

**MIDDLESEX UNIVERSITY**

**THE STATUS OF FINANCIAL REPORTING, ACCOUNTING  
EDUCATION AND PROFESSION IN A DEVELOPING COUNTRY:  
THE CASE OF JORDAN**

**Being a Thesis submitted for the Degree of  
Doctor of Philosophy in Accounting at the Middlesex University  
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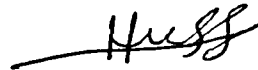
**July, 1995**

## DECLARATION

I declare that this work has not already been accepted in substance for any degree, and is not concurrently submitted in candidature for any degree.

I also declare this thesis is the result of my own investigation. Where the works of other writers have been used, these have been acknowledged and referenced in the text and bibliography.

Signed



HUSSEIN ALI KHASHARMEH

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## Abstract

The research for this study started in April 1993. It is a study of the status of financial reporting, accounting education and profession, in developing countries in general and in Jordan in particular.

The general study is a literature survey which examines the nature and problems of accounting education, profession and practices in developing countries. In addition, a review of the development of national accounting standards in the UK and USA, and the International Accounting Standards Committee (IASC) was undertaken and reported upon.

The main purpose of the study is to evaluate the accounting profession and corporate financial reports in Jordan with reference to national and international practice and to elicit and investigate the views of various constituencies in Jordan about the use of international accounting standards (IASs) recommended by the accountancy profession in Jordan, as a basis for preparing financial statements of Jordanian enterprises. The study also elicited and reports upon the opinions of Jordanians on the current accounting education programmes in Jordan, and how they can be improved if deficient.

Two approaches were used in this study. The first was a questionnaire survey of the perceptions of various users regarding the status of corporate annual reports, accounting profession and education to determine whether the opinions of different user-groups on such status diverge or converge.

The second was a content analysis of annual reports of a sample of Jordanian companies listed on Amman Financial Market (AFM) to determine the extent and scope of information provided by them and to reveal the gap between what is disclosed and what is required to be disclosed by the IASC. A disclosure index methodology was adopted in the study. Some corporate characteristics were selected and tested to discover if any of them can explain the variation in disclosure index.

In addition, face-to-face interviews with selected individuals were carried out to clarify confounding results from the responses to the questionnaire and the analysis of annual reports and accounts.

The study revealed that the accounting profession in Jordan is in its infancy and much more resources and attention than is presently devoted to it is needed to develop this profession to the level required to enable it to function effectively and efficiently.

The results suggest that slightly over 50% of the respondents support the suggestion that graduates from Jordanian Universities are inadequately prepared. The results also reveal a strong support for the establishment of Accounting Development Centres to improve accounting education in Jordan.

Moreover, there is a general agreement by all respondent user-groups that the IASC's standards are appropriate for Jordan when modified to take account of the needs of the local environment.

When compared with reporting practices before the adoption of IASs in Jordan, the disclosure indexes of the sampled companies after adoption of IASs in Jordan revealed a strong improvement in the level of disclosure. The results of multivariate regression reveal that there is no significant association in 1988 between any of each of balance sheet index, income statement index, other financial statement index, measurement and valuation methods index and overall index on one hand and the firms characteristics, namely, assets size, gearing, type of industry, liquidity ratio, proportion owned by the government and size of annual sales on the other hand. Regarding 1992, it seems that the type of industry determine the extent of disclosure in Jordan. The results indicate a highly significant association between each of the indexes conveying the quality of reporting in the balance sheet, profit and loss accounts and the notes relating to measurement and valuation methods on one hand and the type of industry. The results for 1992 show that corporate reporting in Jordan is becoming systematic, responding to industry behaviour, gearing ratio and the level of government

investment, compared to the circumstance in 1988. Moreover, the mean score disclosure indexes for 1988 and 1992 reveal that there is a strong improvement in “other financial statement index” in 1992 over 1988. Again this improvement may suggest a positive influence of the adoption of IASC’s standards on disclosure behaviour in Jordan. Compared to 1988, the indexes of disclosure in the income statements and in the balance sheets of 1992 fell. This fall may suggest that IASC’s standards are lower than normal standards in Jordan. However, changes in corporate disclosure between 1988 and 1992 vary from company-to-company. The correlations between the 1988 and 1992 ranks of each company in respect of different types of financial statements indicate a low correspondence between the ranks. For example the coefficient of rank correlation between the 1988 and 1992 balance sheet indexes is the weakest at 0.5120. That for the 1988 and 1992 indexes for income statement is 0.3626; measurement and valuation methods is 0.4530 and overall disclosure is 0.4839. Furthermore, the results highlight the items of information in the annual reports where disclosure is poor (such as proportion of fixed assets pledged, unexpired useful life of fixed assets).

Several suggestions are offered for the improvement of the accounting profession, education and practices in Jordan.

## Abbreviations

Abbreviation	Description
AAA	American Accounting Association
A & C	Accounting firms and corporations
AAPA	American Association of Public Accountants
AB	Audit Bureau
ACCA	The Chartered Association of Certified Accountants
AcSEC	Accounting Standards Executive Committee
ADCs	Accounting Development Centres
AFM	Amman Financial Market
AIAA	Association of Iraqi Accountants and Auditors
AICPA	American Institute of Certified Public Accountants
AIU	Al-Isra University
ANU	Amman National University
APB	Accounting Principles Board
APC	Audit Profession Council
ARB	Accounting Research Bulletins
ASC	Accounting Standards Committee
ASCA	Arab Society of Certified Accountants
ASSC	Accounting Standards Steering Committee
ASU	Applied Sciences University
AVU	Amman University College for Applied Engineering
B/S	Balance Sheet
CAP	The Committee of Accounting procedures
CARs	Composite Analysis of Annual Reports
CBJ	Central Bank of Jordan
CCA	Current Cost Accounting
CIMA	The Institute of Cost and Management Accountants

CIPFA	The Chartered Institute of Public Finance and Accountancy
CPA	Certified Public Accountants
Dyad	A Paired Group of Users whose Mean Scores are Subject to Test of Significance
E32	Exposure Draft No. 32
EC	European Community
EEC	European Economic Community
EITF	Emerging Issues Task Force
EU	European Union
FACPA	French Association of Certified Public Accountants
FASB	Financial Accounting Standards Board
FEAS	Faculty of Economics and Administrative Sciences
FIFO	First-in, First-out
FRRs	Financial Report Releases
G.1	Group One
G.2	Group Two
G.3	Group Three
GAAB	Government Accounting Standards Board
GAAP	Generally Accepted Accounting Principle
GCC	Gulf Co-operation Council
Govt	Governmental Agencies
IAS	International Accounting Standard
IASC	International Accounting Standards Committee
ICAEW	The Institute of Chartered Accountants in England and Wales
ICAI	The Institute of Chartered Accountants in Northern Ireland
ICAS	The Institute of Chartered Accountants in Scotland
IFAC	The International Federation of Accountants
IFC	International Finance Corporation
IMF	International Monetary Fund



IOSCO	International Organisation of Securities Commissions
I/S	Income Statement
JACPA	Jordanian Association of Certified Public Accountants
JAS	Jordanian Accounting Standard
JD	Jordanian Dinar
JU	Jordan University
JUW	Jordan University of Women
LDCs	Less Development Countries
LIFO	Last-in, First-out
MBA	Master in Business Administration
MNCs	Multinational Corporations
MU	Mu'tah University
MVM	Measurement and Valuation Methods
NAFTA	North Atlantic Free Trade Agreement
NASs	National Accounting Standards
NS	Not Significant
OECD	The Organisation for Economic Co-operation and Development
OFS	Other Financial Statements
OTC	Over The Counter
PS	Princes Summaya
PU	Philadelphia University
S	Significant difference discovered at $P \leq 0.05$
S***	Highly Significant difference discovered at $P \leq 0.01$
SCPA	Syrian Certified Public Accountants
SEC	Securities and Exchange Commission
SFAS	Statements of Financial Accounting Standards
SOPs	Statements of Position
SORPs	Statements of Recommended Practices
SS	Significant difference discovered at $P \leq 0.05$

SSAP's	Statement of Standards Accounting Practices
Std. dev.	Standard deviation
STU	Science and Technology University
UK	United Kingdom
UN	United Nations
UNRWA	United Nations Relief and Work Agencies
USA	United States of America
USCPA	American Certified Public Accountants
USM	Unlimited Securities Market
UWCC	University of Wales College Cardiff
YA	Yarmouk University

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## **PART I - BACKGROUND**

# Chapter one

## Introduction

This chapter is planned to present a background to the study, the significance of the study, statement of the problem, justification of the study of Jordan, research objectives and organisation of the study.

### 1.1: Background to the study

Accounting as a measuring and communicating vehicle plays a major role in economic planning, control and decision making. This helps the decision makers or the users of accounting information to rationalise their decisions to best achieve the predetermined objectives. Thus, the effectiveness of any accounting system is the extent to which it enables its users to make optimal decisions.

As Goodfellow (1989, p.30) points out

*Accounting is the language of business and trade, the scorecard for measuring performance. It forms one of the key inputs to the capital market system, which allocates resources in our country. So we are in the business of communications, and accounting information is the language of business.*

Financial statements are the output of any accounting information system in any environment. The basic objective of financial statements is to provide information useful for making economic decisions' (Trueblood Report (AICPA), 1973, p.13).

In developing countries, accounting and, in particular, financial reporting is an essential factor in socio-economic development in the sense that it could provide the strong foundation for economic planning, control, and better allocation of scarce resources. It also helps (by using techniques such as financial markets) in the process of capital formation through the distribution of income, reinvestment in productive projects, and in directing national savings toward investment. In this respect, Seidler (1967) points out that:

*...since economic development consists of a more efficient allocation of resources, accounting techniques may improve both the allocation process and the efficiency of some of the resources.*

Furthermore, accounting plays an important role in the world of business, both at national and international levels. In any organisation, whether large or small, profit oriented or non-profit oriented, the accounting department is very important and the financial director is a key person. At the national level, for example, in Jordan, economic accounts are used in measuring economic progress, design of monetary policy, setting national goals and guiding economic planning and budgeting. At the international level, the existence of divergent accounting practices among different countries has resulted in a disadvantage to both international preparers and users of financial statements.

As Walters (1989b, p.25) pointed out

*Investors are disadvantaged if they do not have the information to compare one investment to another. .. Either international investors have to be extremely knowledgeable about multiple reporting methods or they have to be willing to take greater risks.*

This disadvantage can best be viewed in the context of multinational corporations with a number of subsidiaries. The preparers' disadvantage arises, because each multinational company needs but do not have world-wide accounting standards to ensure that the results of each of its subsidiaries will be reported on the same set of standards as those used by other subsidiaries. Instead, the accounts of each subsidiary are prepared in accordance with local standards.

The users' disadvantage arises because they need world-wide accounting standards that would ensure that the financial statements of all companies, regardless of the countries in which they are domiciled, will be comparable and reflect economic facts. Thus, the expansion and diversification of multinational enterprises, the significant advances in communication technology, and the changing arena for international investments have all helped to create a

need for closer co-ordination of securities markets and standards of financial accounting and reporting on an international basis.

### **1.2: Significance of the study**

The study is significant both for Jordan and other developing countries where the problems of underdevelopment need to be urgently confronted. Seventy-five percent of the world's population lives in countries classified by the World Bank as developing, i.e., with a per capita income below \$410 per annum (World Bank Development Report, 1984). Developing countries are facing a demographic explosion which is pushing the world towards a situation in which the vast majority of its population will be in developing countries (Parry, 1989, p. 1/11). However, it is beyond the scope of this study to speculate on the likely consequences of such demographic and economic imbalances.

4.

The significance of this study is argued from the perspective of the inadequate coverage of issues relating to the relevance of accounting to specific developing countries especially Jordan. This section highlights this inadequacies through brief literature review of the scope of previous studies in order to support points of departure for this study.

Accounting literature relating to developing countries as a distinct group (not as individual countries) is limited. Except for the work of a few accounting scholars (such as Briston, 1978; Enthoven, 1979; Samuels and Oliga, 1982; Wallace, 1987, 1990; Wallace and Briston, 1993; Pendlebury and Wallace, 1994) little has been written about the real needs of developing countries, let alone Jordan.

A literature review of the accounting development patterns of most developing countries reveals that they have had little chance to evolve accounting systems which truly reflect local needs and circumstances. Their existing systems are largely extensions of those developed in other countries, particularly the capitalist countries of the West, such as the UK and USA. These systems were either imposed through colonial influence, by powerful investors or multinational corporations (Wilkinson, 1965; Radebaugh, 1975; Perera, 1980; Chandler and Holzer, 1984). Therefore, the way accountancy is practised in most developing countries is

perhaps one of the most important causes of the failure to meet social objectives (Hove, 1982, p.44).

To provide a backdrop for the setting of this thesis, this literature review concludes with a discussion of the few studies of accounting in Jordan. Nothing has been published on accounting issues in Jordan except for information buried in a few studies and Ph.D. theses by Jordanian students dealing with certain accounting problems. The works written in English are discussed before those written in Arabic.

Dahmash (1982), conducted a study to evaluate the existing supreme audit institutions and their effectiveness in sixteen Arab states (Jordan included). The study indicates that these institutions perform mainly financial and compliance auditing, with less attention to operational auditing. It also reveals that supreme audit institutions under study suffer from various problems (such as lack of full independence, lack of qualified staff, lack of adequate training programmes, economic, social and political pressures, bureaucratic traditions and routines, inadequate reporting, weak control and insufficient information in audited units), both internal and external.

Al-Hmoud (Ph.D. thesis, University of Wales College of Cardiff, 1987), studied the application of the efficient market hypothesis to the Jordanian market. The main objective of his study was to investigate the efficiency of the Jordanian Stock Market in pricing listed shares. Two forms of efficiency were investigated; the weak and the semi-strong forms. His findings do not confirm the semi-strong form of efficient market hypothesis. In addition, the results give substance to the main argument that the practice of pricing additional issues by listed companies is not fair and stands in need of change.

El-Issa (Ph.D. thesis, University of Lancaster, 1988b) examined the usefulness of corporate financial disclosure to investors in the Amman Financial Market. The results of his study indicate that current financial disclosure was viewed as unsatisfactory, and investors desired

the disclosure of additional items such as, related parties transactions, interim reports, true and timely disclosures, and information about management.

Qtaishat (Ph.D. thesis, University of Georgia, 1988) conducted a study on accounting practitioners' perceptions of the context and content of undergraduate accounting programmes. The study concludes that the Accounting Curriculum of the University of Jordan had been and continued to be in a dynamic state. Many disciplines have been added to the accounting curriculum, including computer applications in accounting. The study reviewed the three prospectuses of the University of Jordan. The first prospectus was for the academic year 1969/70, when the university was following the year system. The second prospectus was for the academic year 1976/77, and the third was for the academic year 1982/83. He found that there was no difference between the courses listed in the 1976/77 and the 1982/83 prospectuses, but the differences between those two and the 1969/70 prospectus occurred as a result of the change from the year system to the credit hour system.

Al-Ashi (Ph.D. thesis, University of Wales College of Cardiff, 1991) analysed the training needs for small business management, in the light of their environment, the problems and motivation of entrepreneurs, the sources of finance and sources of information. The study concludes that small businesses have not been given significant attention by government or by private bodies which have the potential and ability to sponsor and arrange management training courses for small business. The study also suggests that there is a need for small business entrepreneurs to avail themselves of the opportunities for management training, as such training is a very necessary tool to improve themselves and their businesses.

Helles (Ph.D. thesis, University of Hull, 1992) dealt with the evolution of accounting in Jordan. His study revealed the inadequacy and unsuitability of current reporting practices viewed from the needs of the local users of financial reports. Also, it revealed that public accounting has not yet reached the stage where it can be recognised as a developed profession.

Gariabeh (1987) conducted a study (in Arabic) about the extent of disclosure in annual financial statements of industrial companies in Jordan. The study found that the majority of the companies investigated disclosed less than 50% of the information required by investors. Information disclosure is not enough to satisfy total investor needs. The study recommends that the Companies Act in Jordan should include some articles that require disclosure of sufficient information.

Al-Hmoud (1991) conducted an inductive study (in Arabic) about analytical auditing and its uses by auditors in Jordan. The study reveals that the most important problems that impede the uses of analytical auditing are the following:

- the weakness of internal control systems;
- lack of analytical books;
- difficulties<sup>4</sup> in making comparisons within an industry due to the lack of information.

However, the study concludes with some recommendations (such as the holding of training programmes for auditors in the area of analytical auditing, auditors using computer programmes in their work, encouraging corporations to use analytical books and accounts in their work, and revising courses at universities and community college levels to include international auditing and accounting standards in their curricula) to solve these problems.

Al-Hmoud (1992) conducted a study (in Arabic) about the present and future rules and ethics of the auditing profession in Jordan. The study reveals that the present rules and ethics are unable to achieve the goals of the profession. The study recommends the establishment of a committee by the Jordanian Association of Certified Public Accountants (JACPA) to develop a code of ethics in Jordan. Also, the study recommends not adopting the ethics of other countries because of the significant differences between the religious and ethical cultures of Jordanians and those of the peoples of other countries.

Al-Hmoud et al. (1992) conducted a study (in Arabic) about the development, in Jordan, of the accounting profession (auditing aspect) and its effectiveness, by identifying the main problems that face auditors in their work. The study reveals many problems that face auditors in Jordan including the lack of a detailed code of ethics and lack of awareness of these ethics, the weakness of internal control systems of the auditees, the volume of auditors' responsibilities not being commensurate with their fees, insufficient representation on the Council of the Auditing Profession, unethical competition among auditors, lack of efficient accountants and lack of mutual trust between auditors and the tax department. However, the study concludes with some recommendations to solve the problems (e.g., setting up a code of ethics suitable to the Jordanian environment, setting the bases on which to determine audit fees commensurate with auditors' efforts and responsibilities, more representation of the Society of Jordanian Certified Public Accountants on the Council of the profession, delegating some of the authority of the Council to the Society, focusing on the quality of teaching in Jordanian and Arab universities, and holding the auditors responsible when approving tax forms or accounts that do not comply with the law).

None of the above works dealt specifically with the evaluation of the implementation of the International Accounting Standards (IASs) in Jordan. Also, none of the above studies dealt with the disclosure issue in terms of using IASs in Jordan as a basis for measuring the adequacy of financial reporting practices. The significance of this study therefore lies in the fact that it is the first attempt to investigate the accountancy profession and corporate annual reports in Jordan with reference to national and international practice.

The study seeks to locate accounting investigation of a developing country in the context of the needs of specific users in Jordan. It also examines the relevance to Jordan of accounting standards, developed from outside Jordan. This is the first empirical investigation known to this scholar which has addressed directly the question of cultural relativism of international accounting standards.



Although this study has specific relevance to the needs of the Jordanian environment, it is believed that many other developing countries, especially Middle Eastern countries, have similar problems and needs, and could therefore benefit from the results of the study.

### **1.3: Statement of the problem**

The lack of accounting information could lead to sub-optimal planning and decision-making. As a result, social and economic development plans in Jordan may have failed to achieve their objectives.

El-Issa (1984) concludes in his study that the accounting environment in Jordan needs much improvement, since at present there exists no official accounting body to provide domestic guide-lines for financial reporting.

In the international accounting literature, some writers (e.g. Wallace 1990; Holzer and Chandler 1981) have suggested that accounting in developing countries is weak and has been in need of improvement for quite some time. The recent attention devoted to how to organise such an improvement is not sufficient. Less attention has been devoted to ways of increasing the number of accountants in these countries. However, Wallace and Briston (1993) stress the need to increase the number of accountants, improve the quality of accounting information, the level of accounting technology and the demand for accounting information. Improving the quality of the accounting infrastructure in a developing country such as Jordan requires research studies to determine the accounting needs accurately.

Thus, this study investigates, delineates and evaluates the accounting profession and corporate annual reports in Jordan with reference to national and international relevance. It focuses primarily on accounting education and governmental regulations as important factors that influence the accounting profession in Jordan.

#### **1.4: Justification of the study**

Basing the study on Jordan is justified on the following grounds.

Firstly, Jordan is the home country of the researcher and he has extensive familiarity with the language and culture and accounting in Jordan. This is expected to result in relatively easy data collection. Secondly, little in the areas of Jordanian accounting practices is available in the literature to English speaking professional accountants, accounting academicians, and businessmen. For example, Jordan is excluded from the three reports by Price Waterhouse International (1973, 1975 and 1979) on the accounting principles and reporting practices respectively in 38, 45 and 64 countries.

Also, Jordan is excluded from the study made by the Committee on International Relations of the American Institute of Certified Public Accountants which covered the accounting practices of 30 countries.

