the objective of financial reporting to be transparent so as to satisfy shareholders needs and take the right decision.

Finally, this research acknowledged that shareholder theory is a rich theory to explain the relation between accounting quality (earnings quality) and financial statement comparability. This theory provides clear evidence regarding the shareholders pressure on management incentives of a probable commitment of earnings management actions. This will in turn have a direct impact of the quality of financial information, increasing information asymmetry, reducing the reliability and predictability of earnings. As a result; users are limited in having the ability to compare financial statements.

2.3 Literature Review and Hypothesis Development

The wide adoption and implementation of IFRS has forced researches to study the weather IASB succeeded in achieving high quality and comparable accounting standards. Consequently, researches regarding IFRS were mostly concentrated on studying accounting quality and financial reporting comparability.

A considerable stream of comparability literature investigated whether IFRS has an impact on comparability. These researches have provided evidence that IFRS has raised up the degree of comparability across firms and across countries (Brochette et al., 2012; Zegal et al., 2012). At the same time, the other stream of literature has studied IFRS effect on accounting quality using several proxies (Campbell & Yeung, 2017; (Wan Ismail et al., 2010).

However, the relationship between financial statement comparability and accounting quality is scant and not clearly identified. It is important to address that accounting quality is reduced by some limitations placed essentially on using estimates, judgments and subjectivity, which all might be involved with unintentional errors. Francis et al., (2005); Kawada, (2014); Dechow & Dichev, (2002). On the other hand, accounting numbers can be intentionally managed by taking advantage of the large room of accruals to reflect certain performance numbers resulting in different accounting quality numbers.

Focusing on earnings quality as a proxy for accounting quality, considering it as a possible determinant of financial statements comparability is placed with limited evidence. Noting that, prior studies have provided evidence that earnings are a better

performance measure than cash flows and are one of the most important summery indicators (Dechow, 1994).

The related literature has mainly studied the relation either indirectly or from one aspect using different proxies of accounting quality focusing mostly on earnings management, disregarding the effect of estimation errors and judgment on comparability (unintentional errors).

For example, Sohn, (2016) has chosen earnings management as a proxy for (AQ) and has shown that accrual-based earnings management is associated with lower comparability. Beuselinck et al.,(2007) has given evidence suggesting that international earnings comparability is significantly affected by income smoothness and gain/loss recognition (AQ proxies). (Thanh Liem, 2021) has also suggested that firms with large discretionary accruals are more likely to be associated lower comparability.

In developing countries such as Vietnam, (Nguyen & Nguyen, 2021) have shown that firms are engaged with earning management are less likely to produce lower comparable financial statements. They addressed that earnings quality is more likely to be increased when a high information asymmetry and agency costs exist. This important to mention; because those two factors play a significant role t in EQ and COMP relation.

Furthermore,, (Lee et al., (2014) citation) has examined the effect of related party transactions (RPT) effected by management discretion over financial statement comparability in South Korea. The researcher considered (RPT) as a one aspect of earnings management by engaging firms in making accounting choices. They provided evidence that comparability decreases when (RPT) increase.

The other stream of literature studied the relation indirectly by conducting validation and robustness tests to validate their results such as De Franco et al., (2011). The researcher constructed a new measure of comparability and validates it by relating comparability to certain earning quality proxies (accrual/earnings quality, predictability, smoothness, and loss recognition). De Franco et al., (2011) posit that firms would be more comparable with its peers in the same industry if they had the same quality of

accounting numbers. The results indicated that comparability is higher in those firms which exhibit higher degree of earnings quality.

The same methodology is adopted by (Majeed et al., (2018) based on De Franco et al., (2011). The researcher studied the effect of market competition on financial statement comparability and validates their results by referring AQ proxies to comparability. They also provided the same evidence as. De Franco et al., (2011) since comparability has a positive impact on comparability.

Furthermore, Peterson et al., (2015) has examined the effect of accounting consistency, one important aspect of accounting comparability, on earnings quality. They find that time series accounting consistency is associated with higher earnings quality, and lower earning quality by cross sectional. Accordingly, this research concludes that comparability is higher in accounting quality using the same firm numbers and less comparable across industry peers.

Taking all the previous mixed evidences together, besides this research expectation that in a situation where an investment decision is being taken, a financial statements user usually compare a particular firm's performance to certain benchmark either time series performance for the same firm (ex: net income), or cross sectional among other firms. The more this benchmark is characterized as being high quality, the better the user can compare. In other words, there must have been certain aspects of earnings quality that enable the financial statement user to compare and take the right decision. Accordingly, this research expects that earnings quality will have an impact on financial statement comparability.

2.4 Research hypothesis

Based on the literature review, this research formalizes four testable alternative hypotheses as follows:

H1: accounting comparability is affected by accruals quality among Jordanian industrial listed companies in respect to control variables (ROA, size, trading volume and BM/MV).

H2: accounting comparability is affected by accruals quality among Jordanian service listed companies in respect to control variables (ROA, size, trading volume and BM/MV)..

H3: accounting comparability is affected by accruals quality among Palestinian industrial listed companies in respect to control variables (ROA, size, trading volume and BM/MV).

H4: accounting comparability is affected by accruals quality among Palestinian service listed companies in respect to control variables (ROA, size, trading volume and BM/MV).

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Chapter Three
Methodology of Research

3.1 Introduction

This research aims to investigate if accrual quality has an effect on financial statement comparability in Palestinian and Jordanian listed companies. The research has chosen the industrial and service sectors as the research sample, covering the period (2010-2020). The reminder of this chapter is as follows, research methodology, sample and variables measurement.

3.2 Research methodology

This study is experimental casual research in applied sciences. The aim of the study is to investigate earnings quality effect on financial information comparability among industrial, and services sectors in Palestine and Jordan.by taking accrual quality as a proxy for the earnings quality. More specifically, the research attempts to examine the relation on two levels. The first is on industry level and the second is on country level (region). The statistical analytical methods are used to examine the relation cross sectional. Cross sectional aims at testing data was according to each single period of time across the chosen firms.

In addition, the main source of this study is secondary data collection. Financial statements data are extracted from listed companies' annual reports (CFO, WC, Earnings, stock return and size). The annual reports of the Palestinian and Jordanian sectors are listed in Palestine Exchange and Amman Stock Exchange, respectively.

3.3 Population and Sample

This research has two samples to be included, non-financial Palestinian and Jordanian listed companies, dividing them according to sectors and ending with two sectors: industrial and services; thus, we can compare the results in the similar sectors. Noting, nonfinancial firms have certain aspects that differ from financial ones.

The samples are organized by firm, industry, country and peer industry to discover the variation in earning quality and comparability. The selected sample period is (2010-2020), and a nine years period is chosen to measure research variables (2011-2019).