Jordan's increasing economic relations with English-speaking countries provide a strong justification for a thorough knowledge of its accounting practices, and the environmental conditions influencing them, on the part of American and English accountants and businessmen. Moreover, Jordan became a member of the International Accounting Standards Committee (IASC) in 1989 and a member of its Board in 1993. In addition, Jordan has sponsored the researcher with funding to do the research related to the issues which will result in improvements to its current accounting systems. Also, Jordan has its own stock market.

**The use of IASC's standards as a yardstick to measure the adequacy of financial reporting practices in Jordanian companies, may also be justified on the following grounds.**

1. Jordan has no national accounting standards and the IASC is an international organisation represented in more than 80 countries. In other words, the IASC does not belong to a specific country and this gives it an international feature. The financial laws in Jordan require reporting firms to prepare financial statements according to generally accepted accounting principles. They also require auditors to make sure that the reporting firms

prepare their financial statements according to the laws and generally accepted accounting principles. However, the Jordanian Association of Certified Public Accountants adopted the IASC's standards in 1989, effective from 1990, as Jordan's generally accepted accounting principles. As a result, adoption of the IASC standards as a basis for preparing annual accounts, is considered as satisfying Jordanian laws. The accounting profession in Jordan became a member of the IASC and as a result, the accounting profession decided to conform with IASs.

2. International lending institutions, such as the World Bank, require developing countries, (Jordan included) to follow IASs as a prerequisite to obtaining loans to finance their projects.
3. The world becomes smaller every day and every growing business is trying to find a better place to grow and survive. Corporate multinational operations are in Jordan today, and will be for many years to come. This is probably because of political stability, the Peace Treaty between Jordan and Israel and the strategic position of Jordan among Middle East countries in that the location of Jordan is at the heart of these countries. The growth of corporate multinational operations in Jordan demands a regular supply of qualified accountants and financial statements with integrity.
4. Many international accounting firms advise their client companies in developing countries to prepare their accounts according to IASs. As local auditing firms grow, the influence of international auditing firms in Jordan would probably increase.

Thus, this study will highlight the problems confronting Jordan, in the country's quests for the improvement of its accounting system and profession.

### **1.5: The Purpose of The Study**

The main purpose of the study is to evaluate the accounting profession and corporate annual reports in Jordan with reference to national and international practice and to investigate the views of various constituencies in Jordan about IASs and to establish the impact of the IASC upon Jordan.

Also, the study plans to examine the current accounting education programmes in Jordan, and how they can be improved, if deficient. In addition, a review will be conducted of the development of national accounting standards in the UK and USA.

More specifically, the objectives of the study are to satisfy the following:

- a. To describe current corporate annual reporting practices in the form of annual reports and accounts in Jordan.
- b. To provide an understanding of the factors influencing accounting rules and their consequences in Jordan.
- c. To examine the extent to which the corporate annual reports issued by Jordanian companies conform to international accounting standards.
- d. To examine the need for Jordanian annual reports to conform to IASs and whether there is a need for adapting the IASC's standards to suit the Jordanian environment.
- e. To provide greater understanding of the existing accounting education programmes in the academic institutions in Jordan.
- f. To provide greater understanding of the role of accountants and professional accounting bodies.

The results of the study are anticipated to offer guidance on appropriate approaches to improving the accounting profession in Jordan. It is hoped that a number of practical outcomes will emerge from the study. It is anticipated that the study will provide a more detailed understanding, not only of the accounting system in Jordan, but also of the factors that affect accounting, and the impact of accounting on economic development. In particular, it is expected to provide a greater understanding of the role of accountants and other professional bodies. Based on the above mentioned objectives, the following questions should be answered at the end of the study:

1. What is the current status of the accounting profession in Jordan? And can this status be improved?
2. How do accounting practitioners, experts and governmental agencies perceive the role of academic institutions in the development of the accounting profession in Jordan?

3. What are the major strengths and weaknesses of the existing accounting education programmes at university level as perceived by accounting practitioners, experts and governmental agencies in Jordan? And how can they be improved if they are deficient?
4. How do accounting practitioners, experts and governmental agencies in Jordan perceive the need for national accounting standards?
5. How should the membership of the authority to be charged with setting national accounting standards be constituted? The response to the question would be based on the opinions of practitioners, experts and governmental agencies.
6. How do accounting practitioners, experts and governmental agencies in Jordan perceive the possibility of achieving international harmonisation of accounting and financial reporting and by which means?
7. What is the impact of the IASC's standards upon domestic accounting practices in Jordan as seen by the practitioners, experts and governmental agencies?

In addition, an examination of the annual reports of major national industrial and services companies listed on the Amman Financial Market (AFM) (1993) will be conducted in order to provide an answer to the following research question:

8. How adequate are the reporting practices of national companies in Jordan with reference to the IASC's standards?

### **1.6: Organisation of the study**

Throughout this study, the data obtained from the literature and responses to interviews and mail questionnaires, have been analysed and discussed. The structure of the study is shown in Diagram 1.1.

The study is divided into five parts including fourteen chapters.

### **Part I: Background chapters 1 - 3**

- Chapter 1 discusses the background of the study, the significance of the study, the statements of the problem, the justification of the study, the objectives of the study and the organisation of the study.
- Chapter 2 reviews previous literature regarding the accounting development, accounting profession and accounting education, in developing countries.
- Chapter 3 examines environmental influences on accounting in Jordan, features of Jordanian economy, the role of accounting in economic development, and review of laws and regulations of financial reporting in Jordan.

### **Part II: Accounting in the global context chapters 4 -6**

- Chapter 4 reviews previous literature regarding the diversity of accounting standards in both developed and developing countries (including introduction, approaches of setting accounting standards, accounting standards in the UK and the USA).
- Chapter 5 reviews the literature regarding harmonisation of international accounting standards (including the background of international accounting standards, meaning of harmonisation, benefits of harmonisation, schools of (approaches) to international harmonisation, process of international harmonisation, rationalisation and impediments to international harmonisation)
- Chapter 6 contains information about the International Accounting Standards Committee (IASC) (including background about the IASC, uses of IASC's standards, successful of the IASC and obstacles of the IASC).

### **Part III: Accounting infrastructure in Jordan chapters 7 - 12**

Chapter 7 covers the theoretical background of the accounting profession in Jordan (including accounting education and profession, legislation of accounting profession, auditing practices, JACPA and ways of improving accounting profession in Jordan).

Chapter 8 Covers the survey methodology.

Chapter 9 covers the empirical survey regarding the accounting profession in Jordan.

Chapter 10 covers the theoretical background of accounting education in Jordan (including the educational characteristics, components of accounting education, the role of accounting education in economic development and the problems of accounting education).

Chapter 11 covers the empirical survey of accounting education in Jordan.

Chapter 12 contains information about accounting standards in Jordan (including needs for accounting standards, who set accounting standards and empirical survey regarding the need for developing national accounting standards (NASs) in Jordan, the proposed structure and membership of the authority to be charged with setting national accounting standards in Jordan).

### **Part IV: The quality of corporate financial reporting in Jordan chapter 13**

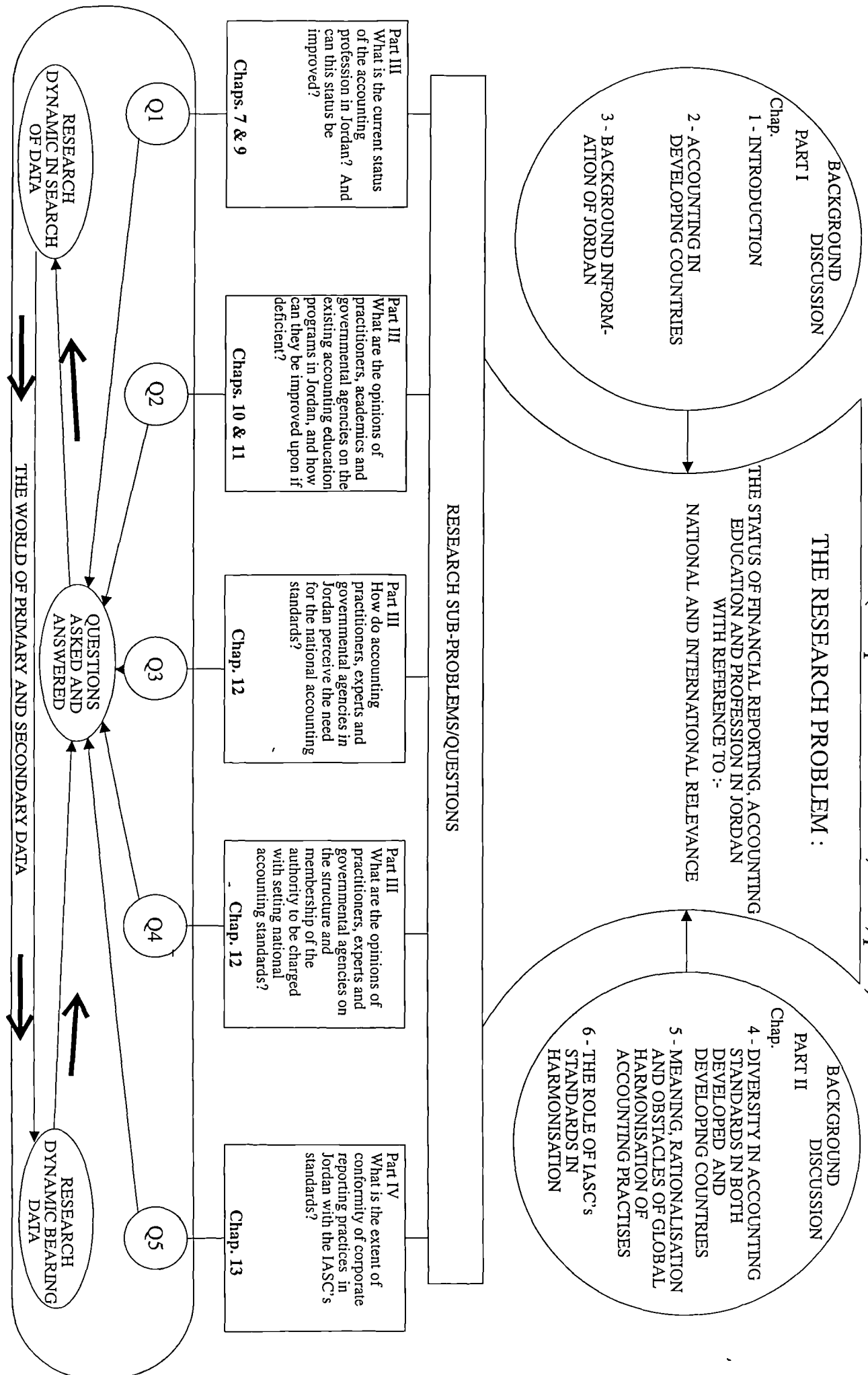
Chapter 13 covers an empirical survey regarding corporate financial reporting in Jordan (including the impact of IASC's standards upon corporate financial reporting practices in Jordan, the significance test, survey of the annual reports and accounts in Jordan regarding the adequacy of disclosure information in annual financial reports).

### **Part V: Epilogue chapter 14**

Chapter 14 includes information regarding the summary and conclusions, recommendations, limitations of the study and areas of future studies.

# DIAGRAM 1.1: THE STRUCTURE OF THE THESIS

(Adapted from Wallace, 1987, p.36)





## Chapter Two

### Accounting in Developing Countries

#### 2. Introduction:

Accounting is the output of environmental factors (such as political, social and economic) and should have greater flexibility to adapt to such factors. This requires professions to understand their environment. This can be done through an educational system that is designed to ensure that its graduates have a broad and basic understanding of political, social and economic systems.

The objectives of accounting systems in developing countries differ from those of developed countries because of differences in the environmental factors described later. For example, in developed countries, the emphasis is on financial accounting and auditing to provide information about the profitability of a given entity, whereas in developing countries, the emphasis is on economic planning at the macro level. Managerial accounting is an important subject in developing countries since it helps in providing useful information for managerial decisions. Also, in developed countries, where the emphasis is on income determination due to the fact that most businesses are privately owned, the emphasis in developing countries should be on efficiency measures and input/output relationships given that most economic activities are owned, or at least controlled, by the government.

Developing countries [including Jordan] have unique economic, social and cultural problems (Juchau et al., 1986). Economic problems include a relatively low per capita gross national product, low growth rates, a significant percentage of economical dependence on agriculture or natural resources, and an important role taken by the national government in the direction of economic development. Few of these countries have stock markets; the role played by those stock markets that exist is not significant enough to determine the allocation of resources among competing entities and goals.

The purpose of this chapter is to contribute to a better understanding of the nature and problems of accounting in developing countries (Jordan included). This is achieved by concentrating upon the following areas:

1. Accounting development
2. Accounting profession
3. Accounting education

### **2.1. Accounting development**

An examination of the accounting development patterns of most developing countries would disclose that few tend to reflect local needs and circumstances. This is because (as discussed later) they are based upon those of developed countries which do not often reflect the actual needs of developing countries. The available natural and human resources in most developing countries are not gathered efficiently and put to production-maximising use probably because of a lack of accounting.

Scott (1968), highlights the reasons why accounting is essential for the organisation of resources and is necessary for economic development in developing countries.

He states (1968, p.55) that:

*It is not only for the benefit of the enterprise that its accounting system must become more elaborate and provide more information, governments of developed countries receive a great deal of accounting information from private enterprises. Governments of developing countries, which generally participate more deeply in the process of economic development than do those of most developed countries, also have a need for substantial amounts of accounting information from firms to assist in the protection of the public against the rapacious activities of some companies, to help predict and counteract economic cycles, and for national income determination and reporting purposes.*

Accurate economic information is necessary for both developed and developing countries. Corporate reports serve the individual enterprise, consolidated statements of the banking system and flow-of-funds accounts portray the national monetary and financial structure,

while the national accounts are used to shape a country's over-all economic policy. Governments look at the aggregates to decide fiscal, monetary and other foreign and domestic economic policies. All these types of data have a common denominator - the accounting statement; and the question is, how such information can accurately serve these economic needs (Helles, 1992).

Enthoven (1965a, p.31) argues that the interdependency between economic decisions made on the business level and their impact on the national and international economic and political scene demonstrates the need for accurate economic and financial data. Clear economic information is necessary for every nation. In this respect, Seiler (1966), has stated that:

*... the strength and extent of a nation's information determines in large part the rate at which economic development will progress, and that accounting systems thus assume an important role in the development of emerging nations.*

The status of accounting practice varies widely in developing countries. The condition of the accounting establishment in a particular country depends on many environmental factors (identified later in this chapter).

One of the most important external factors is the influence exercised by the accounting practices transplanted into developing countries by former colonial powers, in which some countries are greatly influenced by British models and some others by French models.

Accountancy professions do not exist in many developing countries, and where they do, the accountancy professions generally tend to be weak and unable to fulfil their expected roles.

Engelmann (1962, p.54) pointed out that:

*Accounting systems in developing countries are conceived mainly with regard to governmental tax-control requirements. This is because laws in these countries are often much more ill-adapted to business requirements than in the West.*

As will become apparent in later discussion, another important factor that affects the development of accounting in developing countries is the presence of multinational companies. Many of the major multinationals which originate from the United Kingdom or the United States often transplant the accounting systems of their home countries into their overseas subsidiaries and often train local staff in those systems. Furthermore, almost all the large international firms of accountants are American or British, and they also train local accountants to serve the audits of multinational companies according to American or British concepts (Briston, 1978, p.110).

Similarly, Wilkinson (1965, pp. 11-12) argues that the accounting principles and practices of developed countries were never sold to developing countries on the basis of convincing arguments in support of their superior quality in terms of local needs. They were just introduced into these countries on the basis that if it is good for us at home, it must be good for you as well.

Another important point to note is the restrictions imposed by the governments of developing countries. In this respect, government agencies are, as a rule, much more conservative with regard to their fiscal methods than their counterparts in America and Europe. They insist on rigidly applying forms, mainly in connection with tax and balance sheet regulations rather than letting the substance of transactions govern their actions. In Turkey, for instance, no ledgers or journals were to be used by business unless the empty books were presented to a public agency before the first entries had been made, so that an authorised agent could number the pages in each book and certify them with his signature and seal (Engelmann, 1962, p. 54).

Engelmann (1962, p.55) cited an example to show the governmental influences on accounting systems in developing countries. He pointed out that once he was requested to develop the charts of accounts for a governmental enterprise in the Near East. According to law, the books of this enterprise were to be kept as in private corporations, and a regular balance sheet and income statements were to be established. But, however, this attempt failed because the responsible agency insisted that the accounts be kept exactly in accordance with the budget titles of the respective ministry and rejected the plan.

### **2.1.1 Public Auditing Development**

To achieve efficient use of its scarce resources, the decision making process in every society must be based upon reliable information. However, the decisions based upon unreliable information could result in mis-allocation of valuable resources to the detriment of society and to those involved in the mechanism of allocation. Auditing tends to increase the reliability of accounting information through its verifying role. Therefore, auditing could be viewed as a social requirement. In contrast, auditing could also be viewed as a legal or governmental requirement in order to figure out how much tax must be paid to the central government as is the case in a large number of developing countries (Utomo Josodirdjo, 1976). As stated by the Committee on Relations with the General Accounting Office of the American Institute of Certified Public Accountants (AICPA, 1973, P. 16):

*auditing is an important part of the accountability process since it provides independent judgement of the credibility of public officials' statements about the manner in which they have carried out their responsibilities. Auditing also can help decision makers to improve the efficiency, economy and effectiveness of governmental operations by identifying where improvements are needed.*

To meet society's needs, governments in developing countries are undertaking many new development programmes.

*As a result of the active role played by the governments in the process of economic and social development, the size of the public sector has grown significantly and the public sector transactions have increased in their complexity (UN, 1977, p. 69).*

Auditing could be defined as an evaluation process (which uses an independent expert) with the objective of judging the fairness of the financial data communicated to the public. This definition implies that auditing is concerned with the evaluation of the economy, and the efficiency and effectiveness and government transactions. In other words, auditing involves two processes:

1. Auditing as an evaluation process
2. Auditing as a communication process

### **2.1.2 Auditing as an evaluation process:**

In order for the evaluation process to be effective, it is imperative that sound procedures must be established, and evaluated on a regular basis, to ensure estimated reliability and validity. Such procedures often come in the form of auditing standards which are developed to offer guidance and direction to auditors on the basis of reaching an auditing judgement.

The extensive and intensive utilisation of economic planning as a means of achieving economic development in the Arab states (including Jordan) has challenged the highest-level audit institutions in these countries to play an active role in determining whether governmental expenditures are spent properly and wisely, i.e., economically (Dahmash, 1982, pp.89-90). This fact necessitates a more effective control of governmental expenditures by strengthening the existing legal bodies that supervise such expenditures.

### **2.1.3 Auditing as a communication process**

The preparation of an audit report is essentially a communication process by which the auditor's conclusions about the financial statements are transmitted to the users of the statements (Carmichael, 1974). But as Dahmash (1982) concludes, the supreme Audit institutions in Arab states (including Jordan) suffer from various problems, both internal and external. Internal problems include organisational structure, lack of full independence, lack and loss of qualified staff, lack of adequate training programmes, and institutional budget constraints. External problems result from rapidly changing economic, social and political pressures, bureaucratic traditions and routines, inadequate reporting, weak control, and insufficient information in audited units. However, there is also a lack of adequate co-ordination and integration of control systems with other financial control bodies. Training in governmental auditing and programme evaluation is an area of education that is often neglected in developing countries (Dahmash 1982, p.82). Moreover, auditors in Arab states (including Jordan) face many other problems:

1. Lack of specific standards by which the size of the technical auditing staff should be determined;
2. Lack of specialised technical staff to satisfy the needs of the supreme Arab Audit Institutions;
3. Low salary rate in the public sector compared to the private sector.

Helping to improve accounting in Third World countries isn't only a matter of economic self-interest; there is also the moral obligation to support accounting colleges and businesses in developing regions. In this regard, a report to the US congress by the former Comptroller

General, Elmer Staats, entitled *Training and Reporting Efforts Needed to Improve Financial Management in the Third World* states:

*The absence of effective financial management in developing countries is a major obstacle to the optimum use of resources, both internal and external, that are available to improve the standard of living in Third World countries. Effective financial management is essential because anything less dissipates available resources and thwarts development. To improve financial management developing countries must develop effective accounting and auditing practices.*

## **2.2 Accountancy Profession in Developing Countries**

### **2.2.1 Introduction**

Buckley and Buckley (1974, p. 15) define accounting as a multidisciplinary profession in terms of the problems it addresses as follows:

*At the broadest level the profession addresses the problem of achieving effective resource allocation. Other problems stem from this focus and include : (a) technical assistance in policy formulation; (b) the decision and management of the information system; (c) the evaluation of results, personnel, operations, financial systems, social goals; (d) assessing performance in relation to standards, competing systems and changing conditions; and, (e) assisting in design and evaluating the effectiveness of planning and control activities.*

As Miller (1984, p.6) points out, a profession is an occupational group in which:

1. Members possess knowledge and expertise based on academic training at an institution of higher learning.
2. Members uphold high ethical standards based on autonomy and independence.
3. Members belong to an association created to protect and enhance the interests of members and which administers ethical standards in protection of the community.
4. Members are either employed, thereby offering their services to their employer exclusively, or engaged in public practice, and thus are self - employed and offering their services to the public in general.