There are a two years differences, noting, all variables are computed based on their change from the last period.. The overall sample consists of 69 firm available data, 20 for Palestinian listed companies and 49 for Jordanians. The following tables demonstrate details about sample sectors:

Companies were qualified to be included in the tested sample according to the following criteria:

1. Companies are listed in stock exchange between (2010-2020).

2. All required data for completing the analysis are available.

3.4 Independent Variable Measurement

3.4.1 Accruals Quality Measurement

This research has chosen accruals quality as a proxy to earnings quality. The research adopted Dechow & Dichev, (2002) model of accruals quality (AQ).

This measure is based on the notion that firms are encountered with economic transactions that their timing differs from the timing of their related cash flow. In this context, the beneficial role of accruals arises, which provide temporary adjustments that shift cash flow recognition over time. The model has chosen earning as a measure of an entity's financial performance to build the theoretical framework of the measure, since it considers as follows:

Earnings = Cash flow + Accruals …….. *(1)*

According to the measure, cash flows are categorized to three major timelines, where t denotes to period.

Cash flow	Description
CF_{t-1}	Cash flow takes place before it is included in earnings.
CF_{t}	Cash flow takes places at the same time t as cash flow included in earnings.
CF_{t+1}	Cash flow takes place after it is included in earnings.

Taking all together cash flow is the total all above:

$$CF_t = CF_t^{t-1} + CF_t^t + CF_t^{t+1} \quad \text{..... (2)}$$

In this context, two accrual entries are thereafter made, an opening and closing entries. The opening entry is derived when there is (1) revenue / expense recognized before the associated cash is received/ paid or (2) when cash is received / paid before it is included in earnings. The closing entry is made to reverse the mentioned opening entries.

When cash flow takes place after it is included in the related period, an accrual estimated amount should be made regarding the cash received/ paid in the opening entry. This amount might involve an estimation error to the degree it differs from the cash flow realization. Then, the estimation error is corrected and reversed in the closing entry. However, when the cash flow takes place before it is included in the related period, no estimation errors might be contained in the accrual entries. **Where $_{et}$ denotes to estimation errors, ending with the following equation**

$$E = CF_t^{t-1} + CF_t^t + CF_t^{t+1} + {}_{et} \quad \text{..... (3)}$$

For more simplicity, the researchers have chosen the change in working capital as a proxy for accrual and cash flow from operation (CFO) as a proxy for cash flow. By using working capital as a proxy, this will better trace the cash flow related to accruals particularly within one year.

After rearranging the equation above, the following new equation presents a firm level time series regression:

$$\triangle WC = b_0 + b_1\, CFO_{t-1} + b_2\, CFO_t + b_3\, CFO_{t+1} + {}_{et} \quad \text{.....(4)}$$

More specifically, equation (4) demonstrates that accruals are temporary adjustments that shift cash flow recognition over time with an estimation error included. This error detects the extent to which those accruals map into realized cash flow. **Where *WC* denotes to the change in working capital = the change in account receivable + the change in inventory – the change in account payable + the change in other assets.**

However, the residuals from the regression above present the cash flow that do not relate to any accrual. The standard deviation of the residuals is the measure for a firm specific accrual quality; the higher standard deviation conveys lower accrual quality (Dechow & Dichev, 2002).

Measuring accrual quality (AQ) will be as follows:

1. (AQ) will be firstly measured for each firm level time series (2010-2020) in each sector. The standard deviation for each tested firm level will be calculated and is considered as a proxy for firm accrual quality for that firm noting that this measurement will be done for each industry. However, the tests are estimated separately for Palestinian and Jordanian listed companies.
2. (AQ) will be secondly measured cross sectional within the same industry, at a single period of time and then across industries.

3.4.2 Dependent Variable Measurement: Accounting Comparability

This research has adopted earnings regression model based on De Franco et al., (2011) to measure accounting comparability as it is, no modification has made to the model. As mentioned earlier in the related literature. De Franco et al., (2011) has defined comparability as a mapping from economic events to financial statements respecting a firm to its peer, so that the latter is a function of economic events. To make it more clear, financial statements are comparable if they have faced the same economic events.

Financial Statements $_{i}$ = f_i (Economic Events $_{i}$) …….(1)

Where $_{I}$ refer to firm. $_{t}$ refers to time indicator. De Franco et al., (2011) argues that accounting is essentially the mapping of economic transactions to financial statement. Accounting comparability can thus, be defined as the similarity of accounting functions to translate economic transactions into accounting data. Earnings have been taken as a proxy for financial statements, while stock return is a proxy for the net economic events.

Earnings $_{it}$ =a_i + B_i Return $_{it}$ + $_{it}$ …….(2)

Accordingly, earnings are defined as the ratio of annual net income before extraordinary items to the market value of equity at the beginning of period. Return is the stock price return during the year. **Where $_{I}$ refer to firm and $_{t}$ refers to time indicator.** (De Franco et al., 2011)

Earnings are considered a summarized indicator for evaluating a firm's value and the accounting choices it uses, so that all the economic events that a specific firm face will

be translated into one result and investigate how much firms are comparable. This research does not agree with selecting particular accounting choices (input bases measure) as mentioned previously in literature and investigate comparability; input-based measures are costly for large samples. Also, there is no specific guide in comparability literature for what policies to select and how to give them the correct weights.

Related literature kept silent on market value of equity formula. We will calculate the value of equity as the number of shares outstanding multiplied to the closing price and then added to the rest of the firm's equity, while stock price return equals the difference between the beginning and ending closing stock price divided by the beginning price.

Using the above framework, in equation (3) and (4) ˆαi and ˆβ i are a proxy for the accounting function for firm i. Similarly, the accounting function for firm j is proxied by ˆαj and ˆβ j which are estimated using the earnings and return for firm j. Under this logic, the distance between the two firms' functions is the comparability between them. It depends on how much they are close. To measure the closeness between the pair firms, equation (5), the accounting functions are estimated to predict their earnings for firm i's and firm j's, assuming firms have had the same return and they have faced the same economic events which is proxied by (Returnit).

E(Earnings) iit = ˆαi + ˆβi Returnit *(3*E(Earnings) ijt = ˆαj +ˆβj Return it …. (4)

CompAcct ij t= −1/10 ×_|E (Earnings iit) − E (Earnings ijt)|. ……. (5) t−9

What distinguishes this research from De Franco model is that they have mainly focused on studying the benefits of comparability to users and analysts, particularly forecasting accuracy and earning dispersion. The researchers continued measuring comparability only cross sectional by taking the absolute difference between pair-wise firms and averaging it across the industry (nationally) not regional. While this research is concerned essentially on measuring the extent of comparability cross sectional and also long time series(ten years period), and is going beyond that to compare two different countries (regional comparability level). Moreover, De Franco et al., (2011) have used quarterly data for firm time series. However, due to the lack of data availability; an annual basis for each firm year is chosen.