The positions which the accountancy profession occupies in developed market economies are either denied or unrecognised in most developing countries. Malallah (1983) concludes that because of the many social, economic, and political problems in developing countries, accounting does not occupy a position of importance and is not recognised as a profession in most of these countries. For example, as later discussion would reveal, the level of education, especially the level of accounting education, within the Gulf Cooperation Council (GCC) (including Saudi Arabia, Kuwait, United Arab Emirates, Bahrain, Qatar and Oman) is low (compared to the UK) and so, their accountants lack the knowledge to create accounting systems suitable for their environments. The lack of qualified indigenous accountants often increases the reliance on foreign personnel for accounting services to meet the needs of a rapidly developing economy as Helles, 1992, p.426 suggests on the case of Saudi Arabia. In this regard, the AAA (1977, p.72) reported that in many developing countries either no accounting profession exists or is in infancy and suffers from many shortcomings such as inadequate locally written accounting textbooks; inadequate teaching of accounting subjects at the college level; lack of qualified accounting instructors at the college level; lack of professional development opportunities for accounting educators and practitioners; and inadequate accounting education for managers and prospective managers. Similarly, Enthoven (1980) states that professional institutes in Third World tend to be weak, no recognition may exist of the need for a professional institute to set standards for accounting and auditing, codes of conduct, training and qualification tests, dissemination of information, etc.

However, there are significant exceptions. For example, although India is classified as a developing country, it has a developed accounting profession and also a well-developed system of accounting education.

### **2.2.2 Development of accountancy profession**

Developing a soundly based accountancy profession in developing countries is extremely important. International financial institutions and foreign investors frequently complain that the lack of reliable financial reporting and auditing is a serious handicap in their efforts to bring badly needed investment capital into these countries. It also can contribute indirectly to not only a smoother flow of international investment capital but also to the establishment of domestic capital markets (AAA, 1977, p.73).

According to Markell (1985), the accountancy profession in developing countries can be developed or created in one of the two ways:

1. It can develop appropriate educational institutions to prepare individuals to enter the accountancy profession. This approach would require much time to prepare individuals to the desired level of competence.
2. Create an 'instant' profession. With the assumption that an economic system is evolving and that as cultural, commercial, financial, governmental, and industrial enterprises develop, a need for the presence of an accountancy profession will become apparent.

Another reason for promoting the creation of an accountancy profession could be the need to promote accountability and “good” corporate reporting.

As Hulle (1989a, p.13) suggests: ... *the application of common [accounting and disclosure] standards is impossible without a highly qualified and independent accountancy profession.*

It has been suggested that the growth of accounting standards in developing countries cannot be achieved by the accounting profession alone, but should be promoted by appropriate laws and regulations (Samuels and Oliga, 1982). This might require the support of governmental agencies, as well as other interested parties.

In most developing countries, governments have direct involvement in economic activities through various public sector enterprises and agencies that are, in general, required to justify their existence by satisfying the government that they are functioning in harmony with the policies that have been laid down. Under such conditions, the government as the regulator of the economy becomes an important factor in the promotion of the accountancy profession.

Thus, the accountancy profession of a society will be continuously influenced by changes in the economic and business environment and the other needs of that society.

### **2.2.3 Role of the accountancy profession**

According to McPhail (1982), the role of the accountancy profession in developing countries varies substantially, both in terms of organisation and in the use made of its skills. In the Philippines, for example, the profession is well established and accountants play a leading role in the country's economy. To a large extent, the strength and evolution of the profession in developing countries reflects the colonial ancestry of the country in question. Typically the profession has concentrated on the needs of foreign investors, especially the multinational corporations because they have been the initial and primary users of it. Therefore, accounting practices continue to be defined in terms of the developed country's requirements. In this respect, Baydoun (1991) points out that generally foreign accountants working in developing countries with the help of some local elites were responsible for the formation of professional accounting bodies that are similar to those found in their home countries, or when a local body of accountants is set up in a developing country, it is usually set up under the direct assistance of one or more western professional bodies.

The demand for direct foreign investment is strong in developing countries while the success of individual countries in attracting these funds is dependent on a host of different factors. A critical issue is the need to create and maintain confidence between government and investor. In this respect, the accountancy profession can play an important role by providing the necessary assurance concerning the supporting financial data and other related issues. As a

result, an accountancy profession that is highly regarded at both the local and the international level, and able to demonstrate its ability to provide the right service at a reasonable cost, would be most desirable.

Furthermore, a sound information system is needed in both financial and economic matters in governmental and private sectors. The establishment and development of such a financial information system is one of the most important tasks of the accountancy profession.

In developing countries, the role of government is still very strong, and it is necessary to direct an entire nation purposively toward economic growth. There is a need for a high level of regulation to fulfil the aims of national economic planning. Thus, it is suggested that in most developing countries, government intervention is needed to direct the attention of the accountancy profession to the pursuit of national economic growth.

Amer (1969, p.61) points that:

*A strong accounting profession is a desirable means to achieve desirable results, but the results are of first importance. By maintaining a strong accounting profession, we simultaneously attain efficiency in auditing.*

This principle continues into the areas of training, accounting and auditing standards and practices, even in countries where indigenous business has become strongly established and the demand for accounting services has expanded. Accordingly, in many developing countries financial reporting may be considered as a service for responding to the needs of foreign investors, rather than as a service developed in response to specific domestic needs.

#### **2.2.4 Characteristics of the accountancy profession**

According to Sloan (1983, p.56), the accountancy profession should have the following characteristics:

1. It should be capable of communicating effectively;
2. It should be able to reason in the abstract;

3. It should be ready to accept responsibility for providing education to its members throughout their professional working lives;

4. It should be aware of its responsibilities to the societies;

Also, professionals must be technically prepared for their chosen field.

In general, the education of the professional accountant should provide more conceptual knowledge and communication skills.

Sloan (1983, p.57) points out that:

*... accounting education should develop accountants' abilities to think, learn and communicate; the continual development of these skills should be a life time commitment. He adds (p.58), that: If the proper balance between technical and conceptual knowledge is achieved, an individual studying accounting should be well prepared for a career in (any) practice.*

Sloan (1983) suggests that baccalaureate accounting programmes could better prepare accounting students if the variations in the skills of those entering accounting programmes weren't so large. There are at least three possible non-exclusive avenues which could be taken by an accounting programme:

1. One approach would be to modify existing accounting courses to provide more attention to communication skills;
2. Another would be to develop special courses for skills development;
3. A third approach would be to control the quality of skills demonstrated by students entering an existing accounting programmes without necessarily becoming directly involved with the development of communication skills.

Sloan (1983, p.60) adds that:

*...all accounting programs need to be very selective, competitive and rigorous. ... The profession needs a variety of strong graduate accounting programs to generate tomorrow's practitioners and tomorrow's accounting educators and researchers. ... The profession needs graduate programs that offer varied curriculums to meet*

*the educational needs of both those who weren't previously in accounting programs and those who were and seek further graduate study. .. Accounting is important, but its importance will continue to be recognised only if it is reinforced with other areas of knowledge.*

### **2.2.5 Problems of the accountancy profession in developing countries**

The problems of accounting in developing countries have been well documented. Typically managerial problems include poor internal control; lack of management accounting concepts; incomplete, inaccurate and late records; closing; and an unauditable system (Holzer and Chandler, 1981, p.23). These problems are primarily due to the critical shortage of qualified staff and the lack of a proper accounting system.

Enthoven (1983, p.111), in his broad view of accounting in the Third World countries attributed the deficiencies in accounting practices to the following factors:

- a. adherence to the source of accounting influence.
- b. outdated regulations and norms and inadequate knowledge of and problems related to accounting and auditing standards; systems and procedures; controllership issues; planning and control; and cost benefit analysis.
- c. a lack of instructors at professional and educational institutions.

Another reason for the presence of these problems is the fact that developing countries have adopted the accounting practices of the developed countries without modifying them to meet the needs of their countries. These imported accounting systems are geared to serve the needs of financial information users in advanced countries who are quite often further forward in accounting matters than their counterparts (Jagetia et al, 1983, p.71). Similarly, Briston (1978) states that none of the developing countries has so far been able to develop an accounting system that serves its own information needs. Developing countries tend instead, to adopt accounting systems that were established to reflect the particular circumstances of western countries. Cooke and Wallace (1990) conclude that the level of corporate financial disclosure regulations in many developed countries is more likely to be determined by internal factors, whereas that of many developing countries by external factors. The next section,

therefore, examines several ways by which accounting systems from Western countries are transferred to developing countries.

### **2.2.6 Ways of transferring accounting systems from Western countries to developing countries**

There are many ways in which accounting systems may be transferred from Western countries to developing countries. These may include the following:

1. **Colonial administration:** Colonisation had allowed the colonisers to thrust their will on developing countries. This resulted in the imposition of western models, systems and styles of life on the former colonies (Engelman, 1962).

Hove (1982) argues that:

*The main vehicle through which western accounting methods are introduced to former colonies was the colonial administration, as they established their forms of social and economic control. Accounting was a vital link in the recording, measurement, planning and reporting of the results of their exploitative organisations.*

However, the penetration of accounting systems from a developed country into a developing country (or a colony, as it then was) was not always total. When a country was colonized, only a section of that country (the capital city and coast-line) often came within the formal economic structure of the colonial administration. A greater fraction of the colony was under the informal sector and so the colonial accounting rules do not apply to that sector. As a result, at independence when the whole country needed to be integrated, inherited foreign (colonial) accounting systems become frail and often corrupted by those in the former informal sector.

2. **Loans and aid support:** The financial and technical aid to developing countries given by the industrialised world has played a considerable role in imposing western conditions and accounting systems on developing countries. Whether the aid was for teaching or training staff, the supply of English or French text books, grants to students

or loans to implement projects, it has the potential to further a developing country's sense of indebtedness to developed countries (Baydoun, 1991, p.7). This is because the aid of the West to developing countries is often tied to political and economic concessions and it is often given to countries which facilitate the work of Western multinational companies by giving them tax and investment incentives. Aid is often denied to countries which have tried to follow non-Western economic or political policies or tried to control or nationalise multinational companies (Heath, 1979).

In this respect, George (1977, p.73) states that:

*aid supported educational institutions have been highly successful in communicating American educational theory and practice to key groups. They serve, in fact, as living models of the American approach, not simply to education, but to life in general which students learn both consciously and unconsciously.*

Further, since the second language of a former colony tends often to be that of her colonial master, education aid in the form, of say, accounting text books, helps to facilitate the use of accounting text books in French or English which generally teach Western styles of accounting (Baydoun, 1991).

Another type of loan is that which is given by international organisations such as the World Bank and the International Monetary Fund (IMF). These organisations usually fund development projects in many developing countries. However, these organisations are under considerable influence from the West, in that some Western countries have an important voice in the deliberation on the countries which can be provided with loans and even on the way these funds are to be used and managed.

In this regard, Heath (1979) argues that the international lending institutions are dominated by the West and their loans are denied to those countries which do not provide a climate favourable to foreign multinational companies.



3. **Multinational companies:** Western countries, generally the home countries of most multinationals, exert considerable pressure on Third World countries to make them cooperate with their multinational firms. As Heath (1979) states,

*aid policies are used to cement economic dependence: aid projects are tied to western firms; aid is denied to countries, which have tried to control or nationalise multinational enterprises; but it flows in abundance to countries which provide tax havens for foreign companies.*

The multinational companies from Western countries often impose on their associates in developing countries the use of an accounting practice that conforms in many respects with the accounting of a developed industrialised nation. In this respect, Seidler (1969) argues that:

*the strongest vehicle for the current international dissemination of accounting information is the multinational corporation and its associated activities. The vast majority of such enterprises have their most significant ties to the United States or the United Kingdom. The investors in these two countries, where the shares of these corporations are generally traded, have for many decades required audited financial statements, with the result that the USA and UK - based (corporate reporting practices) have developed world-wide.*

The result of the rapid increase in the number of companies associated with Western countries' multinational companies in developing countries, is the rising demand for Western accounting and for accountants who are familiar with Western accounting practices. This has encouraged more international accounting firms, which are the main suppliers of Western accounting and accountants, to set up offices in developing countries. The local partners of Western international accounting firms are often required to follow the accounting practice of a developed nation (Seidler, 1969).

4. **Professional institutes of accounting:** The different situations and stages of the development of the accounting profession in developed and developing countries could lead to different standards of accounting practices. In a developed country with a long professional history, the accounting profession is strong enough to force its members

and make suggestions to the government on the laws and regulations relating to the strengthening of the profession. The situation in developing countries is different, in that the accounting associations are still in a developing stage, and still need to strengthen themselves. In these circumstances, without revolutionary planning supported and/or sponsored by the government and international collaboration and assistance, professional accounting in developing countries will always run behind that of developed countries.

Malallah (1983, p.iv) concludes that:

*because of the many social, economic, and political problems in developing countries, accounting does not occupy a position of importance and is not recognised as a profession in most of these countries [like Jordan].*

Generally, foreign accountants working in developing countries with the help of some local elites were responsible for the formation of professional accounting bodies that are similar to those found in their home countries, or when a local body of accounting is set up in a developing country, it is usually set up under the direct assistance of one or more Western professional bodies (Baydoun, 1991).

### **2.2.7 Relevance of Western Accounting to Developing Countries**

Although developing countries either as a group or as individuals, are different from developed countries in nearly every economic aspect, Western accounting systems are now adopted in many developing countries without adaptation and probably with no real concern for their relevance to the economic and social needs of these countries.

Studies examining the relevance of Western accounting systems to developing countries have reached the conclusion that Western accounting systems do not reflect the circumstances of

developing countries and are thus not relevant to their needs. Briston (1978) states that:

*In a number of countries, of course, the British influence is very long standing, and almost all of the colonial territories in which any substantial degree of industrial development took place under British rule will have had imposed upon them a British Companies Act with the usual reporting and auditing requirements.*

Similarly, Scott (1970) points out that when Western accounting is integrated into the environment of developing countries, the negative aspects of this accounting may become amplified because imported accounting often tends to be applied more dogmatically than in the countries of their origin. What many business people and governments in developing countries fail to understand is that a sophisticated accounting system made to satisfy advanced economies cannot be expected to work properly in a simple developing economy. People in developing countries do not have the experience, the understanding, or the will to make it work (Ross, 1967).

However, the above mentioned problems can be better solved in the long-run by encouraging developing countries to adopt accounting which are adaptations of modern methods to the special conditions of their nations. In this respect, Scott (1970, p.7) states that:

*...developing countries should adopt formats for aspects of accounting that is, for education, legislation, professional associations, and accounting principles and techniques, which are neither those used by advanced nations when they were developing (because the environments of developing nations of the past are different from those of the present), nor necessarily those presently existing in advanced nations (which are adapted to a different kind of economic context). Instead developing nations should adopt accounting which consists of adaptations of modern methods to the special conditions of today's developing nations.*

Further, the importance of environmental factors in shaping the accounting system of a particular country has been emphasised in the literature. The social, environmental, cultural,

political, legal and economic conditions of a country should be the main determinants of its accounting system.

In this respect, Arpan and Al-Hashim (1984) argue that the needs of users will to a large extent be influenced by the various environmental factors specific to the locality in which the decisions are being made. It follows, therefore, that accounting cannot be free of cultural constraints.

The environmental factors influencing the development of accounting objectives, standards and practices in developing countries are summarised by Radebaugh (1975) as:

1. Nature of the enterprise such as forms of business organisations and operating characteristics.
2. Enterprise users such as management, employees, supervisory councils and board of directors.
3. Government users such as tax planners and regulators.
4. Accounting profession including nature and extent of a profession, professional associations and auditing.
5. Academic influences including educational infrastructure, basic and applied research and academic associations.
6. International influences such as colonial history, foreign investors, international committees, regional co-operation and regional capital markets.
7. Local environmental characteristics such as rate of economic growth, inflation, public versus private ownership and control of the economy and cultural attitudes.
8. Other external users such as creditors, institutional investors, non institutional investors and securities exchanges.

The issue of environmental influence on accounting is re-visited in chapter Four, where the variety of environments faced by standard-setters from across the world are examined.

### **2.2.8 How Developing Countries Cope with Problems in the Accountancy Profession**

In order to solve the problem of transferring accounting know-how from developed countries to developing countries, it is necessary to understand the relationship between the national cultures of developing countries and the cultures of the information exporting countries. In this respect, Wallace (1987) specifies two schools of thought:

1. The ethnocentric conceptualists who advocate that accounting systems in developed countries should be transplanted to developing countries either through the medium of 'transfer agents' like accounting professors, international accounting firms (Seidler, 1969 and Lowe, 1967) or only after a preliminary inventory of accounting systems existing in the potential recipient country has been conducted to determine the deficiencies and so the aid needed to upgrade the existing system to a level where transplantation is feasible (Scott, 1970; Needles, 1976; AAA, 1978 and Enthoven (1973, 1979, 1980 and 1981)). This group also believes that the enterprise accounting system should be integrated into the macro accounting system; and,
2. Those who believe (like Briston, 1978) that the accounting system of a developing country should be relevant to the country's needs rather than be a mere parody of another country's systems. Developing countries should develop accounting systems that are suitable to their environment and the specific conditions that characterise their economies.

Perera (1985, p.6) re-echoing Scott's (1970) argument, suggests that:

*The evolution of accounting in a developing country may have to take place in a quite different atmosphere from that which exists in industrialised countries. It may even be necessary to invent new methods to increase the service ability of accounting information institutions where there are no capital markets.*

Enthoven (1983a, p.112) specifies some of the accounting needs of developing countries as follows:

- a. Assistance in improving accounting structures in the private and public sector and methods to incorporate inflation accounting procedures, cost-benefit analysis and computer systems and ways to audit those systems;
- b. Evaluation of accounting and auditing standards and procedures to be applied and the incorporation of these standards and procedures in Companies' Acts;
- c. Certification and other professional requirements;
- d. Assessments of the number of accountants needed and the ways and means of enhancing the development of accountants at various levels and sectors of the economy, e.g., industry, service, governmental, etc;
- e. Improved education, training and research at professional, academic, poly-technical and commercial (bookkeeping) levels.

Furthermore, to create professional accountants who are able to fulfil the needs of development, systematic and strong accountancy education and a professional approach or system are required. Such a system must be developed at all levels: the basic level of education, high school, or secondary school, higher education, and continuing profession. The development of accounting education and professional education must be implemented on a long-run planning basis, irrespective of the economic conditions.

### **2.3. Accounting Education in the Developing Countries**

#### **2.3.1 Accounting faculty**

Most developing countries lack a qualified accounting faculty due largely to the low salaries paid to professors. In addition, most professors in developing countries, supplement their income by consulting or by having their own practice, which makes them less available to advise students, to participate in developing and updating the curriculum, to conduct research, or attend professional meetings and continued education workshops and seminars. To the above can be added the scarcity of textbooks that meet the educational needs of the students.

Due to the lack of qualified faculty and the low salaries, little or no incentives exist for people to write accounting textbooks that focus on the accounting needs of developing countries. Moreover, the opportunity for students to participate in class discussions or to interact with instructors is very limited because of the large number of students in each class. Furthermore, computer facilities and other supporting equipment and resources are neither adequate nor usually up to date. If the level of an accounting education is low in a given country, it cannot be expected that accountants would exercise mature and independent judgement in accounting matters. In such a situation the temptation is high for the adoption of foreign accounting standards of accounting practices or the installation of uniform accounting practices in the country.

### **2.3.2 Creation of indigenous accounting educational system**

As Wallace and Pendlebury (1994), argue it is very important for developing countries to upgrade their accounting infrastructure. Included in the accounting infrastructure are the number, type and quality of the accounting education offered as well as the access of the students to accounting education. Upgrading accounting infrastructure is important to economic growth and to assure quality of the services provided by accountants and auditors.

An accounting educational system consists of students, faculty, curricula, and resources (library, computers, facilities, financial resources, innovations and technology) that are ideally combined harmoniously and efficiently to meet the educational needs of a given society. Further, the accounting educational system itself is an element of the larger educational system of the country it serves.