De Franco et al, (2011) The comparability model is an outcome-based measure, it only uses cross-sectional comparisons and has some limitations as a sufficient time series is required for each company**.**

It is imperative to highlight determinants of cross-sectional comparability to justify the variation of results across firms and to test whether those control variables really affect our results. Consequently, it is imperative to control for firms' economic characteristics such as industry, size and book-market, volume and ROA. Industry is considered as an essential economic factor in which firms are classified, firms in the same industry have similar conditions differ from firms in other industries and those special conditions should not be combined with another. The rest of control variables as to control for size differences.

To estimate the effect of accrual quality on comparability,, the research develops the following final model:

$$COMP = a_i + AQ + + SIZE + BM + VOLUME + ROA \ldots\ldots\ldots\ldots\ldots\ldots (6)$$

Where ***COMP*** is the mean of pair-wise firms earnings comparability the same industry. ***AQ is*** the standard deviation accrual quality. ***Size*** is the logarithm of the market value of equity at the end of the year.***BM*** is the ratio of the book value to the market value of equity. ***VOLUME*** is the Logarithm of trading volume in millions of shares during the year and is ***ROA*** is net income divided on total assets. **Where $_I$ refer to firm and $_t$ refers to time indicator** (De Franco et al., 2011)**.** Table (3) in appendix B shows all description of research variables.

Adopting the above control variables are similar to those in (De Franco et al., 2011) (Majeed et al., 2018), (Lee et al.,2014) and (Nguyen & Nguyen, 2021).

Chapter Four
Research design and analysis

4.1 Introduction

This research aims to investigate the effect of accrual quality on financial statement comparability among Palestinian and Jordanian listed companies chosen in industrial and service sectors. The data are collected from Palestine Stock Exchange (PEX) and Amman Stock Exchange (ASE), particularly from annual reports covering eleven years period (2010-2020).

Furthermore, EViews statistical program is used to test the collected data. EViews has a better advantage over other programs such as SPSS to test a panel data. The nature of this research data has to be paneled (tested cross sectional), so this process needs to be cautious so as to get correct results. Also, the financial Excel is used to help in testing the regression comparability model for each single firm; doing so in EViews will not separate each firm's time series data from the other firms. Finally, hypotheses are examined through stepwise regression using EViews statistical program.

This chapter presents descriptive statistics for the variables studied. Also, it includes regression results to each examined sector and their interpretation in Palestinian and Jordanian setting. Furthermore, the obtained results are linked to those results in similar researches and their consistency to the related theoretical framework.

4.2 Descriptive Statistics

The descriptive statistics demonstrate a summarized description of variables characteristics:

Independent variable; Accrual Quality.

Dependent variable; Comparability.

Control variables; BM/MV, ROA, Size and trading volume.

Table (4)

Descriptive statistics of research variables in Jordanian and Palestinian listed companies

SIZE	TRADING VOLUME	ROA	BM/MV	COMPARABILITY	ACCRUAL QUALITY	**Jordan**
7.420051	**11,723,177**	**0.028620**	**1.222197**	**0.136998**	**0.115447**	**Mean**
7.365931	3353026.	0.023110	1.033258	0.101634	0.069314	Median
9.298181	1.32E+08	0.297559	3.385855	0.819768	0.991081	Maximum
6.157435	151654.3	-0.084090	0.218589	0.066087	0.006029	Minimum
0.657509	**23,116,076**	**0.069067**	**0.758595**	**0.134379**	**0.157809**	**Std. Dev.**
0.525786	0.000000	0.000000	0.003083	0.000000	0.000000	Probability
363.5825	5.74E+08	1.402362	59.88767	6.712915	5.656901	Sum
20.75125	2.56E+16	0.228973	27.62237	0.866768	1.195380	Sum Sq. Dev.
49	49	49	49	49	49	Observations
SIZE	TRADING VOLUME	ROA	BM/MV	COMPARABILITY	ACCRUAL QUALITY	**Palestine**
7.192999	**361,364.1**	**1.653633**	**1.153649**	**0.060749**	**0.075036**	**Mean**
7.074889	44011.75	0.021873	1.022733	0.048677	0.044296	Median
8.820870	4009523.	32.38760	3.287477	0.112794	0.264139	Maximum
6.146537	15461.33	-0.058945	0.211322	0.031073	0.022126	Minimum
0.686788	**951,695.9**	**7.234266**	**0.744997**	**0.025436**	**0.061576**	**Std. Dev.**
0.550597	0.000000	0.000000	0.015239	0.236764	0.001293	Probability
143.8600	7227283.	33.07265	23.07299	1.214986	1.500716	Sum
8.961888	1.72E+13	994.3574	10.54540	0.012293	0.072041	Sum Sq. Dev.
20	20	20	20	20	20	Observations

The table (4) presents the mean for AQ in Jordanian and Palestinian listed companies (0.115447, 0.075036) respectively. Also, the mean for COMP is (0.136998, 0.060749) for both two samples. Descriptive statistics show that the mean for both AQ and COMP is higher in Jordanian companies than in Palestinians.

While the mean for control variables BM/MV, ROA, trading volume and SIZE in Jordanian companies (1.222197, 0.028620, 11723177 and 7.420051) respectively. While the mean for control variables in Palestinian companies (1.153649, 1.653633, 361364.1 and 7.192999). Both BM/MV and SIZE are close to each other in Jordanian and Palestinian companies. In contrast, ROA and trading volume are so different for each two countries.

The standard deviation is also another aspect is good to look at, since it is (0.157809 and 0.134379) for AQ and COM in Jordanian companies, indicating that are not much away from their means. In Palestine, standard deviation for AQ and COM is (0.061576 and 0.025436). Also, they are close to their means.

BM/MV has a standard deviation of (0.758595, 0.744997) respectively in both two countries, which is so close to their means. While in Jordan, ROA is a moderate in its

distance from its mean, the rest variables trading volume and size are far away from the means in. As for Palestine, ROA, trading volume and size have standard deviations that are away from their means respectively. In addition, the table demonstrates the number of firms included in the two samples (49, 20) respectively.

4.3 Results and Interpretation

This section presents the regression analysis to investigate accrual quality effect on comparability in Jordanian industrial sector, Jordanian services sector, Palestinian industrial sector and Palestinian services sector respectively. Finally, this section presents the interpretation for the analysis findings in general and in specific in Jordan and Palestine,

4.3.1 Stepwise regression for testing the relation between accrual quality and financial statements comparability, in Jordanian industrial sector

The stepwise analysis is –data mining method examines the statistical significance in a linear regression model for each independent Hayes, (2022).

Table (5)

Stepwise regression in Jordanian industrial sector, Dependent Variable: COMPARABILITY

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACCRUAL QUALITY	-0.063882	0.751348	-0.085023	0.9330
C	0.165690	0.074027	2.238228	0.0362
R-squared	0.000344	Mean dependent variable		0.160021
Adjusted R-squared	-0.047259	S.D. dependent variable		0.150772
S.E. of regression	0.154293	Akaike info criterion		-0.816981
Sum squared resid	0.499935	Schwarz criterion		-0.718243
Log likelihood	11.39529	Hannan-Quinn criterion.		-0.792149
F-statistic	0.007229			
Prob(F-statistic)	0.933049	Durbin-Watson stat		2.026703

Method used : Least Squares, Included observations: 23 after adjustments
The mean difference is significant at 0.05 level.

Table (5) shows that (AQ) t statistic is (-0.085023) with a probability of (0.9330), which means that AQ is insignificant at 95% level of confidence. This is also obvious in the insignificant Prob (F-statistic) for the whole model which is 0.933049, thus the model in the Jordanian industrial sector does not explain the relation between AQ and COMP. R-squared is also too weak 0.000344, while Durbin-Watson stat is 2.026703, which is

good to be around 2. Accordingly, these results are not consistent with the hypothesis that states (H1: accounting comparability is affected by accruals quality among selected Jordanian industrial listed companies.) H1 is rejected as there is no statistical relationship between AQ and COMP. The obtained results are not in line with any prior research results, as mentioned earlier, this topic is the first the study a direct link between AQ and COMP either internationally or locally. As a result, there might be lack of supporting evidence.

3.3.2 Stepwise regression for testing the relation between accrual quality and financial statements comparability after including control variables, in Jordanian industrial sector

The following table includes the results of testing the model after including all the control variables; so as to investigate whether control variables have an explanatory power on comparability.

Table (6)

Stepwise regression in Jordanian industrial sector, Dependent Variable: COMPARABILITY, control variables included

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACCRUAL_QUALITY	0.160341	0.900481	0.178062	0.8608
ROA	0.241221	0.690721	0.349231	0.7312
SIZE	0.029274	0.084416	0.346789	0.7330
TRADING_VOLUME	-1.34E-09	2.03E-09	-0.659961	0.5181
BM/MV	0.030398	0.060405	0.503242	0.6213
C	-0.100211	0.692411	-0.144728	0.8866
R-squared	0.035503	Mean dependent variable		0.160021
Adjusted R-squared	-0.248173	S.D. dependent variable		0.150772
S.E. of regression	0.168445	Akaike info criterion		-0.504960
Sum squared resid	0.482352	Schwarz criterion		-0.208744
Log likelihood	11.80703	Hannan-Quinn criterion.		-0.430462
F-statistic	0.125153			
Prob (F-statistic)	0.984737	**Durbin-Watson stat**		2.045962
Method used : Least Squares, Included observations: 23 after adjustments				

Table (6) shows the model includes all control variables which are (ROA, size, trading volume and book to market value). The results indicate that the probabilities of the previous variables are 0.7312, 0.7330, 0.5181 and 0.6213 respectively, which means all of them are insignificantly related to COMP. AQ is still insignificant with a prob 0.8608 and a coefficient of 0.160341. R-squared (0.035503), is higher than before including

any control variables in table (2), but is still too weak. The Prob(F-statistic) for the whole model is insignificant (0.984737) at 0.05 level of significance.

We can say that the AQ is insignificantly related to COMP after including control variables; the model does not explain the relationship among Jordanian industrial listed companies.

4.3.3 Stepwise regression for testing the relation between accrual quality and financial statements comparability in Jordanian services sector

The following table demonstrates the regression results, including only the main variables (AQ and COMP).

Table (7)

Stepwise regression in Jordanian services sector, Dependent Variable: COMPARABILITY

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACCRUAL_QUALITY	0.071423	0.112015	0.637623	**0.5298**
C	0.106698	0.028005	3.809927	0.0009
R-squared	0.016658	Mean dependent var		0.116632
Adjusted R-squared	-0.024315	S.D. dependent var		0.117249
S.E. of regression	0.118666	Akaike info criterion		-1.351201
Sum squared resid	0.337960	Schwarz criterion		-1.254425
Log likelihood	19.56562	Hannan-Quinn criter.		-1.323333
F-statistic	0.406563	**Durbin-Watson stat**		**2.157980**
Prob (F-statistic)	0.529756			
Method used : Least Squares, Included observations: 26				

Table (7) shows that (AQ) t statistic is (0.637623) with a probability of (0.5298), which means that AQ is insignificant at 95% level of confidence. This is also obvious in the insignificant Prob (F-statistic) for the whole model which is 0.529756, thus the model in the Jordanian service sector does not explain the relation between AQ and COMP. R-squared is also weak 0.016658, while Durbin-Watson stat is good (2.1579803).

Accordingly, these results do not agree with the hypothesis that states (H2: accounting comparability is affected by accruals quality among selected Jordanian service listed companies.) H2 is rejected as there is no statistical relationship between AQ and COMP.

4.3.4 Stepwise regression for testing the relation between accrual quality and financial statements comparability after including control variables, in Jordanian service sector

The following table includes the results of testing the model after including all the control variables; so as to investigate whether control variables have an explanatory power on comparability.

Table (8)

Stepwise regression in Jordanian service sector, Dependent Variable: COMPARABILITY, control variables included

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACCRUAL_QUALITY	0.059929	0.138178	0.433707	0.6691
BM/MV	0.005950	0.043996	0.135239	0.8938
SIZE	-0.009812	0.056668	-0.173145	0.8643
TRADING_VOLUME	5.02E-10	1.93E-09	0.259750	0.7977
ROA	0.034203	0.464385	0.073653	0.9420
C	0.169886	0.434415	0.391069	0.6999
R-squared	0.021496	Mean dependent variable		0.116632
Adjusted R-squared	-0.223130	S.D. dependent variable		0.117249
S.E. of regression	0.129672	Akaike info criterion		-1.048441
Sum squared resid	0.336297	Schwarz criterion		-0.758111
Log likelihood	19.62974	Hannan-Quinn criterion.		-0.964837
F-statistic	0.087874			
Prob(F-statistic)	0.993307	Durbin-Watson stat		2.193071
Method used : Least Squares, Included observations: 26				

Table (8) shows the model includes all control variables which are (book to market value size, trading volume and ROA). The results indicate that the probabilities of the previous variables 0.8938, 0.8643, 0.7977 and 0.9420) respectively, that means all of them are insignificantly related to COMP. AQ is still insignificant with a prob 0.6691 and a coefficient of 0.059929. R-squared is 0.021496 is still too weak. The Prob(F-statistic) for the whole model is insignificant (0.993307) at 0.05 level of significance.