Regretably, however, many developing countries have taken the easy path to the creation of accounting educational systems by copying systems of developed countries. These developing countries do not adapt these accounting education systems to their specific economic, social and cultural environments. Naturally, the imported accounting educational systems have often failed to provide graduates who can meet the challenges of their societies having been educated to operate an accounting system for a different society.

Wallace and Briston (1993, p.216) point out that:

*At present, for a variety of reasons, developing countries continue to adopt foreign accounting and educational systems. This is often expensive, and the adopting country has little control over the relevance of imported accounting and educational systems to its environment. Developing countries should consider the cost and the probability that imported systems would produce local accountants who have imbibed a foreign accounting culture which they are unable to adapt to the needs of their countries.*

As Agami and Alkafaji (1987, p.145) suggest, an effective educational system of one country might poorly serve the educational needs of another country, if the countries have drastically different economic, social and cultural systems. They (Agami and Alkafaji (1987)) add that the educational programme should prepare students to understand and apply the skills they have learned, to combine knowledge from different disciplines, to identify important issues, to exercise judgement, to formulate proposals and to be able to communicate.

### **2.3.3 Needs for accounting education**

The needs for accounting education in a country, Wallace and Pendlebury (1994) suggest, extend beyond the education of accountants to include the education of the citizens in accounting as well as further education for accountants (post-qualification training).

They add that there are three elements to the services offered by accountants: the supply of those services (which may be covered by the education of accountants to minimum acceptable standards); the demand of the service (which may be covered by educating the population to change their attitudes towards accounting and accountability); the monitoring and supervision of the quality of the services produced (which may be covered by the provision of education for accountants and by the setting of accounting, auditing and ethical standards).

Accounting practice is largely a product of the education and training given to accountants. A primary emphasis in accounting training should be placed on preparing the prospective accountants for the professional requirements which they will face during the rest of their career in professional accounting (Perera, 1975).



Although trained management is a key element in the economic development of many countries (Seiler, 1966, p.654), a trained management cannot function effectively without a trained group of accountants to supply the information needed for making various decisions. Therefore, the less the availability of trained management, the greater the need for a trained group of accountants.

#### **2.3.4 Approaches for developing accounting infrastructure**

According to Wallace and Briston (1993), there are three main approaches for improving the national accounting infrastructure:

A. The Dependency Approach: This approach can be perceived in the relationship between a developed country and a developing country which was a colony of the developed country. As colonies became independent, many emergent nations suddenly faced the problem of creating and maintaining a professional accountancy workforce. In more recent times, the dependency approach has been characterised by economic assistance such as that between the US and the Philippines. This approach involves the transfer of money, personnel, technology and administrative and accounting systems from the developed to the developing country.

However, a more serious problem is that, even where training is provided, it will normally consist of a direct transfer of accounting practices from the developed country with which the expatriate is familiar, regardless of its relevance to the recipient nation.

B. The Self-Reliance (without foreign assistance) Approach: This approach is based on the argument that each country's accounting capability reflects its own environment. This approach suggests that a country has the ability to conduct its affairs in a way that suits its needs, but it is essential that a country should meet three essential requirements: appropriate knowledge, skills and attitude. Accountants must know the interrelationships between the elements of their environment, as well as the relationship between themselves and their environment. Skill is the ability to perform. The greater the skill, the stronger a person's or group's ability to be skilful at problem solving. There should also be the desire to do things.

C. The Self-Reliance (with foreign assistance) Approach: Assistance toward the improvement of accounting education, training and professional organisation and the assimilation of modern relevant technology depend on the extent of accounting knowledge and skill in accounting currently available in a country.

### **2.3.5 Problems of accounting education and practice in developing countries**

There is no question that in all developing countries there are tremendous deficiencies in the education of accountants. According to the Report of AAA (1975) Committee on Accounting in Developing countries, the most serious problems in the field of education in developing countries may include the following:

1. Inadequate locally authored accounting textbooks;
2. Inadequate teaching of accounting subjects at the college level;
3. Lack of qualified accounting instructors at the college level;
4. Lack of professional development opportunities for accounting educators and practitioners;
5. Inadequate accounting education for managers and prospective managers.

The Committee on accounting in developing countries did not consider the question of accounting research. Although it is difficult to find the qualified researchers in a developing country, accounting research could assist in developing appropriate financial accounting models and their underlying legal requirements. Research could also be undertaken to determine what accounting curricula would be ideally suited to the needs of developing country.

In many countries, research would be necessary to accurately define a country's particular accounting needs. Such research may ideally lead to the development of an accounting development plan. And within such a plan the requirements for educational and training programmes for different levels would have to be analysed.

Moreover, very few universities in developing countries offer programmes in accounting. Also, the elementary and secondary school systems that feed the university-level institutions often don't produce enough qualified students. In many developing countries (Africa for example), the national illiteracy rate is still very high. Even for the non-professional careers such as bookkeeper and clerk, there is often a dearth of qualified candidates.

From the preceding discussion, the problems of accounting practice can be summarised as follows:

1. There is a shortage of qualified accountants at all levels and in all areas of accounting and practices.
2. Accounting information is either not available or is not available in the proper form, or is received by users too late to be useful.
3. There is a lack of adequate accounting in government agencies and government-owned businesses.
4. There is a failure to utilise accounting information to advantage for internal management purposes;
5. The regulation relating to accounting and auditing standards procedures is inadequate, antiquated or irrelevant to the needs of the society.
6. Accounting education for managers and prospective managers is inadequate;
7. There are no strong associations of accountants;

## **Chapter Three**

### **Background Information on Jordan**

Following the discussion of different issues regarding the development of accounting, the accounting profession and accounting education in developing countries, this chapter focuses upon the environmental influences on accounting in Jordan, the role of accounting in economic development of Jordan and the financial regulations specified by the Jordanian laws.

#### **3. Environmental influences on accounting in Jordan**

Accounting, like other business practices, is to a large extent environmentally bound. That is, it is shaped by and reflects particular characteristics unique to each country's environment. The list of these characteristics is virtually infinite, ranging from personal traits and values to institutional arrangements, and can even extend to climatic and geographical factors (Arpan et al, 1985, p.13). Many of these factors have influenced the development of accounting. The condition of Jordan is no exception.

Solas (1988, p.1) indicates that accounting is mainly influenced by the needs of the economy and the educated elite who are in practice in Jordan. The scope and role of accounting is expected to be developed in response to changes in the socio-economic and political environment in Jordan.

On the basis of the “zones of accounting influence” theory, most developing countries in general, depend upon concepts and ethics of business and economic development that originate from the British; French; Spanish; Portuguese; Dutch Germanic; U.S; and Communists. Jordan, however, was colonized by the British and as a result, the accounting system in Jordan suffers from many defects that Briston (1978) attributes to accounting in developing countries that are under the British influence. Because Jordanian accounting originates from the British system, its financial control of the private sector is based upon accounting concepts laid down by the UK Companies Acts, which have been designed to solve

British business problems and are not originally meant for the business problems of other countries. As a result, much of the provisions of the UK Companies Acts are perhaps irrelevant to the needs of emerging nations such as Jordan.

There is a complete lack of interest on the part of most accountants to the provision of information within the spheres of governmental administration and economic planning.

According to Nabelsi (former governor of the Central Bank of Jordan), Jordan adopted an economic system based on free enterprise and private initiative. Within this framework, the government has played a pioneering role by participating with the private sector in implementing large scale industrial projects and providing incentives and an appropriate entrepreneurial climate. To do so, the government of Jordan provides the necessary basic infrastructure and incentives to encourage private investment. This has been implemented through the initiative of investment law in many sectors of the economy. This has resulted in a rapid growth of the economy. However, the rapid growth of the economy has made important and regrettably unfulfilled demands upon accounting in Jordan.

One of the most challenging problems facing developing countries is the economic problem. This problem is represented by a scarcity of both qualified human resources and material production resources. This requires government economists and planners to utilise such limited resources in an efficient way to best achieve its objectives, through the attainment of optimal return on investment of national resources on the one hand, and to protect these resources from wastage on the other hand.

Wallace (1990a, p.19) pointed out that:

*Accounting demands of a nation go beyond those required for making economic decisions connected with business enterprises' operations. They embrace those needed to make governments and managers of public enterprises account to.... or (control) the people. And when properly structured they can enable a nation to decide on the efficient allocation of its scarce resources.*

### **3.1 Features of the Jordanian economy**

Jordan is a developing Arab country with a centralised state system. Its affairs are run by a parliamentary system and a hereditary constitutional monarchy. The legislative authority in the Kingdom is entrusted to the national parliament.

Jordan is a small country that is moderately prosperous and has an open economy with a free capital market and a parliamentary system of government. The structure of the Jordanian economy is still characterised by a relatively high contribution of the services sector to gross domestic product (81%) with mining and manufacturing contributing only about 17% (Economic and Social Plan 1993-1997, p.122, Ministry of Planning, Jordan).

Jordan has a mixed economy. It consists of a private sector with state-owned or state shared enterprises. The rate of investment by the private sector was 61.1% in 1993 and is expected to increase to 67.1% in 1997 (Jordan, Five Year Plan, 1993-1997, p.171). As evidence of this increase, it is noted that the Jordanian government has decided to establish an export bank at a cost of \$29 mn (JD 20 mn). The bank will commence operations by the end of 1995 and an allowance has been made by the government for the Jordanian private sector and foreign investors to participate in this enterprise. This is a reflection of the implementation of the Peace Treaty between Jordan and Israel and an indication that foreign investment will come to Jordan. It will result in a rapid growth of the economy and make an important demand upon accounting disclosure in Jordan (AL-Quds, Al-Arabi, 1995, p.9). However, socio-economic development in Jordan is characterised by an on-going co-operation between the public and private sectors.

Jordan has suffered repeatedly from the conflict in the Middle East since World War I. In spite of such difficulties, Jordan has attempted to maximise, and utilise to the best of its ability, its scarce resources (human and natural) and to increase its productivity through economic and social development plans so as to raise the standard of living of its citizens. This has been achieved by establishing a number of large industrial projects, and the implementation of

successive economic plans for development, starting with the Seven Year Plan (1964-1970), and followed by the Three Year Plan (1973-1975), and further five year plans (1976-1980), (1981-1985), (1986-1990). Jordan is currently implementing the 1993-1997 Five Year Plan. Jordan has been experiencing a continuously increasing unemployment rate which was 6.5% in 1983, 14.8% in 1987, and 17.1% in 1991 and fell to 14% in 1994 (Prime Minister of Jordanian government in his speech in the session of the Jordanian Parliament, December 26, 1994). 59% of the unemployed are 20-29 years old (Shakatreh, Director of Economic Research and Political Departments in the Ministry of Planning, (cited in Al-Shab Daily Newspaper, November 29, 1993, p.6, Jordan). The importance of this problem is concerned with young workers and the less professionally qualified, that is, those with qualifications less than Twjehi (secondary school). This has contributed towards social unrest. For instance, unemployment leads to an increase in crime rates, reduction in educational and health levels for unemployed people, and an increase in rates of migration from rural to urban areas. However, the rate of unemployment tends to decrease upon increase in the level of education. Unemployment rates was predicted to decrease following the establishment of many projects included in economic plans. Thus, the 5-year economic plan (1993-1997) was established with the main objective of tackling the unemployment problem in Jordan. This plan was established after economic difficulties of Jordan in 1988 and 1989 (including diminishing foreign currency reserves, the devaluation of Jordanian Dinars and increasing foreign debts). Also, since the plan came after the Gulf War that affected the Middle East in 1990 and early 1991, it was not clear whether the observed fall in unemployment rates was due to the stimulus in economic plans, the end of the Gulf War or a combination of both. In addition, aid from rich Arabic countries, closure of Iraqi and Kuwaiti markets to Jordanian exports and repatriation of Jordanian workers from the Gulf states changed the postulates on which the Jordanian economy was based.

More specifically, the objectives of the current economic plan can be summarised as follows.

- i. It seeks continuous economic development in excess of population growth.
- ii. It deals with structural deficiencies and attain financial and currency stability.

- iii. Accomplish balanced social development through a decrease in the rate of unemployment, increase social investment, improve public health and educational services, reduce poverty and concentrate on the training of the labour force.

The economic environment, both within and outside the country, particularly in neighbouring Arab countries, has strongly affected the business climate in Jordan. The main features of this economic environment can be summarised by:

1. Lack of natural resources: It is well known that Jordan suffers from a lack of natural resources such as mining, petrol, water and cultivated lands ...etc. This makes Jordan heavily dependent on foreign sources of materials, productive imports and aid. The main sectors of natural resources include the following.

Agriculture: Only about 5% or 528,300 hectares of the country's land area is cultivable, with most agricultural activity being concentrated in the rain-fed uplands, situated mainly in the middle and north of the country (Ali, 1984). The agricultural sector is the main source of income for about 20% of the population. It provides employment for 12% of the labour force, and the employment of foreign labour in this sector has increased to 57.6% (Jordan, Five Year Plan, 1986-1990). The relative sectoral significance of agriculture to the GDP has remained low, at an annual average of only 7.7% during the period 1981-1985 and 8% for 1991. The sector has been affected by many problems such as the relative loss of traditional markets, especially in vegetables, due to the inconsistency of exports, and procedures resulting in an irregular flow to export markets. There also has been a shrinkage in the area available for agriculture due to uncontrolled urban expansion. This has affected agricultural products in general, and field crops in particular (ibid.).

Manufacturing: More than 30% of the manufacturing establishments in Jordan is devoted to the production of food products or clothing, whilst more than one third (34%) were working in industrial services. In addition, three heavy industries, phosphate



extraction, petroleum refining and cement manufactures are the main sources of foreign revenue (Lloyds Bank, 1986).

Actual growth during the periods of 1981-1985 plan amounted to only 4.9% annually at 1980 prices (Jordan, Five Year Plan, 1986-1990, p.94). Income from this sector moved up from JD 167.1 mn in 1980 to JD 281.5 mn in 1989, a total increase of 68.5%. The annual rate of growth expected by the 1986-1990 economic plan was 7.2% (ibid.). While the actual growth rate of this sector in 1986 was only 0.4%. There was virtually no change from the situation in the previous year, when the actual rate of growth was 0.3% (Helles, 1992, p.126). This low level of growth in manufacturing resulted from the stagnation of domestic demand, coupled with the limited growth of external demand for industrial products since the economic recession in the Gulf area in 1983 (Jordan, Five Year Plan, 1986-1990).

In general, since Jordan lacks natural resources, the industrial sector is still in an early stage.

## 2. Dependence on foreign aid

The outstanding economic fact about Jordan is that it is dependent on foreign aid for its survival and it is certain to remain heavily dependent on aid from oil states in the Arab world and Western countries, mainly the USA and the UK.

Aruri (1972, p.61) states that:

*The weakness of Jordan's economy is further manifested in a chronic deficit in the budget and the balance of trade. Since the very inception of the Emirate of transjordan, domestic revenue has consistently lagged behind expenditures. Grants from abroad were always needed to cover expenditures, which the country was never able to meet with its own resources.*

## 3.2 The role of accounting in economic development

Jordan as a developing country has the following features:

- i. High growth rate in population.

- ii. Low growth rate in national economy.
- iii. Inadequate information systems. <sup>1</sup>

Healthy economic development needs an economic system that can ensure the best utilisation of limited resources. Accounting and economics are very closely linked subjects in that economics provides the environment in which accounting principles and procedures evolve and grow, and accounting plays an essential role in measuring and communicating economic growth. The role of accounting in economic development is based upon the measurement of inputs and outputs in economic activity. Thus, those who make economic decisions play with changing the rates of input items in order to obtain the highest possible benefit. This trial-and-error system, in turn, escalates the process of economic development and increases the rate of growth in the economy.

Saadeh (1989<sup>1</sup>) points out that accounting has a role in economic development but it did not play that role in the past and may not play it in the future because of the following constraints.

1. Uncertainty and difficulty in forecasts due to the interference of the government in economic development.
2. Domination of liquidation ideas instead of establishment and expansion of corporations.
3. Reduction in the authority of auditing profession.
4. The principle of separation between owners and management is not applied.
5. Increased responsibilities of auditors on one hand and reduced protection of their procedures on the other.
6. Government pays less attention to the accounting profession compared to other professions.

The role of accounting in economic development especially in developing countries is important to implement the stages of economic plans. These stages may include the following.

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<sup>1</sup>An accounting information system is a group of management and accounting systems that are directed towards providing economic information that is required to take decisions about economic entities in both the private and public sectors.

1. Establishment of a national development strategy: in this stage, accounting has a basic role in the evaluation of the current performance of a national economy and in the determination of the expected growth of this performance along the plan's period of implementation.

This evaluation can be done by providing answers to the following questions.

- a. What is the extent of the availability of basic economical resources required to accomplish such a plan?
- b. What are the available alternatives to such a plan?
- c. What are the internal and external constraints that surround the elements of the plan under each alternative?
- d. What is the extent of risk that surrounds the plan?

Accounting is expected to provide the answers to the above given questions.

Accounting plays an important role in providing indications about the best alternatives available to the efficient use of scarce economic resources.

2. Establish a development model that is based on the assumptions and variables specified in stage one above. Accounting has an important role in determining the quantitative indications required to establish the model, such as target rate of return on investment, determine target rate of growth, determine the financial ratios (such as capital/output ratio). These indications can be used to measure the productivity of economic resources used in implementing the plan.

### **3.3 The encouragement of investment law**

Jordan offers an excellent atmosphere for foreign and local investment. In addition to political stability and the free market system, Jordan enjoys a strategic position among the countries of the Middle East and North Africa, which qualifies it to be a commercial and financial intermediary. Jordan became the target of investments after the signing of the Peace Treaty with Israel. Moreover, Jordan has an adequate labour force and managerial staff, modern transport and communication systems and broad financial regulations which offer special incentives for financial investment.

Taw (1994) points out in the Industry Weekly, Economic Journal, Taiwan (cited in Al-Rai Daily Newspaper, April 11, 1994, p.13, Amman, Jordan) that in spite of the fact that Jordan has no oil, it is still one of the most developed economies in the Middle East and, constitutes the most suitable point of entry to the Middle East. He adds that foreign investors will benefit from many exemptions like income tax and custom duties and will enjoy social services for a period of 6-9 years. In addition to possessing the greatest number of national with foreign academic and professional qualification from among Arab countries (Taw 1994), Jordan can provide skilled labour at a lower cost in comparison to Taiwan and other developed countries.

The 1972 investment law in Jordan was initiated to encourage investment and the establishment of economic projects in line with the government's economic policies, in which both national and foreign investments are treated equally.

The following are the major incentives granted by this law to approved economic projects.

1. Exemption of fixed assets for new projects from custom duties on imports, and from import fees and all other additional charges.
2. Exemption of profits from income tax for six years. This period is extended to nine years if either of the following conditions exists:
  - i. the project is organised as a public shareholding company;
  - ii. the project is established outside the capital (Amman).
3. Exemption from taxes on real estate (buildings and land) owned by an approved economic project for a period of five years. Moreover, where the project takes the form of a public share holding company or is established outside Amman, the exemption period could be up to seven years.
4. Unencumbered transfer of profits realised on foreign capital invested in the country, as well as the repatriation of foreign capital invested in accordance with the terms of this law or any previous law.

5. The exemption from tax on interest earned by outside parties on credit facilities granted to the government of Jordan and to Jordanian financial institutions.

In addition, the investment law No. 6 of 1984, was initiated to grant the following incentives to approved economic projects in Jordan:

- a. The fixed assets imported for any approved economic project shall be exempt from custom duties. The exemption should be granted if the fixed assets concerned are imported within a maximum period of three years following the approval date of approving the economic project.
- b. Exemptions from custom duties on spare parts shall not be more than 10% of the value of imported fixed assets, provided these are imported within five years from the approval date.
- c. Exemptions from custom duties may be granted to the increase in the value of fixed assets imported for the 'approved economic' project, if such increase is due to price rise in the country of origin or the change in exchange rates, either regarding fixed assets or spare parts.
- d. The net profits of an approved project shall be tax exempt as follows:
  - i. for a project in Zone A, 100% tax exemption for the first consecutive five years and 60% exemption for the following consecutive two years (the zones are specified by the Jordanian government);
  - ii. for a project in Zone B, 100% tax exemption for the first eight consecutive years, and 60% exemption for the following two consecutive years;
  - iii. for a project in Zone C, 100% tax exemption for 12 consecutive years.
- e. Arab and foreign capital invested in any project, in conformity with the provisions of the law, whether separately or in conjunction with local capital, shall be accorded the same treatment as local capital, including exemption from duties and taxes. The government guarantees that Arab or foreign capital shall enjoy every exemption and facility granted by this law; and that such exemptions and facilities shall not be abolished, reduced or encroached upon by any other legislation.