AQ is insignificantly related to COMP after including control variables; the model does not explain the relationship among Jordanian service listed companies

4.3.5 Stepwise regression for testing the relation between accrual quality and financial statements comparability, in Palestinian industrial sector

The following table demonstrates the effect of AQ on COMP only, without using any control variables. ---

Table (9)

Stepwise regression in Palestinian industrial sector, Dependent Variable: COMPARABILITY.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AQ	**-0.310301**	**0.258325**	**-1.201204**	**0.2603**
C	0.069030	0.015438	4.471430	0.0016
R-squared	**0.138170**	Mean dependent var		0.052329
Adjusted R-squared	0.042411	S.D. dependent var		0.022741
S.E. of regression	0.022254	Akaike info criterion		-4.609663
Sum squared resid	0.004457	Schwarz criterion		-4.537318
Log likelihood	27.35315	Hannan-Quinn criter.		-4.655266
F-statistic	**1.442892**			
Prob(F-statistic)	**0.260329**	**Durbin-Watson stat**		**2.792370**

Method used : Least Squares, Included observations: 11

Table (9) shows that (AQ) t statistic is (-1.201204) with a probability of (0.2603), which means that AQ is insignificant at 95% level of confidence. This is also obvious in the insignificant Prob (F-statistic) for the whole model which is 0.260329, thus the model in the Palestinian industrial sector does not explain the relation between AQ and COMP. R-squared is considered weak 0.138170, while Durbin-Watson stat is good (2.792370).

Accordingly, these results do not agree with the hypothesis that states (H3: accounting comparability is affected by accruals quality among Palestinian industrial listed companies.) H3 is rejected as there is no statistical relationship between AQ and COMP.

4.3.6 Stepwise regression for testing the relation between accrual quality and financial statements comparability after including control variables, in Palestinian industrial sector

The following table includes the results of testing the model after including all the control variables; so as to investigate whether control variables have an explanatory power on comparability.

Table (10)

Stepwise regression in Palestinian industrial sector, Dependent Variable: COMPARABILITY, control variables included

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AQ	-0.023195	0.150779	-0.153832	0.8838
BM_MV	0.038007	0.008456	4.494833	0.0064
SIZE_	0.013420	0.011978	1.120407	0.3135
TRADING_VOLUME	8.94E-08	1.03E-07	0.871910	0.4231
ROA	0.367357	0.097648	3.762066	0.0131
C	-0.122003	0.095033	-1.283793	0.2555
R-squared	0.863599	Mean dependent variables		0.052329
Adjusted R-squared	0.727199	S.D. dependent variables		0.022741
S.E. of regression	0.011878	Akaike info criterion		-5.725852
Sum squared residuals	0.000705	Schwarz criterion		-5.508818
Log likelihood	37.49219	Hannan-Quinn criterion.		-5.862662
F-statistic	6.331344			
Prob(F-statistic)	0.032021	**Durbin-Watson stat**		2.098163
Method used : Least Squares, Included observations: 11				

Table (10) shows the model includes all control variables which are (book to market value size, trading volume and ROA). The results indicate that the probabilities of the previous variables 0.0064. 0.3135, 0.4231 and 0.0131 respectively. BM to MV and ROA are statistically significant with positive coefficients, suggesting that higher BM/MV and ROA is associated with high comparability, while size and trading volume are not significant. AQ is still insignificant with a prob 0.8838 and a coefficient of -0.023195. R-squared is high 0.863599 and Durbin-Watson stat is 2.098163 which is also good. However, BM to MV and ROA makes the Prob (F-statistic) for the whole model becomes significant (0.032021) at 0.05 level of significance. More specifically, AQ is insignificantly related to COMP after including control variables; the model does not explain the relationship among Palestinian industrial listed companies

4.3.7 Stepwise regression for testing the relation between accrual quality and financial statements comparability, in Palestinian service sector

The table (11) demonstrates the regression results in Palestinian service sector, including only the main variables (AQ and COMP).

Table (11)

Stepwise regression in Palestinian services sector, Dependent Variable: COMPARABILITY, control variables included

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AQ	0.003663	0.119809	0.030572	0.9765
C	0.070671	0.015226	4.641395	0.0024
R-squared	0.000134	Mean dependent variables		0.071041
Adjusted R-squared	-0.142705	S.D. dependent variables		0.025953
S.E. of regression	0.027743	Akaike info criterion		-4.138545
Sum squared resid	0.005388	Schwarz criterion		-4.094718
Log likelihood	20.62345	Hannan-Quinn criterion.		-4.233125
F-statistic	0.000935			
Prob (F-statistic)	0.976464	Durbin-Watson stat		1.337358
Method used : Least Squares, Included observations: 9				

Table (11) shows that (AQ) t statistic is (0.030572) with a probability of (0.9765), which means that AQ is insignificant at 95% level of confidence. This is also obvious in the insignificant Prob (F-statistic) for the whole model which is 0.976464, thus the model in the Palestinian service sector does not explain the relation between AQ and COMP. R-squared is considered too weak 0.000134 and Durbin-Watson stat is weak (1.337358).

Accordingly, these results do not agree with the hypothesis that states (H4: accounting comparability is affected by accruals quality among selected Palestinian service listed companies.) H4 is rejected as there is no statistical relationship between AQ and COMP.

4.3.8 Stepwise regression for testing the relation between accrual quality and financial statements comparability after including control variables, in Palestinian service sector

The table (12) includes the results of testing the model after including all the control variables; so as to investigate whether control variables have an explanatory power on comparability.

Table (12)

Stepwise regression in Palestinian services sector, Dependent Variable: COMPARABILITY, control variables included

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AQ	-0.020728	0.216344	-0.095812	**0.9297**
BM_MV	-0.002370	0.072427	-0.032729	**0.9759**
SIZE	0.000186	0.036172	0.005136	**0.9962**
ROA	0.001481	0.004356	0.340030	**0.7562**
TRADINGVOLUME	-1.02E-08	4.45E-08	-0.227974	**0.8343**
C	0.076044	0.273294	0.278252	0.7989
R-squared	0.058504	Mean dependent var		0.071041
Adjusted R-squared	-1.510657	S.D. dependent var		0.025953
S.E. of regression	0.041122	Akaike info criterion		-3.309808
Sum squared resid	0.005073	Schwarz criterion		-3.178325
Log likelihood	20.89413	Hannan-Quinn criter.		-3.593548
F-statistic	**0.037283**			
Prob(F-statistic)	**0.998349**	**Durbin-Watson stat**		**1.111988**
Method used : Least Squares, Included observations: 9				