- f. Arab and foreign capital brought in and invested in conformity with this law or with any previous legislation, can be repatriated with the approval of the minister and according to the regulations of the Central Bank of Jordan.
- g. All profits, gains, dividends and interests, whether ensuing from Arab or foreign capital imported and invested in conformity with this law or any previous legislation or later reinvested, can be transferred abroad with the approval of the minister and according to Central Bank regulations.

### **3.3.1 Free Zones**

Free Zones are specified to encourage investment through the establishment of manufacturing enterprises in it subject to the approval of the board of directors, providing the fulfilment of one or more of the following provisions.

- i. New industries not existing locally and depending on advanced modern technological processes.
- ii. Industries for which primary materials are locally available or which use locally manufactured parts and also industries completing domestic industries.
- iii. Industries which raise the level of labour skills and contribute to labour technical advancement.
- iv. Industries which provide for consumer needs and assist in reducing dependence on imports from abroad.

## **3.4 Financial reporting laws and regulations in Jordan**

Certain legislative acts have been influential in shaping the development of corporate financial reporting in Jordan. The following sections discuss the various laws and other factors that affect financial corporate reporting in Jordan.

### **3.4.1 Amman Financial Market (AFM)**

Capital markets provide a means whereby suppliers and buyers can exchange a commodity such as shares and bonds at mutually satisfactory prices. The most obvious function of the

capital market is the creation of liquidity through its pricing mechanism. Firth (1977, p.2) points out that capital markets contribute to the national economic wellbeing through: (1) increasing the amount of funds available to finance industry; and (2) encouraging savings towards investment.

However, a capital market should be efficient in order to achieve its functions, and to be efficient, the following requirements are needed:

- i. similarity of goods traded within the market;
- ii. large number of buyers and sellers;
- iii. freedom of entry and exit to and from the market;
- iv. unlimited supplies of stocks and shares;
- v. perfect knowledge.

Before the AFM was established, the buying and selling of stocks used to take place through a few real estate agents and brokers alongside their other activities. Moreover, there were no stock price announcements, which resulted in high transaction costs as well as large price fluctuations. The AFM started its operations on 1 January 1978 as a public financial institution with legal financial independence, and it embodies a market for trading securities as well as a securities exchange commission.

The AFM was formerly established to provide an organised market for trading in securities of public shareholding companies, government and private corporation bonds, and other securities and debt investments introduced in the Jordanian financial sector.

Credit for establishing the AFM goes to the efforts exerted by the *Central Bank of Jordan* (CBJ), to the support and encouragement of the Jordanian government and to the technical assistance offered by the International Finance Corporation. The AFM is responsible for the promotion and development of both primary and secondary capital markets in Jordan, as well as regulating their transactions. The AFM commenced its operations with quotations covering 57 companies and rose to 120 in 1988 but has since fallen to 119 companies in 1992 as a

result of merger activity (AFM Guide, 1993). In general, the AFM Law No.1, 1990, Article (4) aims at:

1. mobilizing savings by encouraging investments in securities and channelling savings to serve the interests of the national economy;
2. regulating and controlling the issuance of securities and dealing therein to ensure the soundness, ease, and speed of transaction, as well as to ensure the protection of both the national financial interests and the interests of small savers;
3. gathering and publishing necessary data and information to realise the above given objectives.

The AFM law also provides for listing all bonds issued by the government of Jordan or by public institutions with government guarantee, as well as all bills and bonds issued by companies in accordance with the Companies Act.

In its capacity as a securities exchange commission, the AFM requires a number of listed companies to publish in local newspapers their financial data which would affect the price of their shares. The AFM has laid down definite criteria for the release of information by listed companies to the general public. The objective of publishing such information is to protect the interests of shareholders.

In order for the capital market to play its role efficiently, El-Issa, (1984, p.46) argues that:

*...information about the economic activities and transactions within the market must be available to the public without any costs.*

To ensure that all who invest in securities have equal access to such information, the AFM has adopted certain policies concerning disclosure.

- i. A listed company is required to make immediate public disclosure of all material information concerning its affairs;
- ii. A listed company is required to release material information to the public in a manner designed to obtain its fullest possible public dissemination;



- iii. Any report, true or false, that contains information that is likely to have, or has had an effect on the trading in the company's shares or would be likely to have a bearing on investment decisions, must be publicly clarified as soon as possible;
- iv. A listed company should refrain from promotional disclosure activities which exceed that necessary to enable the public to make informal investment decisions. Such promotional activities may include press releases, public announcements not justified by actual developments in the company's affairs, exaggerated predictions, and other forms of overstated disclosure, which may mislead investors and cause unwarranted price movements and activity in the company's shares;
- v. Insiders should not trade on the basis of material information which is not known to the investing public. Moreover, insiders should refrain from trading, even after material information has been released to the press, for a period sufficient to permit public dissemination and evaluation of the information.

In Jordan, the AFM disclosure requirements have been greater than those of the Companies Act. The AFM's article of association requires the disclosure of following information from listed Jordanian public companies.

- a) any information which is likely to influence security prices via any means accessible to the public (e.g., the press);
- b) any information and statistics required by the AFM of specific industries should be disclosed not later than one month from the date of requirement.
- c) the names and signatures of the members of the Board of Directors.
- d) audited annual financial statements to the latest year.
- e) a prospectus, prepared on a special form, containing all information and explanations deemed necessary to investors to be assured by companies wishing to issue securities (shares or bonds).
- f) a statement showing the shares or bonds belonging to the General Director (and/or any member of the Board of Directors) within one month of his (their) ownership within ten days of the change.

In addition, Article 39 states that public shareholding companies are required to keep records of shareholders. Such records should contain the following. (1) Names of shareholders; (2) Number of their shares; (3) Transfers of shares; (4) Any details deemed to be necessary by the market.

The AFM maintains and releases information relating to the activities of the stock market in the following media:

- the daily price sheet
- the weekly price sheet
- the monthly report
- the quarterly report
- the semi-annual report
- the *annual report*

The AFM has performed quite well since its inception. This is reflected not only in the volume of shares traded which surpassed previously expected levels but also in the release of information on shares prices and financial news relating to companies whose shares are listed on the AFM. In addition, the AFM has regularly amended its rules and regulations.

The number of companies listed on the AFM at the end of 1990 and 1992 was 112 and 119 respectively and the number of subscribed shares totalling to 398,892,168 and 479, 061,998 respectively at a market value of JD 1,267,110,022 and 2,284,099,006 respectively.

Also, the AFM publishes a guide regarding the classification of the financial statements for all companies will also provides some financial ratios for each company and statistics about the shareholders, employees, etc. This guide is essential for research purposes.

Furthermore, the AFM has held several financial conferences aimed at the promotion of interests in stock market activities; some of these conferences were in collaboration with other Arab institutions. For example, the AFM held a financial conference in Amman-Jordan in April, 1994 in collaboration with the Arab League and Arabic Union Banks (Jordan, Al-Rai Daily News-paper, April 11, 1994, p.14). Al-Ansarry states in the conference that the AFM is

one of the most qualified Arab financial markets and its establishment was designed to meet Jordan's economic needs. The conference participants discussed important issues such as disclosure and its role in improving the quality of financial markets, encouraging trust in such markets, ways of operating such markets, and Arabic laws and regulations that govern disclosure and how international disclosure requirements can be applied. Abed-Allah emphasises, in the same conference, that different laws (e.g., financial market law, companies law) can play important roles such as promoting the release of essential information in financial statements so as to encourage investments in Jordan. Essential information, according to Abed-Allah are those which could help external users to make investment decisions.

Abed-Allah suggests five ways of increasing the intensity of information in financial statements.

- a) the use of concepts that have been generally accepted.
- b) the proscription of unfair consolidation or cancellation.
- c) the use of lead explanations to clarify the contents of the financial statements.
- d) the use of notes, graphs, and additional information in financial statements.
- e) the publication of auditor report and his reservation.
- f) the release of financial statements after the financial year end without any delay.

The AFM is currently working very hard to improve disclosure and provide investors with much needed information. There are indications that foreign investors have started coming to Jordan as a result of the Peace Treaty between Jordan and Israel, as mentioned earlier. For example, the Jordanian government has decided to establish a national petroleum company for \$29m (JD20m). The purpose of this company is to carry out exploration for petrol and gas in Jordan. The government allows for both the private sector in Jordan and foreign investors to share in this enterprise. This establishment reflects the government's objective towards increasing the investment proportion from the private sector and encouraging foreign investment in Jordan (AL-Quds, Al-Arabi, 1995, p.9). Also, the Jordanian government has invited the World Bank to establish a regional office in its capital, Amman. This office is primarily expected to introduce services regarding infrastructure projects in Jordan. It is also

expected that this office will play an important role in establishing joint projects between Israel and the Arab world. Furthermore, by establishing such an office, evidence suggests that potential benefits will accrue to Jordan as a result of the Peace with Israel as mentioned earlier.

### **3.4.2 Listing requirements**

In its articles, the AFM dealt with listing requirements. Article 15 of the AFM Law No.1, 1990 states that:

*Financial papers are accepted for listing on the market upon a decision by a committee.*

Article 16 states that:

*All bonds issued by the government and the public institutions with government guarantee, all treasury bills and all debt securities issued by the companies in accordance with the Companies Act, are accepted for listing on the market.*

Article 17 states that:

*Every Jordanian public shareholding company with paid up capital of at least JD100,000 can apply for the acceptance of its' shares in the stock market. Other shareholding companies also have the right to apply for acceptance of their shares in the market, regardless of their capital volume if they had published their balance sheets for two preceding fiscal years. In all cases, the committee shall have the right to accept or reject the application in the light of the regulations and instructions issued concerning the organisation and the acceptance of financial reports.*

The AFM requires each shareholding company admitted to listing to make available sufficient information on its history, current position, and future prospects to enable the general public to assess each security's value as an investment.

According to El-Issa (1988b, p.56), the obligations relating to publications of accounts contained in the listing requirements are.

- i. the company should publish an annual report which includes the audited balance sheet and the audited profit and loss account, to reveal the financial position and the results of its operations, regardless of the date of starting business;
- ii. the company must undertake the responsibility of publishing the information mentioned in (i) above, in two daily newspapers for two days respectively;
- iii. in order to ensure that investors are aware of the disclosed information and are able to use such information in making their investment decisions, the market stipulates that each listed company must provide the market with the following.
  - a. The objectives of the company.
  - b. A statement of the Board of Directors and interests of each in the share capital of the company.
  - c. Number of employees.
  - d. The percentage of foreign investment in the equity capital.
  - e. The percentage of government subscriptions in the share capital of the company.
  - f. The interests funds in the share capital of the company.
  - g. Information about the share price, such as nominal value, book value and market value.
  - h. Equity capital, share capital, reserves and retained capital.
  - i. Profit before and after tax, dividends, etc.

### **3.4.3 Companies Act**

The legal and regulatory framework for financial reporting in Jordan is very limited in scope and is expressed in loose and in general terms. The corporate disclosure rules and regulations are relatively unsophisticated and provide minimal disclosure requirements.

The Jordanian Companies Act, 1989, requires companies to prepare annual reports, including a profit and loss account and a balance sheet with comparative figures, a statement of changes in financial position and explanatory notes. According to the Companies Act, books of accounts are to be kept and audited and a fair balance sheet is to be prepared, sent to

shareholders and filed with the registrar of companies. The Act also requires a true and fair profit and loss account for the accounting year.

There are no requirements concerning the form and content of the financial statements beyond a requirement that companies should maintain proper accounting records in accordance with generally accepted accounting principles, which are not themselves defined by law.

According to the Act, the following types of companies may be registered:

- a. Public and private shareholding companies which has a separate legal entity from its owners.
- b. General and limited partnership (these are referred to as ordinary companies in the law).
- c. Foreign enterprises. The following types of foreign companies can be registered in Jordan in accordance with the Companies Act:
  - Ordinary partnerships and limited liability partnerships
  - Private and public share holding companies
  - Foreign insurance companies
  - Regional companies registered according to registration of Foreign Companies Law No.46 of 1975.

However, joint ventures between foreign and local firms are not referred to in the law and are not separate legal entities, although they have been increasingly common in recent years.

- d. Co-operatives. There are a number of co-operatives of a commercial and agricultural nature.

The Companies Act requires each company to have a financial year which is the fiscal year.

It is permissible in the articles of association of any company to specify the beginning and the end of its financial year (Article 213, 1989). The same article often states that each company should keep proper books of accounts including journal, ledger correspondence files and other necessary subsidiary books. The books must be numbered and stamped, and all entries in the

books are to be supported by proper documentation, such as invoices, receipts, and the like. The accrual method of accounting must normally be followed.

There are no legal requirements as to the form or content of financial statements for both public and private share-holding companies as mentioned earlier. Financial statements must be in Arabic script. The balance sheet should clearly be prepared in order to give a correct picture of the company's financial position at that date.

Article 168-A of the Companies Act, 1989, requires the Board of Directors of the company to prepare financial statements (including details of revenues and expenses) within three months of the end of the company's accounting year. A copy of these statements must be mailed to each shareholder, together with the notice calling the annual general meeting. Also, copies of the financial statements, the report of the Board of Directors, and the auditor's report, must be sent to the AFM in the case of a public shareholding company. Copies are also sent to the Income Tax Department, and to the auditors as well.

Article 117 states that:

*A copy of the company's financial statements must be filed with the controller of companies annually. Moreover, every public shareholding company must publish its annual financial statements in a daily paper, together with a brief summary of the Board of Directors' annual report within two months of its annual general meeting.*

To emphasise the prohibition of insider trading, Article 194 of the Companies Act, 1989, states that:

*The [chairperson] or any other member of the Board may not deal with any securities of the company on the basis of important information which may have been acquired in his/her official capacity in the company, and [s/he] may not have an interest in any company, association, society or other group which indulges in activities designed to affect the stock market prices relating to any kind of securities issued by the company, nor to carry out such activities personally or through others. Any such dealings or transactions shall be void, but this shall not prevent the*

*criminal prosecution of the person concerned in accordance with the provision of this law.*

Articles 252-296 of the Companies Act, 1989, specify the provisions for consolidated financial statements of corporations. In practice, companies which maintain branches, prepare and present a combined balance sheet and a combined profit and loss account. All inter-branch transactions are eliminated in the accounts.

#### **3.4.4 Other laws affecting financial reporting in Jordan**

The Income Tax Law No.34 of 1982 has an effect on reporting in Jordan. For example, no provisions regarding the valuation of inventories are contained in the Companies Act. In practice, inventories are carried out at cost or market, whichever is lower. For taxation purposes, the tax authorities have been accepting valuation at cost only, as determined by one of the recognised accounting methods, and this requirement appears to influence reporting practices (El-Issa, 1984).

Another example is that as the Companies Act does not provide any regulations for depreciation, regulations to the income tax law are used. Jordan Tax Law requires that all deductions claimed for tax purposes should correspond to sums appearing in the financial statements. Since 1985 depreciation rates for tax purposes have been specified by law and only the straight line method can be used. Other deductions must be calculated in accordance with generally accepted accounting principles, but again, these are not defined.

For taxation purposes, a corporate body is treated as an independent unit. Moreover, separate financial statements are not prepared.

The Banking Business Law No.32, 1976, has an effect upon financial reporting in Jordan. The Law (Article 18), requires the dealer of class A banks to publish their annual accounts in at least one daily newspaper. Article 15 of the same law requires all authorised banks to display their audited annual balance sheets for public view in their offices or branches over a period of at least three months.



Insurance Law No. 30, 1984, (Article 37), requires the insurance company to issue its financial statements including the balance sheet and profit and loss account and detailed profit and loss account for each type of insurance in a period not exceeding four months of the year end. These statements must be attached with a report about the company's insurance business.

It can be seen from the description provided in this chapter that report requirements in Jordan are generally more lax, vaguer and looser relative to those in the U.K. Thus, the companies in Jordan have much more flexibility in reporting practices and annual reports are often delayed and interim reports are not required.

The accounting profession (JACPA) in Jordan has recently been formally established and has not yet issued local statements of accounting principles. It has recommended the adoption of the IASC's standards, with effect from January 1990, but in the absence of any legal power or effective disciplinary mechanism, the use of these standards is likely to come about slowly and only in a limited way.

There is nothing in the law requiring a company to adhere to particular principles, but only a general requirement that financial statements should be prepared according to generally accepted accounting principles to reflect the company's true position.

In short, the main challenge to the Jordanian accounting system is the Companies Act itself, which has not kept abreast of the rapid development in the Jordanian economy (Helles, 1992). Issues relating to the accounting profession and accounting education in Jordan will be discussed later in this thesis.

**PART II**  
**ACCOUNTING IN THE GLOBAL CONTEXT**

## Chapter Four

### Diversity and Development of Accounting Standards in both Developed and Developing Countries

Following the discussion of accounting in developing countries and the background information on Jordan, this chapter plans to deal with the diversity and development of national accounting standards, and the various environmental factors that influence their development in both developed and developing countries.

The identification of the various factors that influence the development of national accounting standards is likely to enhance the possibility of developing comprehensive accounting standards on an international basis.

#### **4.1 Introduction**

The accounting standards of a country are the norms of practice required to be adopted by the business of that country in the preparation of periodic financial statements for the purpose of external reporting. Such standards consist of descriptive and/or prescriptive rules relating to disclosure issues, asset valuation, income determination, consolidation, and the form and content of published statements.

According to Van der Tas (1992a, p.241), standards are any rules, applicable to more than one company, concerning the disclosure and measurement policies to be used in financial reports, irrespective of which organisation sets the standards and of their enforceability.

Littleton (cited in Miles, 1978, p.28) defines accounting standards as:

*... an agreed upon criterion of what is proper practice in a given situation; a basis for comparison and judgement; a point of departure when variation is justifiable by the circumstances and reported as such. Standards are not designed to confine practice within rigid limits but rather to serve as guideposts to truth, honest and fair dealing. They are not accidental, but international in origin ... they direct a high but attainable level of performance, without precluding clearly justifiable departure and variation in the procedures employed.*

The differences in accounting regulation and practices between countries have been highlighted over the last two decades by academic researchers (Mueller, 1967, 1968; AAA, 1976, 1977; Choi and Mueller, 1984; Gray et al., 1984). Other studies have been carried out by professional organisations (e.g., AICPA, 1964, 1975) and accounting firms (e.g., Price Waterhouse 1973, 1975, and 1979).

The differences in national accounting systems are attributed in general to a variety of environmental factors under which they operate. The diversity of accounting practices that exists world-wide probably reflects a diversity of user needs. The diversity in the application of accounting principles and financial reporting practices among different countries is illustrated later in this chapter. Numerous papers (e.g., Seidler, 1967; Radebaugh, 1975; Nobes, 1986, 1988; Cooke and Wallace, 1990) have been written on the influence of environmental factors upon accounting development.

Mueller (1968) argues that national business environments can be differentiated on the basis of four factors - state of economic development, stage of business complexity, impact of political persuasion, and reliance on a particular legal system.

#### **4.2 Approaches to setting accounting standards**

Nations differ on how they set accounting rules as well as on who set the rules.

The style of regulation which operates in a country depends on two issues: the pattern of demand for information and the process of accounting regulation, both of which may be fragmented and integrated (Wallace, 1987, p.203).

Daley and Mueller (1982) provide four categories of approaches to setting accounting rules in various countries:

1. **A purely political approach:** this approach relies on legislation to establish accounting rules. Legislation of accounting principles prevails in the European Continent and in Latin America. Elaborate Uniform systems of accounts are used voluntarily (West Germany, Switzerland) or are required by law (France). These systems are less responsive to changing needs as demonstrated by past experience. However, setting accounting standards by legislation or decree has been criticised because legislation is a

slow process, and therefore, takes a considerable time to change laws to respond to new developments in the business environment. Furthermore, keeping standards up to date requires changing laws frequently, but unfortunately, this is impossible due to the fact that legislation is inflexible. Also, by nature the law focuses on form and not on substance. Furthermore, legislation is influenced by political considerations. A related example is found in Germany where accounting for inflation is not practised because the Germans prefer a system that does not recognise the presence of inflation.

2. **A private-professional approach** in which accounting rules are set by the accounting profession itself. Professional self-regulation prevail in the US, the UK, and in countries which follow Anglo-American tradition. This approach results in a high degree of flexibility, with relatively fast adjustment to changing needs because specialists deal directly with current issues.
3. **A public-private mixed approach** in which the rules are established by a private sector agency which acts as a public agency, supported and enforced by governmental action.
4. **A mixed approach** in which a combination of private, public, governmental and other groups are involved in accounting rule setting and enforcement. For example, in Japan the government set up a Business Accounting Deliberation Council with members from universities, industry, government and the CPA profession. However, in other countries such as the Netherlands, where self-regulation and legislation are used jointly, a system positioned between the two extremes has emerged.

Similarly, in the UK, in addition to the pronouncements of the profession, company legislation contains general accounting and reporting requirements (Archer and Eccles, 1980) ( cited in Hanns-Martin, 1981, p.86).

Others including Gray et al (1981) examine the influence of governments on setting national accounting standards. Governments can play an active role in establishing national accounting standards for the following reasons.

- a. The government by tradition acting as the supreme and impartial arbitrator, is expected to regulate all relationships between its citizens.
- b. Interest groups may turn to obtain all the needed information from the government.

- c. Since large enterprises are important to the national economy they should be made accountable, by law, to all shareholders.
- d. The advantage of enactment is that it puts an end to the quarrels of interest groups and that compliance with regulations is mandatory.

Furthermore, it has been argued that the enhancement of economic efficiency and other social goals might be achieved if the optimal publication of accounting data by companies could be obtained by means of government action.

The development of financial accounting in developing countries is also influenced by the government. In this respect, Bait-El-Mal, Smith and Taylor (1973) point out that accounting in the Libyan Arab Republic is influenced by government laws and regulations which control business, accounting practices and principles and accounting education.

Benston (1980), adds another approach to the process of standard-setting, i.e., the evolution of voluntary individual compliance with the disclosure standard. What is disclosed will be determined by individual enterprises. Accounting rules adopted by trade associations and other voluntary organisations, such as stock exchanges are included in this approach.

Burggraaff (1983) has specified three approaches to setting standards:

1. **Consensus and compliance:** this approach involves interest groups, preparers and users in the standard setting process. There should be some sort of consensus. In this approach, accounting standards setting may have political implications, but the exercise should be technical. Moreover, political pressures are not eliminated but canalised.
2. **Underlying concepts:** this approach attempts to formulate the criteria guiding professionals in their judgement when selecting a certain accounting policy. Here, political pressures would have been eliminated.
3. **Multiple Base Reporting:** this approach shows what bases the outcome is on. This can be done by way of footnotes, supplementary statements, or by multiple-column reporting.

### **4.3 Factors influencing national accounting standards**

Accounting objectives, standards, and practices are or should be heavily influenced by the definitive needs of users of the financial statements (Accounting Objectives Study Group, 1973, p.15 and Radebaugh, 1983). Stamp (1971, p.461) pointed out that:

*The development of a national set of accounting standards must be predicted upon an analysis and determination of the purpose and the objectives of financial statements.*

This goal, in turn, requires the identification of the various classes of users of financial statements as well as the information needs of each class of user.

Since the needs of users often change over time, this will lead to changes in the objectives, standards and practices. In this respect, Al-Hashim D. (1973, p.21) emphasised that:

*If the purpose changes, economic events can be defined differently and alternative accounting methods and reports prescribed.*

Similarly, Coopers and Lybrand (1991) point out that the differences in accounting standards among countries result in response to the needs of business environments, and as business relationships progress from barter economies to international capital flows, increasingly complex guidelines are required for recording transactions and reporting their results to continue serving the needs of managers, creditors, investors and regulators. They also add that the differences in accounting standards result from fundamental differences in national environments. Accounting rules are developed over time in response to the business requirements of a country.

It is generally accepted in the literature that accounting objectives, standards, policies and techniques reflect the particular environment of the standards-setting body.

As Frank (1979, p.593) stated:

*If environmental factors play an important role in the development of accounting concepts and practices, and if these environmental factors differ significantly between countries, then it would be expected that the accounting*

*concepts and practices in use in different countries also differ.*

Abel (1971), (cited in Samuels et al., 1985, p.103) illustrates the fact that the environment is an important factor in determining the characteristics of any given set of national accounting practices.

Various studies that have been made to identify the environmental conditions likely to affect the determination of national accounting standard implicitly assumed that cultural, political, social, economic, and educational factors may explain the differences in accounting principles and techniques among the various countries as well as influence the standard-setting mechanisms dominant in a country.

**Cultural influences** rest on the assumption that accounting concepts in any given country are as unique as any other cultural traits. It has been suggested in the literature that because each nation's unique accounting rules and regulations mirror its culture and its economic, political, and legal systems, there will be a worldwide diversity in accounting regulations (Taylor, Evans and Joy, 1986, p.1 and Evans and Taylor, 1982).

Culture also affects business practices (Lowe, 1967; Mueller, 1968; Horngren, 1972, p.61; Tinker, 1980; Belkaoui, 1983; Choi and Mueller, 1984). Culture has been considered an important environmental factor influencing the accounting system of a country (Mueller, 1967; Nobes, 1983b, 1984; Violet, 1983; Belkaoui, 1985; Hofstede, 1987; Schreuder, 1987). Many scholars have argued that the lack of consensus across different countries as to what represents proper accounting methods is because their purpose is cultural, not technical (Singh, 1967; Beazely, 1968; Acheson, 1972; Jaggi, 1975; Chevalier, 1977; McComb, 1979; Nair and Frank, 1980; Bromwich and Hopwood, 1983; Belkaoui, 1983, 1985; Choi and Mueller, 1984; Soeters and Schreuder, 1988). Thus, the study of cultural issues and their impact on accounting research is fundamental to an understanding of the determinants of differences in national accounting standards. In a study of corporate reporting in India, Jaggi (1975) hypothesizes that the dominant culture of a company's management in India is likely to affect their disclosure decisions, and more importantly, the adequacy and accuracy of the



information so disclosed. Jaggi (1975) raised two hypotheses regarding the impact of the cultural environment and individual value orientations on financial disclosure.

These hypotheses are:

1. The reliability of disclosures in financial statements is likely to differ with differences in the value orientations of managers from different countries. Accounting principles and procedures will vary in response to the needs of individual countries and to ensure reliability in a given set of cultural environments.
2. As a result of the prevailing cultural environment in the developing countries, the reliability of financial disclosure is not expected to be high unless legal disclosure standards are set.
3. Jaggi goes on to suggest that the procedures for developing accounting principles should be modified to suit different cultural environments.

Another major influence is **the linguistic factor**, where language plays a central role in the development of accounting standards, in terms of cognition and perception. Many studies have investigated the impact of language, a component of culture, on accounting ( Belkaoui, 1978, 1980; Monti-Belkaoui and Belkaoui, 1983; Flamholtz and Cook, 1978).

Sapir in his investigations, (cited in Belkaoui, 1985, p.39) views accounting as both an instrument of communicating thought, and a means of recording events and as such accounting can be viewed as the language of business.

**Political aspects** is another major influence upon establishing accounting standards. It is based on the assumption that accounting concepts in any given country rests on the political and civil context of that country. It has been suggested that the political freedom of a country is important to the development of accounting in general and to reporting and disclosure in particular. In other words, setting accounting standards may be viewed as a product of political factors. In this respect, Horngren (1972, p.61) stated that:

*... Setting of accounting standards is as much a product of political action as of flawless logic or empirical findings.*

Tinker (1980) (cited in McComb, 1981, p.5) pointed out that: "... *accounting results are only as good as their political and social precepts*". Similarly, Horngren (1973, p.61) and Solomons (1978) view standard setting not as much as a technical process aiming at high quality financial reporting based on business economic knowledge, but rather as a political process of lobbying, pressure groups and the competing interests of involved parties.

According to Arpan et al. (1981), certain political factors can influence accounting systems and practices. In socialist countries, for example, it is often politically expedient and desirable to require certain information from companies about their social impact.

Similarly, developing countries may require reports from companies on the balance of payments as a precondition to approving the investments. Furthermore, change in political direction can bring with it new accounting rules through new laws or, in the extreme case, can result in government takeover.

Other factors that influence the establishment of accounting standards are the **economic and the demographic**. These factors are based on the assumption that accounting concepts in any given country rest on the economic and demographic context of that country.

Economic development constitutes economic growth and various structures and social changes. The stages of economic development in a country and the basic economic orientation influence accounting development and practices. At extremely low levels of economic development there is little economic activity and correspondingly little financial, tax, or managerial accounting.

Regarding the demographic influence, the number of people in a given country may be important to the development of accounting (American Accounting Association (AAA), 1976-1978, 1985, p.47). Belkaoui (1983) argues that the larger the population, the higher the number of people who will be interested in the accounting profession, and the greater the need for a well-developed accounting profession and the need for full and fair disclosure. He cited examples of India, Egypt, and Pakistan which have developed accounting professions and systems for accounting education, even though they are considered as developing countries.

Another influence which contributes to the establishment of accounting standards is **legal and tax regulations**. Several factors (including the nature of the legal system, the prevalent types of business organisation and ownership, the tax regulation and the strength of the accounting profession) shape the principles of accounting practices in different countries. Given the fact that different countries have different national legal systems, there will be differences in their accounting systems as well as is true of both the UK and the USA, where their legal systems rely upon differing levels of statute law thus explaining the differences in their standard-setting arrangements.

As Arpan et al. (1981) point out, countries where laws determine accounting practices are commonly grouped into what can be described as the legalistic approach. This approach is found to a certain degree in all countries of the world, regardless of their stage of economic development. In the USA, for example, regulations promulgated by the Securities and Exchange Commission and tax laws somehow suggest the legalistic approach to accounting. Similarly, the tax system of each country defines the conduct of business and in turn the accounting practice.

Seidler (1981, p.41) (cited in *Multinational Accounting: A Research Framework for the Eighties*, ed. Choi, 1981) points out that:

*World-wide tax collections constitute the greatest source of demand for accounting services. ...Tax collecting governments initially become involved in the bookkeeping and accounting procedures followed by individuals and companies, to provide some assurance of collecting taxes.*

Therefore, differences in accounting systems are expected as a result of differences in tax systems and collection methods of different countries. Both company and tax laws affect national standards to a certain degree. For example, in some countries such as the UK, the law provides the minimum reporting requirements, and the profession has taken upon itself the responsibility of developing mandatory standards to supplement the law.

In other countries, such as France and Germany, comprehensive regulations relating to financial accounting and reporting practice are stipulated by the law. In the Netherlands, in

addition to the government and the accounting profession, labour unions and trade associations play an active role in developing and enforcing accounting standards.

Gray et al. (1984) summarise environmental factors that influence accounting systems of a country by:

*The political system and the type of economy, the stage of economic development, the social climate, the legal system, the management and ownership structure of corporations, the accounting profession, the tax system, and the nature and the stage of development of the capital market are all important environmental factors which determine both the accounting systems used and the extent to which information is publicly disclosed.*

They (p.21) produce a causal diagram of the participants and pressures on the information disclosure policy of multinational corporations.

As regards educational factors, they have a significant effect on accounting practices. These educational factors encompass:

1. the degree of literacy;
2. high-school qualifications;
3. the basic orientation of the educational system (religious, vocational, liberal arts, scientific, professional); and,
4. the educational match; i.e. the match with other professions. For example, a profession which made up entirely of university graduates may be perceived by society as more enlightened and better educated than one that admits non-graduates.

In summary, the accounting concepts and reporting and disclosure system in any given country rest on varying aspects (including cultural, linguistic, political and civil, economic and demographic, legal and tax, and educational) of that country. These divergent environmental factors would probably mean that each country would establish its own accounting standards

in a manner that would mirror its own environment (FASB, 1978; Taylor, Evans and Joy, 1986).

Following the discussion of the various aspects related to national accounting standards, its approaches, the major factors affecting the establishment of national accounting standards, and the relevant analysis to cover various issues relating to accounting standards, the following two sections focus upon the development of national accounting standards and financial practices in two specific examples of developed countries, i.e., the UK and the USA.

The UK and the USA are chosen on the basis that they have healthy economies, long-term economic prospects and have made significant contributions to the development of national accounting standards all over the world, their distinct patterns of accounting development and, because of their past and potential future influence on accounting systems in developing nations (Scoff, 1970, p.93). Most importantly, these are the two countries to which Jordan always turns for help in the development of its economy and accounting.

#### **4.4 Accounting standards in the UK**

The UK was one of the first countries to institute modern financial reporting.

Accounting in the UK is regulated both by the Companies Act and by the professional pronouncements in the form of 'Statement of Standards Accounting Practices' (SSAPs). Both the Companies Act and the accounting profession have their origins in the mid-nineteenth century. The Companies Act of 1948 and 1967 requires all corporations to keep 'proper books and accounts' containing the information necessary to give a 'true and fair view' of the company's financial affairs. The Companies Acts deal with financial issues such as the incorporation of the firm, its management, administration, and dissolution, as well as the issuance of financial statements and the disclosure of financial information. The Companies Act stipulates that published financial statements should satisfy the over-riding requirement of presenting a 'true and fair' view. They also implement the EEC's Fourth Directive.

The professional pronouncements in the form of SSAP's are prepared by the Institute of Chartered Accountants in England and Wales along with other major accounting bodies in the

country and serve to supplement the requirements of the Companies Act as to the form and content of financial statements.

Commencing in 1942, the Institute of Chartered Accountants in England and Wales issued a number of recommendations of accounting principles. It has been said that these recommendations played a significant role in upgrading practice in the UK even though they were criticised for permitting alternative practices and for failure to be firm and positive.

In 1969, the Consultative Committee of Accounting Bodies was established to set up the Accounting Standards Committee (ASC). The Council of the Institute issued in 1970 its "Statement of Intent", which heralded the introduction of formal accounting standards. This statement included:

- narrowing the areas of difference and variety in accounting practice;
- disclosure of accounting basis;
- disclosure of departure from established definitive accounting standards;
- wider exposure for new major proposals on accounting standards;
- continuing to suggest improvements in the accounting disclosure requirements laid down by the Companies Act and regulatory bodies such as the stock exchange.

After 1969, the Scottish and Irish Institutes joined the profession, followed in 1971 by the Association of Certified Accountants and the Institute of Cost and Management Accountants.

In 1976, after the Chartered Institute of Public Finance and Accountancy joined, the ASC was reconstituted as a Committee binding upon the members of all the six professional bodies making up the Accounting Standards Steering Committee (ASSC). These professional bodies in the UK are:

1. The Institute of Chartered Accountants in England and Wales (ICAEW)
2. The Chartered Association of Certified Accountants (CACA)
3. The Institute of Chartered Accountants in Scotland (ICAS)
4. The Institute of Cost and Management Accountants (CIMA)
5. The Chartered Institute of Public Finance and Accountancy (CIPFA)
6. The Institute of Chartered Accountants in Northern Ireland (ICAI)

The ASC constitution defines its objectives as:

*to advance accounting standards and to, narrow the areas of difference and variety in accounting practice by publishing authoritative statements on the best accounting practice which will wherever possible be definitive.*

To sum up the foregoing discussion, Generally Accepted Accounting Principles in the UK are derived from the following sources.

1. The Companies Act 1985 (amended by the Company Act 1989) defines formats for profit and loss accounts and balance sheets. It also includes valuation rules for historical cost accounts and separate valuation rules that apply specifically to assets included in the accounts at a value other than historical cost. Furthermore, the Act includes a number of general accounting rules, detailed rules that apply to consolidation and detailed disclosure requirements.
2. Statements of Standards Accounting Practices (SSAPs) issued by the Accounting Standard Committee (ASC).
3. Statements of recommended practice (SORPs) issued by the ASC. These statements are developed when there is a need for guidance on a specific topic, but not an SSAP. Adherence to these statements is not mandatory, but they are an indication of the best accounting practice, and companies are encouraged to comply with them.
4. The United Kingdom's International Stock Exchange's Continuing Obligations (the Yellow Book) includes accounting disclosure requirements for companies listed on the Stock Exchanges. Its General Undertaking includes similar requirements for companies traded on a second - tier market known as the Unlisted Securities Market (USM).
5. Technical Releases issued by professional accounting bodies indicate the best accounting practice and often precede an exposure draft of an accounting standard.

The authority for adherence to SSAPs is given to the Councils of the various Institutes of the CCAB, in that members who assume responsibilities in respect of financial accounts should observe accounting standards. A significant departure from accounting standards

must be disclosed and explained in the accounts and additionally, if the auditor accepts the departure then his justification for doing so must be stated.

There is a requirement in the Companies Act 1991 to comply with accounting standards (SSAPs and FRSs) and, but there is a general requirement in the Companies Acts that accounts should present a 'true and fair view', and it is likely that the courts in interpreting what constitute a true and fair view would be strongly influenced by accounting and financial reporting standards as a definitive expression of the general opinion of the professional accounting bodies.

The profession in the UK plays an important role in the interpretation and implementation of company and tax legislation. The high level of professional and legal development reflects the sophistication of the UK's financial sector as well as capital markets. The London Stock Exchange is one of the world's major exchanges for providing a means of raising finance both for large companies, and the government. There is also a rapidly growing unlisted Securities Market (USM) for companies which do not qualify for full listing as well as all informal 'over the counter' (OTC) market.

Concerning the UK contribution to accounting, Britain plays a leading role in international commerce and finance. This is reflected in the very high standards of financial reporting and the quality of the information to be found in the financial statements of all types of limited liability company.

Late in the 19th century and early in the 20th century, UK accounting firms established offices in other countries. Deloitte, Deve, Griffiths and CO, opened offices in 17 foreign cities between 1890 and 1914.

Also, the Stock Exchange in London has more foreign listings than exchanges in any other country and London has been recognised as the Centre of the Eurobond and Euromoney Markets.



The British Contingent served as a nucleus influencing the founding of the American Association of Public Accountants (AAPA) in 1887. In 1956, the president of the English Institute commented that:

*Anyone who examines the history of the profession in almost any country of the world, cannot fail to be impressed by the major part played by Chartered Accountants from the United Kingdom in the world development of the profession* (The Accountant, 1956), (cited in Samuels et al, 1985, P.21).

While the UK influence upon accounting world-wide will be discussed together with the USA influence later in this chapter, it seems apropos to discuss some recent influences of UK accounting practices on European accounting. Although consolidation accounts came later in the UK (than the US) where holding companies came into being during World War II. Consolidated financial statements were introduced in the UK in the Companies Act 1948 as supplements to parent company balance sheets. The UK consolidation practices was introduced by the 7th Directives of the European Union (EU) which have been adopted by all member countries, just as the “true and fair view” concept was introduced into the 4th Directive of the EU.

The SSAP 14 (1978) states that the objectives of consolidation are to:

*Present the information contained in the separate financial statements of the holding company and its subsidiaries as if they were the financial statements of a single country.*

Also, the EEC's Seventh Directive refers to the assumption *as if (undertakings) were a single undertaking*. A company is a holding company if it owns a majority of the equity share capital of another company, or if it controls the composition of the board of a company of which it is a member.

#### **4.5 Accounting standards in the USA**

In the USA, accounting is regulated by both the accounting profession and legislation. The American Institute of Certified Public Accountants (AICPA) and the Financial Accounting Standards Board (FASB) have co-ordinated their efforts to regulate the practice of accounting

in that country. The AICPA usually issues statements of position (SOPs) on accounting principles in specific areas after receiving concurrence from FASB.

Perhaps the most important force in moving USA accounting standards toward greater uniformity is the Securities and Exchange Commission (SEC) (sections 19(a) of the Securities Act of 1933 and 13(b) of the Securities Exchange Act of 1934). The SEC has the statutory authority to establish the form and content of and requirements of financial statements of publicly held companies whose securities are registered with it. The SEC has also the authority to establish accounting standards, but has in practice delegated this role to the FASB. The SEC issues Financial Reporting Releases that are used to adopt, amend or interpret rules and regulations relating to accounting and auditing issues or financial statement disclosures.

The first federal legislation that significantly affected American auditors and other accountants was the Internal Revenue Act of 1913.

In 1932, the American Institute of the New York Stock Exchange issued its recommendations regarding:

1. the timing of profit recognition;
2. prohibition of the use of the capital reserves to relieve income statements of legitimate charges;
3. restrictions on the recognition and use of pre-acquisition profits of subsidiaries;
4. the holding of a company to its own stock;
5. disclosure of amounts receivable from officers, employees or affiliated companies.

The American Institute of Certified Public Accountants (AICPA) which was established in 1887, started in 1939 to issue its authoritative documents entitled Accounting Research Bulletins (ARB). The Committee of Accounting Procedures (CAP), the body responsible for change statements, issued 51 bulletins between 1939 and 1959, covering most aspects of financial accounting and promoting a number of reforms in practice.

However, the CAP was criticised because it did not rely enough on research, the financial statements lacked comparability and there was a fear that investors might be misled and its staff be inadequate in numbers.