Table (12) shows the model includes all control variables which are (book to market value size, ROA and trading volume). The results indicate that the probabilities of the previous variables 0.9759, 0.9962, 0.7562 and 0.8343) respectively, that means all of them are insignificantly related to COMP. AQ is still insignificant with a prob 0.9297 and a coefficient of -0.020728. R-squared is 0.058504 is still too weak. The Prob (F-statistic) for the whole model is insignificant (0.9984) at 0.05 level of significance. AQ is insignificantly related to COMP after including control variables; the model does not explain the relationship among Palestinian services sector

The previous analysis shows there is no statistical relationship between accrual quality and comparability among Palestinian and Jordanian in industrial and services sectors. This research refers the insignificant results for different reason. Firstly, one of the possible explanation for these results goes back to comparability measurement, specifically at the first step in comparability regression equations **(Earnings it =ai + Bi**

Return it + it), where earnings are defined as the ratio of annual net income before extraordinary items to the market value of equity at the beginning of period. Return is the stock price return during the year. (De Franco et al., 2011).

Regarding this equation, this research concludes that earnings are considered as a financial accounting measure and stock return is a market value measure. Regression comparability results indicated particularly for the most of research sample that there earnings and stock return have insignificant relationships; this in turn made the whole comparability model is not explainable and the r squares do not show a good fit of the model, whereas accrual quality measurement model for the selected research sample is significant. Thus comparability model is the causal in making the final regression between it and AQ insignificant.

Secondly, this research may refer the insignificant relation between COMP and AQ to the existence of some limitation in COMP model,despite De Franco et al. (2011) comparability model has been considered as the most influential and widely used model in comparability literature (Martens et al., 2020) (Gross & Perotti, 2017).. However,

De Franco et al. (2011) has focused on return comparability as an important input to the model, where this was applied in US setting by using US data stock return exclusively. The logic of mapping from economic events to financial statements using stock price return as a proxy for the former might not be applicable to other settings, particularly in markets such as Jordan and Palestine. As evidence to the previous, the stock price return among research sample was notably not that much changeable. (De Franco et al., 2019) has documented that stock return comparability in De Franco et al. (2011) model may not reflect an effect that is associated with changes in firm's accounting. Therefore, it will depend on the extent to which difference among the selected firms stock price are efficient so as to explain the relation. also, (Al-Manaseer, 2020) has given evidence that some particular financial ratios such ROA and ROI have a weak positive relation with stock price in Jordanian insurance companies, while ROE was insignificantly related to stock price. This is consistent to Cascino & Gassen, (2014) who argue that using a cash flow measure is a better model than earnings in avoiding the effects of variations in market efficiencies; so that it solves the problem by depending on stable levels of markets across countries. Thirdly and finally, adopting such comparability models that

highly depend on market value measures may not provide reliable answers. These models are likely to be applicable appropriately in developed countries that are characterized with high capital markets. Whereas developing countries, are characterized with weak capital markets, less mature capital markets and controlled by regulatory authorities; thus will lead to information asymmetry (Wan Ismail et al., 2010).

Accordingly, the tradeoff between accounting and market value measures specifically in the developing countries do not express the variation in any of the mentioned variables. Furthermore, we can also notice that the formulas of most control variables include market values such as trading volume, size (logarithm of market value) and book to market value except ROA. In such variable, results show that all of them are insignificantly related to comparability except ROA and BV/MV in Palestinian industrial sector, the reason behind this result goes to the composition of accounting measures in both of them. This led to a significant association with COMP. This is considered another evidence that market values do not present any association with accounting measure..

All of the previous reasons are applied to this research sample (Palestine and Jordan). Those two countries are so similar to each other in context. This evident from the analysis findings that there is no difference ins both Jordan and Palestine, the model is not good fit and insignificant.

Based on analysis findings, this research rejects the hypothesis that states; financial statement comparability is affected by accrual quality. Aligned with the related theoretical framework, it is concluded that both Information asymmetry addressed by the signaling theory and agency theory have an impact on high/ low earrings quality.

and hence have an effect on accounting comparability. Since firms may choose accounting policies that reflect a higher income so that earnings management schemes may be involved and motivated principle- agent conflict. Here, it appears that the role of signaling theory is to give the prediction that firms characterized with high quality will choose accounting policies reflecting their high-quality performance, whereas firms with poor quality will choose accounting policies that hide the poor performance (Morris, 1987).

Accordingly, the obtained results may be consistently explained in the spot of these theories. Information asymmetry and agency problem may the reasons for the insignificant results between earnings and stock price in comparability regression steps.

In the terms of comparing the analysis findings to prior related literature, reminding that prior research has studied the association between AQ and COMP either indirectly or using several proxies focusing on earnings management,. However, this research will compare the results with the most similar ones.

Based on this premise the insignificant results are not in line with De Franco et al.,(2011) Lee et al., (2014) Sohn, (2016) Nguyen & Nguyen, 2021) who all found that high levels of earnings management are associated with lower comparability.

3.4.9 Validating results

Table (13)

Variance Inflation Factors (VIF)

	Jordan		Palestine	
Variable	**Industrial**	**Service**	**Industrial**	**Service**
ACCRUAL QUALITY	1.205162	1.274349	1.195862	1.484084
ROA	2.285249	1.135824	2.251874	10.46226
SIZE	2.755601	1.866263	2.664625	4.591382
TRADING VOLUME	2.800980	1.260951	1.184507	17.39791
BM/MV	2.035942	1.192459	4.287466	2.600386

The table (13) demonstrates variance inflation factors (VIF) results for each tested sector in research sample. VIF investigates the amount of multicollinearity in multiple regression models. This calculation is made for each independent variable. A high (VIF) indicates that the independent variable is highly colliniear with other variables in the model; this will reduce the explanatory power and the significance of the tested model (Zikmund, 2010).

The above results show that there are no multicollinearity problems in all selected sectors except the Palestinian services sector as they are less than 10. Results indicate both ROA and trading volume variables more than 10; this research refers this problem to sample size, since it is only 9 selected.

Chapter Five

Conclusions, Recommendations, Limitation and Future research

5.1 Conclusions

Comparability,verifiability, timeliness, and understandability are the key pillars of qualitative characteristics enhancement. Information comparability is defined as: “the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena”. Earnings quality can be seen as a one possible determinant of financial statement comparability. Consequently, this research assumes that earning quality must occur first to achieve comparability goals. This research aims to investigate the effect of accrual quality on financial statement comparability among Palestinian and Jordanian companies, particularly in the industrial and services sectors from (2010-2020). This research has adopted the De Franco et al. (2011) comparability model and Dechow & Dichev, (2002) earning quality model. These two models have influenced the accounting literature and are widely accepted.