In 1959, the Accounting Principles Board (APB) was formed to replace CAP. The APB commissioned research projects and achieved its object through the issuing of opinions and statements and up to 1973, APB represented an 'arm' of the AICPA.

In 1971, the Wheat Committee was formed to review the standards-setting process in the USA. In accordance with the 1972 recommendations of the Study Group on Establishment of Accounting Principles (Wheat Committee), the FASB was created as a private organisation, independent of the AICPA, and the responsibility for standards setting was moved from the AICPA to an independent private organisation, the FASB.

A close relationship between the FASB and the AICPA existed through the designation by the AICPA of the Accounting Standards Executive Committee (AcSEC) as the Senior Technical Committee of the Institute with respect to financial accounting and reporting and cost accounting. This is achieved through the AcSEC being one of the sources of input of topics for the FASB to consider for a proposed pronouncement. The FASB's pronouncements take the form of statements and interpretations. The FASB statements are either amendments of the previously issued Statements and Opinions, or pronouncements on new subjects.

In 1976, the FASB published an important discussion memorandum titled 'Conceptual Framework for Financial Accounting and Reporting'. The FASB also formed the Emerging Issues Task Force (EITF), a 13-member body to provide timely guidance on implementation questions and emerging accounting issues. However, the FASB has been accused of being slow to act on important issues as well as issuing unnecessary and expensive standards.

Furthermore, the following five major professional accountancy associations exist in the USA:

1. The American Certified of Public Accountants (AICPA);
2. The National Association of Public Accountants;
3. The Financial Executive Institute;
4. The American Accounting Association; and

## 5. The Federal Government Accountants Association.

According to Coopers and Lybrand (1991), generally accepted accounting principles (GAAP) in the USA are derived from authoritative pronouncements, the pronouncements of bodies of expert accountants that follow a due process procedure, practices or pronouncements that represent prevalent practices in a particular industry or in specific circumstances.

In summary, accounting standards in the USA come primarily from the following sources:

1. FASB: establishes standards of financial accounting and reporting that generally apply to all public and non-public enterprises except state and local governmental entities.
2. Government Accounting Standards Board (GASB): establishes financial accounting and reporting standards for activities and transactions of state and local governmental entities.
3. The American Institute of Certified Public Accountants (AICPA): has designated the FASB and GASB as authoritative standards-setting bodies under the AICPA's Code of Professional Conduct.

### **4.6 UK and USA influences on the development of national accounting standards**

Both the UK and the USA have a significant influence and play a vital role in the development of national accounting standards.

Briston (1978, 1990) stated that the British and American influence have been extremely dramatic because of the following potent factors:

- Most of the major multinationals have been based in the UK or in the USA, and these have adopted the accounting systems of the home country for their overseas subsidiaries, and have trained local staff on those systems.
- Almost all the largest international firms of accountants are American or British, and these have also trained local accountants to serve the audits of multinational companies according to American and British Concepts. These firms have been influential in encouraging other countries to adopt professional accounting approaches found in the UK and USA.

- The insistence of the International Financial Institutions (namely the World Bank and its affiliates) upon the use of an international firm of accountants to audit many of the projects which they finance.
- Overseas aid in the form of exchange staff, provision of scholarships for local students, and grants of text books. This means that teachers are strongly influenced by British, American and Canadian concepts.

Lowe (1967, p.358) noted that:

*The major contribution currently being made in the development of accounting education in Less-advanced countries is being made by the British. Through their efforts in education they indirectly maintain considerable influence in the economic affairs of many of the less developed nations*

- The spread of English as a second language in many countries has meant that British and American accounting texts and trainers are being used in many developing countries. This means that students in developing countries have tended to study British or American accounting practices and accounting standards. For example, American accounting texts were followed from 1976 onwards at Yarmouk University in Jordan.
- Many countries around the world were at one time part of the British empire and, by the time of their independence, many of these countries found themselves with a professional accounting body and companies legislation on the British model.
- Involvement of the UK and USA in the IASC's standards: the criteria for selection of countries to be invited to join the IASC were a high standard of accounting reporting and of the accounting profession in the country; commercial importance in terms of world accounting reporting. It is also important to have the profession of a country involved in this international project. The UK and USA's involvement in the IASC was essential to the whole project as there is a strong profession in each country with developed accounting standards and they are commercially important in terms of multinational operations (Hepworth, 1977, p.17).

Many scholars (Cummings, 1975; McComb, 1979; Fitzgerald, 1981) argue that both the UK and USA exert significant influence on standard-setting functions of the IASC.

#### **4.7 Conclusions**

There is no doubt that in the USA the independence of the rule-setting body will be maintained, although greater pressure than ever before is being exercised by the SEC to ensure that comprehensive accounting standards are being promulgated and adhered to.

Understanding the characteristics of accounting systems, its roles, and major factors affecting the development of accounting standards in developed and developing countries in general and in the USA and UK in particular, provides the foundations upon which the harmonisation of accounting standards and practices can be based.

The diversity of accounting practices between countries can lead to great complications for those preparing, consolidating, auditing and interpreting published financial statements.

Since the preparation of financial information often overlaps with the preparation of published information, the complication can spread further. This, however, will lead to what is called 'harmonisation' (Nobes, 1985).

In summary, this chapter provides the background to the issue of harmonisation. The next chapter will discuss harmonisation as a reconciliation of different viewpoints.

## Chapter Five

### International Harmonisation of Accounting Standards

After a discussion of the diversity and development of national accounting standards in general, and in the USA and UK in particular, this chapter will consider the different arguments concerning international accounting standards, the meaning of harmonisation of national accounting standards, its needs and benefits, its approaches, its process, its rationalisation, and its impediments.

#### 5.1 International Accounting Standards

In the light of the growing international character of business and the desirability of investment in developing countries, there is clearly a need for a reliable means of international financial communication. It has been assumed in the literature that the multinational corporation is the most developed form of direct foreign investment. A direct foreign investment involves the transfer of capital, managerial, and technical assets of a firm from one country (the home country) to another (the host country) by the same firm. As with multinational corporations, foreign investment creates specific accounting problems relevant to the field of international accounting such as risk return, accounting for foreign exchange transactions, and foreign currency translations.

The impetus for developing international accounting standards is that non comparability is thought to deter international investment and act as an impediment to the optimal worldwide allocation of resources. Reducing the degree of diversity, where possible, would appear to be the logical solution to this problem. Presumably, comparable reporting practices will result from comparable financial reporting standards.

Improved comparability is likely to permit better financial statement analysis, with the result that investors and lenders lower their required rate of return and thus the firm's cost of capital.

With the existence of common financial statements as well as common professional standards in accounting and auditing practice, the investors will be able to place the same reliance on certified statements whatever the country of origin.

Brunovs and Kirsch (1991, p.135) point out that:

*Economic and financial markets interpenetrate and national economies are increasingly interdependent. This results in a growing need for comparability of accounting procedures internationally.*

Similarly, Most (1984) points out that the contributing factors to the growth of international accounting standards are the expansion of international trade through large multinational corporations.

As McKinneley (1970, p.222) points out:

*There is an ever-growing need for better and more effective accounting and auditing functions, due to the growing internationalisation of business, and in order to meet the needs of the many different types of investors and institutional requirements (such as the World Bank and regional banks).*

McKinneley (1970) also points out that there is a need to develop an international theory and standards which can recognise some of the diversities, eliminate the unsound accounting, and obtain general agreement on greater disclosure of financial information. Abu-Ghazaleh in his speech at the Annual Conference of the American Accounting Association (New York) in August (1986) states that:

*With the growth in international trade and the development of international capital markets there is a need internationally to raise the level of accounting practice and at the same time to obtain greater harmonisation in the preparation of financial statements.*



Abu-Ghazaleh (1986) adds that the Arab World view harmonisation as an immediate priority and this is the reason why they have membership of the International Federation of Accountants with its objectives:

*...to develop and enhance a co-ordinated worldwide accounting profession with harmonised standards.*

It has been argued in the literature that developing international accounting standards will help investors in multinational corporations and help the multinationals to take advantage of foreign securities markets because financial statements will be more comparable. In this context, Brown (1977, p.9) suggests that:

*In an age when multinational investing is a daily occurrence the development of international accounting standards is essential and long overdue.*

Others including Hepworth (1977) argue that the need for international accounting standards (IASs) came about because many countries do not have programmes to develop accounting standards and because of the diversity in national accounting standards.

Turner (1983) argues that the benefits of establishing international standards is an improvement in the quality of accounting in poorer countries. Thus, countries which do not have the resources to develop their own accounting standards, can adopt international accounting standards to the extent that they are appropriate to their domestic environment. However, Brandt (1962, p.71) suggests three phases for the development of international accounting principles:

- Phase I: Identification of those areas where fundamental differences exist and which for the good of the profession should be reduced or eliminated.
- Phase II: General acceptance of a course of action designed to develop an international codification of these principles and standards to the extent considered warranted and feasible.
- Phase III: Implementation on a step-by- step basis of the adopted plan.

## **5.2 Users of International Accounting Standards**

It has been argued in the literature that the requirement of international trade, investment and communication could best be met by the development of comprehensive accounting standards. This can be achieved on an international basis and bearing the imprimatur of international authority and support. The development of international accounting standards has been demanded by various users including:

- 1. investors:** an investor wants to have confidence in any financial statements he will use in deciding whether to buy or hold. Where the statements are those of a foreign company, he will want to be confident that he understands the principles which have been followed in measuring income, valuing assets, and disclosing vital information. If that confidence is eroded, he may decide not to invest in that company or perhaps even in any company based in that country. A similar situation can be applied to corporate and institutional investors;
- 2. financial analysts:** financial analysts need clear information in order to be able to do their jobs as investment advisers. Unless they have information based on internationally accepted accounting standards (IASs), they will face the problem of having to learn and understand accounting standards and practices from other countries in order to understand financial statements about the activities of foreign companies;
- 3. international lenders and creditors:** understanding the financial position of debtors is very important to credit grantors to decide whether to make or renew a loan, or to supply goods, and on what terms.

International financial reporting standards are useful to international lending institutions who make loans to agencies in developing countries. Some institutions such as the International Financial Corporation (IFC) - an affiliate of the World Bank - rely on comprehensive disclosure and often demand their usage by their borrowers from developing countries;

**4. multinational companies:** international accounting standards are very important to multinational companies.

Frederick Donner, Chairman of General Motors Corporations (Proceedings: Eight International Congress of Accountants, 1962, p.54), pointed out that:

*Accounting is the language of business. In order to serve successfully in the field of international business, accounting must, of course become more nearly an international language.*

According to Mason (1978, p.31), member companies of a multinational group would stand to benefit from international standardisation in three related accounting aspects.

1. Sets of financial statements and/or accounting records might be required. A foreign subsidiary typically has to prepare different statements, or returns for (Schonfeld, 1975, p.137):
  - a. internal (intra-group) reporting;
  - b. statutory external reporting in the foreign country;
  - c. tax requirements in the foreign country;
  - d. parent company consolidation.
2. Related to point (1) above is the possibility of reducing the adjustments required in consolidating or equity accounting for material foreign investments - thereby saving effort and time for reporting.
3. The integration of internal and external reporting systems, and the development of uniform measures of performance, would be facilitated.

**5. International Firms of Accounting:** the preparation of instruction manuals and other literature for use in all offices of an international accounting firm is hindered by the absence of international reporting standards. This also hampers transfers of staff from one country to another. Therefore, international accounting firms strongly demand international accounting standards.

6. **Stock Exchanges:** a stock exchange on which foreign companies are listed has to decide whether it is necessary to have financial statements of foreign companies prepared either according to local accounting principles for the benefit of local investors or according to foreign accounting rules to reduce costs of preparing financial statements.
7. **National accounting bodies:** according to Mason (1978, p.32), there is no national standards-setting body with the resources to investigate, on a timely basis, all problem areas in accounting theory and practice. Movements towards international accounting standards would permit more use to be made of what has already been researched by other national and/or international bodies.
8. **Accountants in developing countries:** in developing countries, neither will the accounting profession be sufficiently well-developed or large enough to be able to undertake the setting of national accounting standards, nor are the governments likely to deem such standard-setting to be of sufficient importance and to warrant the allocation of scarce resources to it. Therefore, international accounting standards seem to be more applicable to, and would provide benefits for, the following groups in those nations:
- (a) All users of financial statements.
  - (b) Preparers of financial statements who seek guidance on the most appropriate methods of accounting.
  - (c) Auditors, in assessing the appropriateness of accounting treatments which have been followed.

Benson, (cited in Mason, 1978, p.33) pointed out that:

*... a number of relatively small nations are crying out for International Standards, because firstly they want them and have not the research facilities to make them themselves, and secondly they want the power and authority which the International Accounting Standards Committee agreement gives them to impose those standards in their countries.*

Thus, the international accounting standards clearly have much potential for improving financial reporting in developing nations. This can be applied to developed nations which are too small to have a large accounting profession, and so to develop standards. Denmark is an example.

**9. Governments in developing countries:** governments in developing countries can force shareholding companies to use the international standards of reporting and practices in their countries. As Miler (1974, p.22) stated:

*... the use of international standards of reporting and accounting may well be required before long as a condition of doing business in a developing country. The incentive for the host nation will be that of gaining access to truly comparable information as between companies and between nations.*

4.

**10. Taxation Authorities:** in the case where domestic companies have affiliates in other countries, the tax payable by multinational companies on a world-wide basis may be hampered by the diverse methods of computing profits. Therefore, international accounting standards would seem to have the potential for assisting them.

**11. Growing Influence of US GAAP:** some writers, including Mason (1978), suggest that, in the absence of international accounting standards, US GAAP will fill the vacuum and become increasingly used as the international language. US GAAP indeed has a major influence on the accounting practices of many countries, e.g., Philippines and Indonesia. Briston (1976, p.7) points out that in Indonesia, as a result of the influence of multinational companies, international firms of accountants, and US aid, university accounting courses are now biased strongly towards American texts. The Indonesian Institute of Accountants has adopted a set of accounting and auditing standards which are virtually identical to those of the AICPA.

Another Latin American example is cited by Zeff (1972, p.95):

*(a) Venezuela has an accounting bulletin that says it will first follow Mexican standards, and where there are none, US standards; and b) in most Latin American countries auditing practices probably closely resemble those of the US.*

However, there is a general objection regarding the international adoption of the US GAAP. The major objection lies in the fact that the US business environment varies widely from those of other countries. Therefore, US GAAP which has evolved in response to the US business environment may not be appropriate for countries with differing environments, and if adopted, may lead to a deterioration of the quality of accounting in such countries (Mueller, 1968). Such a situation is considered by many scholars to be undesirable for many developing countries, and hence the development of international accounting standards is considered justifiable as an effective deterrent to the international adoption of US GAAP.

If the objection against the international adoption of US GAAP is accepted, one is in effect subscribing to the view that environmentally-justified accounting differences should remain and therefore accounting, if it is to maintain its social utility, should justifiably vary from one country to another (Choi and Mueller, 1978). This reasoning questions the validity of the justification for developing international accounting standards as a deterrent for US GAAP, since the same objection to the international adoption of the US GAAP could be extended to international standards developed by an agency such as IASC. The notion of preserving environmentally-justified accounting differences is incompatible with the concept of harmonisation. Therefore, the justification for the development of IASs as a deterrent for the increasing adoption of US GAAP is questionable, especially in the context of the overwhelming influence of accounting standards on IASs.

### **5.3 Meaning of Harmonisation**

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Standardisation means that a single standard or rule is applied to all situations. Standardisation implies the imposition of a more uniform, rigid and narrow set of rules. Whereas, harmonisation means applying different accounting standards to particular environments rather than one standard to all. In other words, harmonisation is the process of increasing the compatibility of accounting process and systems found in different countries around the world by eliminating any unnecessary transactions that exist between them. It is an essential step on the way to international accounting (Weirich et al, 1971, pp.80-81; Miler, 1979; Nobes and Parker, 1981 p.329; Washington, 1981, p.86; Samules and Piper, 1985, pp.56-57; Doyle and Spencer, 1986, p.28; Tas, 1988, p.157; Hulle, 1989c, p.96).

Wilson (1969, p.40) presents a useful distinction between standardisation and harmonisation as follows:

*The term harmonisation as opposed to standardisation implies a reconciliation of different points of view. This is a more practical and conciliatory approach than standardisation, particularly when standardisation means that the procedures of one country should be adopted by all others. Harmonisation becomes a matter of better communication, of information in a form that can be interpreted and understood internationally.*

According to Tay and Parker (1990, p. 73), harmonisation is the process of movement away from total diversity of practice. It is therefore indicated by a 'clustering' of companies around one or a few of the available methods. Whereas standardisation is seen as a process of movement towards uniformity. It includes the clustering associated with harmony, and reduction in the numbers of available methods to one.

However, standardisation has been criticised by many writers including Stamp (1971, p.459), when he stated that:

*... I do not believe in a goal of uniformity in the sense of developing a rigid code of rules and regulations.*

Similarly, as McComb (1981, P.2) pointed out:

*The international harmonisation of accounting may result from the worldwide acceptance, or adherence to a generally accepted theory of accounting management, and corporate reporting, but is unlikely to be the results of attempts to standardise procedures, or formats, for corporate reporting.*

It has been suggested that in order to create international comparability of accounting reports, international harmonisation of accounting standards and procedures must exist. For this purpose, Al-Hashim (1982, p.5) identified three models of accounting uniformity:

1. The absolute uniformity, which describes a situation in which there is one set of accounting methods and reports regardless of differences in circumstances or user needs.
2. The circumstantial uniformity model which describes a situation in which different accounting methods and reports can be used for different economic facts under different circumstances.

It seems that the accounting profession in the USA is moving towards the adoption of this model. In this respect, Kirk (1978, p.1) stated that the FASB was striving to account for similar situations in a similar way and not to make dissimilar situations look alike.

3. The purposive uniformity model which considers the users of accounting information as determinants of appropriate accounting methods and standards.



Efforts to harmonise accounting practices are being made nationally, regionally and internationally. At whichever level, the aim of harmonisation is the reduction of the range of accounting policy choice. In the simplest form, international harmonisation is viewed as limiting the number of available national practices. For example, all extant national practices relating to inventory cost measurement may be deemed acceptable. Although such harmonisation in its simplest form does not reduce the number of different practices, it does have the effect of setting a limit to the number of permissible practices.

#### **5.4 Benefits of harmonisation**

Releen (1976) summarised the benefits that can be derived from the harmonisation of national accounting standards as follows.

1. Improved decision making by investors looking beyond their own national boundaries.
2. More reliable information for comparison of the results of companies in different countries.
3. A greater understanding of the operations of multinational companies.

Thus, the greatest benefit that would flow from harmonisation would be the comparability of international financial information. Such comparability of international financial information would eliminate the current misunderstandings about the reliability of 'foreign' financial statements and, enhance the flow of international investment (Turner, 1983).

The international harmonisation of financial accounting and reporting standards is important not only to provide international investor with a basis for comparison, but also to increase his or her confidence in the credibility of financial reporting (Mulling, 1964; Wilson, 1968, p.39; Golub, 1982, p.44; Wyatt, 1989, p.107).

According to Carey (1990, p.92), companies would gain from the preparation of understandable forms of financial statements. Those with overseas subsidiaries would save a significant amount of time and effort if they could reduce the number of adjustments they had to make to their subsidiaries' accounts before they could be included in the group consolidation.

Commercial lenders or investors would have confidence in such harmonisation reporting and accounting. According to Turner (1983, p.59), there has been an increasing recognition, particularly by the World Bank, of a very strong relationship between the poor economic performance of a particular country and its lack of accounting ability. Governments require adequate, timely and reliable financial information for implementing policies and influencing economic cycles. Business which is fundamental to the development of any economy, requires such information for all management functions. International lenders and agencies would feel more comfortable about providing economic infrastructure if they were confident of a minimum level of accountability.

A primary perceived benefit of harmonisation is that financial analysis of firms would be simplified. Harmonisation would increase the number of readers qualified to examine accounting statements from foreign countries and might increase the confidence that people had in their understanding of foreign companies. This would expand the volume of international investment and issuing activities. These capital flows would increase capital market efficiency, providing benefits to both investors and issuers in the markets (Choi, 1991). Thus, investors and financial analysts would be able to obtain reliable and understandable reports on which to base their international investment decisions. All these users have a very strong and legitimate interest in ensuring that financial information assembled in various countries is reliable, comparable, or at least, that the nature and the magnitude of any differences are disclosed.

Another benefit from harmonisation would be the time and money saved that is currently spent on consolidating divergent financial information when more than one set of reports is required to comply with different national laws or practices. Moreover, harmonisation would make it possible to raise accounting standards throughout the world to the highest possible level and to be consistent with local economic, legal, and social conditions.