Research results have shown that accrual quality is insignificantly related to comparability among all the selected sectors. We refer the insignificance results to financial statement comparability. According to De Franco et al. (2011), Comparability is defined as a mapping from economic events to financial statements. Earnings are taken as a proxy for financial statement and stock price return as a proxy for economic events. Comparability regression results have shown that this relation does not explain the variation in the variables and the model does not fit well in our setting. The change in stocks prices both in Jordanian and Palestinian selected sector is not that much changeable; as a result, it could not have an effect on net income. This research concludes that using market measures may not be reliable and suitable in comparing firms such as De Franco et al. (2011) comparability model. The research also gives another evidence regarding the control variables are used in the model (size, trading volume, ROA and book to market value), the results indicated that all control variables are also insignificantly related to comparability in most sectors, while ROA and BV/MV are significant in Palestinian industrial sector. The result is referred to the role of book value measures and somehow isolates the market value effect.

5.2 Research limitations

This research has some limitation that should spot the light on. Firstly, this research is limited by the lack of prior research studies regarding earnings quality and comparability. One can posit that both of these topics are widely studied in accounting literature, but as to the researcher knowledge, no direct link between earnings quality effect on comparability. As a result, this research cannot link and support the analysis results with prior studies.

Secondly, discovering that the selected comparability model is not suitable to be applied in our setting (Palestine and Jordan), this research can also refer this limitation to the lack of studies around this topic specifically in our studied region. Noting that the given results of non-existence of significant relation are not a limitation rather is considered recommended results.

Thirdly, the complexity of comparability model limits the application on a large size of sample, especially on the Jordanian sectors, whereas Palestinian sectors include less considerable number of listed companies. Measuring comparability involves particular steps that need special caution and notice, while there might be special programs can solve this problem, but the of access to such programs is another limitation to broaden size sample; so as to include more sectors and might have different results across.

Finally, the insufficient time the research is committed to is another limitation. The unlimited deadline of this research can include other proxies of accounting comparability so as to interpret the results in our setting.

5.3 Research Recommendation

According to research results, the research recommends the following:

- Investors and any type of financial statement users, who are concerned in financial statement comparability, must be cautious in selecting a comparability model that suites the surrounding economic setting, so as to get validating answers.
- Investors and other financial statements users should not focus only on market value measures in interpreting results, rather including book value measures.

- In respect to De Franco et al., (2011) model, this research recommends not to use models that are applied in other economies without economic conditions similarities.
- Even for Palestinian and Jordanian listed companies, results have shown that the model does not fit for two separate economies. It is not recommended to use De Franco et al., (2011) model for both countries.

5.4 Suggestion for Future research

Future research would investigate an output based comparability model fits the regions where may not actually present markets value measures. Such models can be mainly focusing on firms specific accounting numbers and controlling for market values so as to get reliable results. These models may be oriented toward financial statements users so as to have the ability to compare firms' financial reports and take the correct decisions.

List of Abbreviations

AQ	: Accrual Quality
COMP	: Comparability
WC	: Working capital
CFO	: Cash flow from operations
ROA	: Return on Asset
BM/MV	: Book to market value of equity
TRVOL	: Trading volume
EQ	: Earnings Quality
IASB	: The International Accounting Standards Board
IFRS	: International Financial Reporting Standards
PEX	: Palestine Stock Exchange
ASE	: Amman Sock Exchange

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Appendices

Appendix (A): Correlation matrix

	ACCRUAL QUALITY	BM/MV	COMPARABILITY	ROA	TRADING VOLUME	SIZE
ACCRUAL QUALITY	1	-0.020696	0.08691605	-0.0021972	0.0123971	-0.238134
BM/MV	-0.020696	1	0.12332454	-0.0788302	-0.1546039	-0.472646
COMPARABILITY	0.0869160	0.123324	1	-0.0358943	0.0264380	-0.018159
ROA	-0.0021972	-0.07883	-0.0358943	1	-0.02102	0.273948
TRADING VOLUME	0.0123971	-0.154603	0.02643807	-0.02102	1	0.487017
SIZE	-0.238134	-0.47264	-0.0181595	0.2739489	0.48701723	1

Accrual Quality regression tables

Dependent Variable: Working Capital

Cross-sections included: 23 Jordanian industrial sector

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SCF(-1)	0.102130	0.078756	1.296788	0.1962
SCF	-0.256611	0.078741	-3.258940	0.0013
SCF(1)	0.197190	0.079665	2.475249	0.0142
C	0.002490	0.009490	0.262375	0.7933
Root MSE	0.102249	**R-squared**		0.067277
Mean dependent var	0.005058	**Adjusted R-squared**		0.053001
S.D. dependent var	0.106138	S.E. of regression		0.103287
Akaike info criterion	-1.682809	Sum squared resid		2.090977
Schwarz criterion	-1.616843	Log likelihood		172.2809
Hannan-Quinn criter.	-1.656113	F-statistic		4.712477
Durbin-Watson stat	1.818589	Prob(F-statistic)		0.003366

Dependent Variable: Working Capital
Cross-sections included: 26 Jordanian services sector
Total panel (unbalanced) observations: 232

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SCF(-1)	0.046139	0.140780	0.327740	0.7434
SCF	-0.315053	0.204906	-1.537547	0.1255
SCF(1)	-0.005932	0.195428	-0.030352	0.9758
C	0.029727	0.020217	1.470417	0.1428

Root MSE	0.256184	R-squared	0.011810
Mean dependent var	0.014965	Adjusted R-squared	-0.001192
S.D. dependent var	0.258267	S.E. of regression	0.258421
Akaike info criterion	0.148638	Sum squared resid	15.22616
Schwarz criterion	0.208064	Log likelihood	-13.24196
Hannan-Quinn criter.	0.172604	F-statistic	0.908298
Durbin-Watson stat	2.953960	Prob(F-statistic)	0.437741

Dependent Variable: Working Capital
Cross-sections included: 11 Palestinian industrial sector
Total panel (unbalanced) observations: 93

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SCF(-1)	-0.003733	0.107026	-0.034878	0.9723
SCF	-0.222597	0.118980	-1.870874	0.0646
SCF(1)	0.121803	0.133006	0.915768	0.3623
C	0.022116	0.009586	2.307026	0.0234

Root MSE	0.065145	R-squared	0.047385
Mean dependent var	0.016337	Adjusted R-squared	0.015275
S.D. dependent var	0.067108	S.E. of regression	0.066593
Akaike info criterion	-2.538369	Sum squared resid	0.394685
Schwarz criterion	-2.429440	Log likelihood	122.0341
Hannan-Quinn criter.	-2.494386	F-statistic	1.475691
Durbin-Watson stat	2.265526	Prob(F-statistic)	0.226582

Dependent Variable: Working Capital

Cross-sections included: 9 Palestinian services sector
Total panel (unbalanced) observations: 76

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SCF(-1)	9.38E-05	0.000527	0.177770	0.8594
SCF	-0.102312	0.000822	-124.4164	0.0000
SCF(1)	-0.068239	0.001125	-60.67451	0.0000
C	0.005835	0.014810	0.394010	0.6947

Root MSE	0.123144	R-squared	0.999573
Mean dependent var	-0.932705	Adjusted R-squared	0.999555
S.D. dependent var	5.995939	S.E. of regression	0.126519
Akaike info criterion	-1.245655	Sum squared resid	1.152506
Schwarz criterion	-1.122984	Log likelihood	51.33488
Hannan-Quinn criter.	-1.196630	F-statistic	56125.23
Durbin-Watson stat	2.888746	Prob(F-statistic)	0.000000

Appendix (B): Tables

Table (1)

Illustrates a description of the Jordanian listed companies

Jordan					
Sector	No.	Company symbol	Sector	No.	Company symbol
Service Sector	1	JOPT	**Industrial sector**	1	JOPH
	2	AFAQ		2	APOT
	3	JOTF		3	JPM
	4	JOEP		4	JOCM
	5	OFTEC		5	UTOB
	6	JITC		6	MANS
	7	RICS		7	Siniora
	8	ENJAZ		8	UCIC
	9	BENDAR		9	JOST
	10	LEAS		10	DADI
	11	JPTD		11	WIRE
	12	IREL		12	JOWM
	13	NOPAR		13	HPIC
	14	SURA		14	ASAS
	15	JDFS		15	MBED
	16	SPTI		16	AQRM
	17	MDTR		17	ARAL
	18	ZARA		18	PHALDLPHIA
	19	MALL		19	ASPMM
	20	ABMS		20	JOPI
	21	CICO		21	PETRO
	22	APIC		22	EQBAL
	23	AIHO		23	
	24	IHH			
	25	JOHT			
	26	ICMI			RMCC

(Amman Stock Exchange, 2021),.

Table (2)

Illustrates a description of the Palestinian listed companies:

Palestine					
Sector	No.	Company symbol	Sector	No.	Company symbol
Service Sector	1	PALTEL	**Industrial sector**	1	AZIZA
	2	PEC		2	JCC
	3	OREDO		3	BPC
	4	NSH		4	NAPCO
	5	WASSEL		5	GMC
	6	AHC		6	JEP
	7	PALAQAR		7	VIOC
	8	RSR		8	APC
	9			9	BJP
				10	NCI
		ABRAJ		11	ELECTROD

(Palestine Exchange, 2021).

Table (3)

Description of research variables.

Variable	Abbreviation	Measures	References
Accrual quality	AQ	standard deviation of residuals of the following:: WC = b0 + b1 CFO t-1 + b2 CFOt +b3 CFO t+1 + et (4)	(Dechow & Dichev, 2002)
Comparability	COMP	The absolute difference of the predicted value of a regression of firm i's earnings on firm i's return using the estimated coefficients for firms i and j,	(De Franco et al., 2011)
Size	Size	the logarithm of the market value of equity at the end of the year	(De Franco et al., 2011)
Return on asset	ROA	net income divided on total assets	(De Franco et al., 2011)
Book to market value	BM/MV	the ratio of the book value to the market value of equity	(De Franco et al., 2011)
Trading volume	TRVOL	Logarithm of trading volume in millions of shares during the year	(De Franco et al., 2011)

جـامعـــة النجاح الوطنية

كليـــة الدراســـات العليـــا

مدى تأثير قابلية مقارنة المعلومات المالية بجودة الاستحقاق للشركات الصناعية والخدماتية الفلسطينية والأردنية المدرجة في البورصة

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إشراف

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الملخص

يهدف هذا البحث إلى معرفة ما إذا كان لجودة الاستحقاق تأثير على قابلية مقارنة البيانات المالية في الشركات الفلسطينية والأردنية المدرجة. مستخدمو البيانات المالية في وضع أفضل يمكنهم من مقارنة البيانات المالية التي تتميز ارقامها بجودة عالية؛ وبالتالي اتخاذ القرار الصحيح. وقد اختار البحث القطاعات الصناعية والخدمية كعينة بحث تغطي الفترة (2010–2020).

أظهرت نتائج تحليل البحث أن جودة الاستحقاق لا ترتبط ارتباطًا ذو دلالة احصائية بإمكانية مقارنة البيانات المالية بين جميع القطاعات المختارة. يشير هذا البحث إلى السبب في عدم وجود الدلالة الاحصائية في النتائج الى مقارنة البيانات المالية. وفقًا الى De Franco et al., (2011)، يتم تعريف قابلية مقارنة البيانات المالية على أنها هي الأحداث الاقتصادية التي تترجم لاحقا على شكل بيانات مالية. في هذا البحث تم أخذ الأرباح كمؤشر للبيانات المالية والعائد على أسعار الأسهم كمؤشر للأحداث الاقتصادية. أظهرت نتائج الانحدار في نموذج المقارنة أن هذه العلاقة لا تفسر التباين في المتغيرات وأن النموذج لا يتناسب بشكل جيد مع بيئتنا الفلسطينية والاردنية. حيث إن التغير في أسعار الأسهم في كل من القطاعين المختار الأردني والفلسطيني لا يكاد يذكر. نتيجة لذلك، لم يكن هناك تأثير ذو دلالة احصائية على الارباح (مؤشر على البينات المالية).

يتم الاستنتاج من نتائج هذا البحث إلى أن استخدام مقاييس تعتمد على الارقام السوقية قد لا يكون موثوقًا في مقارنة البيانات المالية للشركات. من المحتمل أن تكون هذه النماذج قابلة للتطبيق بشكل مناسب اكثر في الدول المتقدمة التي تتميز بأسواق ذات رأس مال عال. في حين أن الدول النامية تتسم بضعف أسواق رأس المال، فإن ذلك سيؤدي إلى عدم تناسق وتباعد بالمعلومات.

يوصي البحث المستثمرين ومستخدمي البيانات المالية المهتمين بإمكانية مقارنة البيانات المالية، بالانتقاء في اختيار نموذج المقارنة بحيث يناسب البيئة الاقتصادية المحيطة، وذلك للحصول على إجابات. بالإضافة الى ذلك، يجب على الأبحاث المستقبلية ايجاد نموذج يمثل امكانية مقارنة البيانات المالية بحيث لا يعتمد بشكل رئيسي على قيم السوق خاصة في الاسواق التي تتصف بتباين بكفاءات السوق.

الكلمات المفتاحية: مقارنة البيانات المالية ، وجودة الاستحقاق.