In short, Thorp (1990, p.24) summarises the expected benefits from the harmonisation of national accounting standards.

1. It will reduce administrative and systems costs by the removal of unnecessary duplications of data and published information requirements.
2. It will smooth business communication processes and lessen ambiguity in the interpretation of financial data.
3. It will facilitate better information for centralised agencies. Governments are dependent on companies to provide information for economic planning and fiscal purposes.

In summary, the advocates of harmonisation of national accounting standards focus on two broad points. The first is that international accounting harmonisation would facilitate world trade and economic growth (Farage, 1974; Arpan and Radebaugh, 1985; Taylor et al, 1986; Wolk et al, 1989; Livingstone, 1990; Carey, 1990; Mueller et al, 1991). The second concerns the increase in efficiency of the global capital markets that could come from the harmonisation of national accounting standards (Arpan and Radebaugh, 1985; Collins, 1989a; Moulin Solomon, 1989; Choi, 1991).

### **5.5 Schools of (approaches to) international harmonisation**

There is no agreement among writers on which general approach should be followed to achieve harmonisation. Three schools are considered in the literature of worldwide harmonisation (Hayes, 1980). **The first school** perceives International Accounting Standards as representing a critical need that should be fulfilled by the establishment of a supreme rule-making body for the issuance of uniform and flexible standards to be applied in an identical manner by accountants throughout the world.

**The second school** includes those who believe that circumstances throughout the world are too diverse and that therefore useful international accounting standards of any sort are unachievable and so one should not waste time trying to develop them. This school emphasises the need for additional disclosure in financial statements to enable users of the statements to reconcile differences between the foreign and local standards as they see fit. The main thrust of this school's argument is that, for accounting to preserve its utility, it should respond to the requirements of its environment. This school is also supported by the fact that limited application of Islamic economics has given rise to unique accounting problems that might eventually produce the Islamic Accounting Model.

**The third school** includes those who fall between the first two schools. This school agrees that the world is too complex to expect that rigid, inflexible standards can be developed for any issue. But they believe that worldwide harmonisation of financial statements could be improved by the elimination of "bad" accounting practices and by the development of certain basic international standards. This school would accept some flexibility in standards. Evans et al. (1985, p.88) added two approaches for harmonisation of national accounting standards:

**The first approach** emphasised the role of evolution in the development of accounting principles. This approach recognised the reasons for the differences in accounting principles. It assumes that the natural evolution of accounting principles within each nation would tend to narrow the alternatives, and this would also reduce the degree of

diversity from country to country. It also advocated informal consultation between the accounting standards setters in the major nations before making changes in national accounting principles.

**The second approach** posits that formal action should be taken to reduce diversity. One way to harmonise financial reports is by formalising standards, thus setting limits to the differences between financial reports. Standards are not only a means of achieving harmonisation, but they are also an object of harmonisation themselves (Van der Tas, 1988). This view recommends that some organisations be established to set standards with multinational authority. The IASC, EEC, UN, are examples of this approach. The IASC will be discussed in chapter Six.

## **5.6 Process of international harmonisation**

Nobes (1985, p. 331) defines harmonisation as 'a process of increasing the compatibility of accounting practices by setting bounds to their degree of variation'. This suggests that there are other ways of achieving harmonisation. For example, according to Wallace (1990a, p.10), each national stock exchange can issue certificates to its domestic registrants whose financial statements have met its standardised review protocols. If such certification is recognised by other national stock exchanges, harmonisation is enhanced by the elimination or reduction of repetitive review procedures.

Wallace (1990a) adds that another process of harmonisation may be to allow countries to set accounting and disclosure standards in the first instance, subject to centralised review under general criteria, as in the European Communities (EC) model. In the context of the approach adopted by the IASC, Wallace (1990a) suggests that harmonisation is a matter of degree, and depends upon the ability of each member-body to use its 'best endeavours' to ensure that IASs are adopted within its own country. Wallace (1990a) identifies five types of harmonization.

Total harmonisation would occur when all countries adopt and enforce the same accounting and disclosure standards. This would strengthen the concept of collective responsibility.

Partial harmonisation would allow a country to impose stricter or laxer standards on domestic enterprises companies. This may give foreign companies unfair advantage or disadvantage over domestic companies.

Minimum harmonisation would occur when member countries adopt standards which are at least as stringent as those recommended by the IASC. This approach increases the reporting costs of companies seeking to enter these countries from a country with minimum standards; thus increasing the height of barriers to entry.

Optimal harmonisation would allow a country to adopt standards different from the global standards but would require the country to allow domestic or foreign companies operating in that country to elect which of the standards to comply with.

Alternative harmonisation is the current option of the IASC which allows two or more alternative accounting and/or disclosure methods from which a member country and a reporting company may select. The IASC may identify a clear preference for one of the methods as in its current proposals to limit allowable options. In such cases, selection of alternatives will ordinarily be allowed only under narrowly defined criteria.

According to Lochner Jr. (1991, p.108), harmonisation can occur at three levels: bilateral, regional, and international. Bilateral harmonisation would involve two countries such as the proposed bilateral disclosure system between the stock exchanges of Canada and the SEC in the US. Regional harmonisation occurs when countries within a region seek to work together in matters such as the accounting directives of the EC and the consequences of the North Atlantic Free Trade Agreement (NAFTA) for disclosure regulation in Canada, Mexico and the US. International harmonisation reflects the movement towards global arrangement.

According to Burggraaff (1981, p.39), the three outcomes which can arise from the process of harmonisation can lead to different approaches.

1. Compatibility: requires that accounting standards allow options, different treatments for the same type of transactions. This, however, will damage the understandability of financial statements both at home and abroad. Compatibility is only feasible, if standards are phrased in broad and general terms.
2. Comparability: national standards should be in harmony to such an extent that, by and large, the reported results would be the same whether the accounting standards of country A or country B are applied. This approach requires that differences between countries would mainly refer to matters of disclosure. In order to achieve this goal, national bodies must have the willingness and the opportunity to compromise or sacrifice their own convictions, for the sake of international agreement.
3. Worldwide uniformity: this outcome requires a set of standards applicable all over the world.

Some authors including Belkaoui (1985) view the harmonisation process as consisting of recognising national idiosyncracies and attempting to reconcile them with other countries' objectives as a first step and then correct or eliminate some of these barriers in order to achieve an acceptable degree of harmonisation in the second step.



## **5.7 Impediments to international harmonisation of accounting standards**

In addition to the wide differences in social, political, legal, educational and economic factors among countries, there are other impediments to international accounting harmonisation.

### **1. The lack of identification of objectives in financial statements**

There is a lack of agreement on the objectives of financial statements. The IASC suggests that the objective of financial statements is to serve the needs of investors (that is, those with financial interests in the equity of a reporting company). The IASC also extends the notion of investment to cover the interests of lenders and employees but fails to recognise those of governments such as giving tax incentives etc. to reporting companies.

In developing countries, economic data which is needed for microeconomic planning and social purposes is a major factor that should influence the trust of accounting standards. Because of the relatively low level of sophistication in accounting in such countries, a high level of 'creative' accounting may exist and the financial statements may be oriented towards achieving whatever objectives management may perceive to be in the best interest of the economy. Such objectives may be the 'true and fair' view presentation, the presentation of the highest profit, tax avoidance etc.

The UK and Australia are at one end of the range, contending that the purpose of financial statements is to give a true and fair view of a financial position and profit. In the USA, the Accounting Principle Board states in its statement No.4:

*The objectives of particular financial statements are to present fairly in conformity with general accounting principles 1) financial position 2) results of operations, and 3) other changes in financial position.*

In some other countries the purpose of financial statements appears to be limited to presenting the information required by the applicable company law in the form specified in the law. The differences in objectives in financial statements can therefore be identified as a major cause of wide diversity in national accounting practices.

According to Armstrong (1977), a survey by the FASB revealed that only 37% of the respondents were in agreement with the primary objective in financial statements as stated by the Trueblood Report.

Thus, unless the objective of financial statements is agreed upon, accounting standards cannot be developed that will be understood and accepted by all users of financial statements. Only after the objective is understood and agreed upon can standards that reflect the overall philosophy or theoretical framework be developed. Otherwise, it imposes a major impediments to achieving international harmonisation of accounting standards.

## 2. Nationalism

Nationalism is raised by many authors as an obstacle to harmonisation. Arpan and Radebaugh (1981, p. 50) believe that:

*Nationalism impedes progress. Each country believes its system is the best and is reluctant to adopt a system it perceives to be inferior or unsuitable.*

Chauvinism or national pride, or national vanity, often prevents a country from objectively seeing the merits of ideas and practices which have been developed in other countries, even when they are clearly applicable in her own ( Stamp, 1972, p.66; Louwers, 1975, p.466).

One form of nationalism is where national pride results in a summary rejection of a different practice prevalent in a foreign country without consideration of the theoretical and/or practical merits such practices may have to offer. Such a situation may arise in some developing countries, in which the IASs developed by the IASC are perceived to be strongly biased towards the extant national practices of UK and USA.

At the same time such IASs are perceived to give insufficient recognition to the environmental needs of developing countries and are therefore considered to be largely irrelevant or inadequate to their needs. However, this may not be fair due to the fact that most developing countries lack accounting sophistication, have little to contribute to an international standards-setting process, and therefore, may benefit from the adoption of IASs.

Harmonisation to a single standard would impose different costs to those concerned: political costs, countries could lose part of their national sovereignty if their fiscal tax base were based on externally imposed harmonised accounting numbers (Choi and Levich, 1991). Similarly, as Walters (1989a, p.22) points out, accounting professionals have traditional ways of operating and do not want to change their practices. Every country wants to harmonise, but many industrialised countries do not want to change.

Turner (1983, p.62) describes 'nationalism' as:

*... an unwillingness to accept compromises that involve changing accounting practices in favour of those of other countries. Changing any part of a country's system to adapt to another system may be viewed as 'accounting imperialism' and may be resisted for that reason.*

Another form of nationalism may arise especially in developed countries, where a country may be averse to changing its own national standards, which have been established by a process of careful and time-consuming deliberation in response to demands from their society. In such cases, national standards may be considered to be superior to the IASs in the context of catering for the specific national environmental needs and the adoption of IAS's instead of such national standards may be considered an erosion of the quality of national accounting and as such, is unacceptable.

Benson (1976) observed that:

*Nationals of every country prefer their own ways just as they prefer their own food, wine and customs ... No government will willingly give up its sovereignty and yield the right to decide what will happen in its own country.*

However, it has been argued that this problem may be overcome by following 'regional harmonisation'. EEC harmonisation has been cited as an example.

### 3. Conflicting national laws

Conflicting national company and tax legislation poses an impediment to worldwide harmonisation.

Cook (1983, p.102) pointed out that:

*In Continental European countries for example, accounting law has been far more developed than in the UK. It is therefore, very difficult to secure piecemeal changes and 'unthinkable' to introduce wholesale change.*

In a number of countries the requirements of company laws impede the development of sound accounting standards. Choi (1981b, p.27) pointed out that:

*... accounting rules and interpretations vary over the world and reflect differences in national laws and professional regulations.*

Some laws prohibit the use of certain accounting practices and others sanction the use of practices that do not accord with basic economic facts. For example, in accounting for long-term investments, German company law prohibits the use of the equity method whereas such methods are widely adopted in other countries such as the UK, USA and Canada. Similarly, the laws of some countries such as Switzerland permit the use of 'special reserves' that distort the economic facts.

As Stamp (1972, p.66) pointed out:

*The legal requirements do not merely determine the form and content of financial statements, or the standards of disclosure which are expected within the jurisdiction. In many cases legal requirements (particularly tax regulations) will dictate rules of income and values determination. Thus, depreciation methods, and inventory valuation practices have been influenced considerably in the United States by tax considerations, to say nothing of the influence of the Securities and Exchange Commission.*

The influence of this obstacle is compounded by the fact that even within the same country, situations may exist whereby uncoordinated national laws may result in conflicting approaches to financial reporting issues.

The tax laws of many countries impede the development of sound accounting standards.

Because tax-collection systems vary internationally, it can be easily expected that it will lead to a diversity in the accounting principles and systems used internationally.

In this respect, Seidler (1981, p.41) pointed out that:

*Since tax collection systems vary widely between countries, and since governments show little sign of desiring to harmonise tax systems (except in the collection of maximum amounts from multinational corporations), there is little reason to expect that this barrier to international accounting harmonisation will disappear.*

In many countries an expense cannot be deducted for tax purposes by a company prior to the period in which it is reported in the company's financial statements, and income cannot be declared for tax purposes in a period subsequent to that in which it is reported in the company's financial statements. In such countries, the financial reporting practices are significantly influenced by tax regulations. For example, according to Swedish tax law, (1) inventory is stated at the lower of cost or the market value less reserve. The reserve ordinarily can equal any amount up to 60% of the amount of inventory before the reserve; (2) machinery and equipment are depreciated over periods substantially less than their economic lives; (3) the cost of fixed assets is written off in periods prior to the acquisition of the assets. Clearly, these stated provisions do not give a true and fair view.

In Japan, the tax laws influence the calculations for the provision of doubtful debts and depreciation charges.

#### **4. Lack of enforcement power**

There is no doubt that, without the force of international law behind harmonisation of national accounting standards, any international rule-making body will experience a great deal of frustration. The IASC which is the major contributor towards harmonisation of national accounting standards lacks this power. It is, therefore, appropriate to elaborate on the IASC's in recognition of this lack of enforcement power. Benson (1976, p.39) stated that:

*IASC will fail unless the founder and associate bodies ensure that the standards are complied with by their members.*

Fitzgerald (1981, p.26) also suggests that:

*A more serious problem with the IASC is that it lacks teeth - the IASC's member bodies are often not responsible for standard setting and enforcement in their companies. For example, the FASB in the USA and the ASC in the UK are not represented on the IASC.*

On the same note, Wallace (1990a, p.11) points out:

*Without sufficient authority, the derive towards harmonisation, to which the IASC has contribute so much, may ultimately be futile. Without Substantive Due Process Legitimacy based on the superiority of solutions to measurement and disclosure problems, the effects of continuing harmonisation of corporate disclosure may be the increasing repression of the IASC.*

Similarly, Walters (1989a, p.22) argues that IASC had absolutely no authority or enforcement powers. It was dependent totally on the good faith efforts and goodwill of its membership to try to see that IASC standards were followed in a particular country.

Thus, the necessity for an enforcement mechanism will be a fundamental consideration in the development of a unified international standards-setting body.

Kapnick (1973) pointed out that:

*The only way that international accounting standards can be developed and enforced is through a cooperative effort of governments and the accounting profession.*

In similar vein, Stamp (1972, p.66) also suggested that:

*... there is a need for an international coordinating body to develop closer links between the individual national professional institutes. Standards developed by the international body could then be ratified in the individual participating countries, and enforcement and sanctions could be applied through the national professional organisations.*

## 5. Environmental and Cultural Differences between Countries

It has been argued that differences in environments and institutional arrangements among countries constitute significant deterrents to the development of international accounting standards (Mueller, 1967, 1968; Stamp, 1971; Enthoven, 1973a; Oldham, 1975; Fantl, 1976; Hall, 1978; Mason, 1978; Frank, 1979).

Accounting harmonisation efforts are unlikely to be successful without considering the national accounting standards developed in response to local needs and conditions.

Jaggi (1975, p.84) concludes that:

*... cultural differences with economically developed countries will dictate differences in the development of accounting principles in these countries. Therefore, it is important that the development of international accounting standards recognises this and gives adequate consideration to the impact of cultural environments of financial disclosure.*

According to Shaari et al. (1993, p.132), culture refers to all those social, political and other factors, which influence an individual's behaviour. As such religion is admissible as a cultural factor.

Prohibition of riba (interest) has important implications for the harmonisation of accounting procedures, insofar as harmonisation continues to entail the implementation of many standards Western accounting procedures in which interest calculations are integral.

Shaari et al. (1993, p.146-147) point out that:

*Prohibition of the riba presents a cultural element which adds complexity to accounting harmonisation on Western terms ... The potential influence of Islam on accounting policies and practices could inject analyses of national accounting difference with a cultural dimension more profound than that emanating from the impact of indigenous secular laws, general custom and commercial habit. Religion in general and Islam in particular have the potential to extend a profound cultural influence in the quest for the international harmonisation of accounting.*

Cultural and legal distinctions among countries are so different that no reasonable expectation exists that harmonisation of standards can be achieved (Fantl, 1975; Gray, Shaw and McSweeney, 1981).

Cultural differences may include differences in language, in law, in government priorities and in social concepts. Language is a reflection of a cultural as well as a culture's degree of technical sophistication.

Nobes and Parker (1981, 1985) point out that:

*Language barriers are by no means the only obstacle to the goal of international harmonisation ... considerable differences in theory, legislation and policies exist among various English-speaking countries, and language differences are only a minor factor in the gap that exists between, for example, British, German, France and Dutch reporting practices. There are good reasons for the differences, and unless these reasons are properly understood ... there is little chance of their being successful in the process of harmonisation.*

Hilderbrant (1973), (cited in Khasharmeh, 1986, p.67) reported that in all the companies he investigated, there existed a linguistic barrier between German subsidiaries and the headquarters of their American parent companies. He also noted that the preparation of a report by a German subsidiary can become a kaleidoscope of translation, retranslation, restatements, rewriting and frustration. Differences in language exist even among countries which speak the same language - for example, between the US and the UK..

Solomons (1980), (cited in Berton, 1980, p.78), stated that:

*What right have we to expect harmonisation (of standards) on a worldwide basis when contiguous areas that speak the same language and answer to the same governments have not succeeded in securing international harmonisation?*



Arensberg and Niehooff (1964), (cited in Khasharmeh, 1986, p.67) argued that even though England, the USA, and Ireland speak the English language, in fact, there are three different languages.

However, the language barrier to the harmonisation of national accounting standards can be overcome. In this respect, Stamp (1972, p.66) pointed out that:

*Language barrier has been overcome in the sciences by the widespread publication of translations and abstracts of articles written in foreign languages.*

Similarly, accountants in the USA, the UK and Canada have tried to simplify the language of accounting by publishing a uniform glossary of accounting terms (AISG, 1975).

A common international accounting language with translations based on common uniform concepts rather than on words has been suggested, and the IASC has recognised this problem by setting international accounting standards that attempt to define *carefully the technical* terms they contain to avoid having different meanings attached to them *in different parts of the* world.

The next chapter focuses upon the organisation which is currently working towards international harmonisation of accounting standards, namely, the International Accounting Standards Committee (IASC) and the use and relevance of its standards in Jordan.

## **Chapter Six**

### **International Accounting Standards Committee (IASC)**

#### **6.1 Background**

The visible growth of the major companies and accounting firms from the UK and the US as major globalators in the late 1960s and Britain's entry into the EEC in 1973 together provide a strong impetus to the creation of the IASC (Defliese, 1981). The IASC was formed in 1973 by the leading accounting bodies of Australia, Canada, France, Germany, Japan, Mexico, The Netherlands, the United Kingdom and Ireland, and the United States. As from December 1994, the Committee represents 110 member bodies representing over 75 countries. These Member Bodies represent over one million accountants in industry and commerce, public practice, academic institutions and governments. The IASC is the sole independent body charged by its member professional accountancy organisations with the responsibility and authority to issue international accounting standards.

The business of the IASC is conducted by a 17- member Board of persons having drawn its membership and assisted by a full-time Secretary - General. Jordan is a board-member country. The Constitution of the IASC provides for up to four international organisations that are not professional accountancy bodies, but which have an interest in financial reporting, to be presented on its Board. The International Co-ordination Committee of Financial Analysts Associations is the first non-accounting organisation represented on the Board, with effect from January 1, 1986.

IASC complements the International Federation of Accountants (IFAC), whose membership is identical (with the exception of the International Coordinating Committee of Financial Analysts Associations which is not a member of the IFAC), but the IASC's Board is independent in operation.

The objectives of the IASC are:

- to formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance and observance;
- to work generally for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements.

Members of the IASC have agreed to support these objectives by undertaking to publish in their respective countries every International Accounting Standard approved for issue by the Board, and by using their best endeavours:

- to ensure that published financial statements conform with International Accounting Standards in all material respects, and disclose the fact of such conformity;
- to ensure that governments and standard-setting bodies that make pronouncements on nature and contents of financial statements published in their countries conform with International Accounting Standards in all material respects;
- to pursue authorities controlling securities markets and the international and business community that publish financial statements to conform with International Accounting Standards in all material respects, and disclose the fact of such conformity;
- to ensure through auditors that the financial statements conform with International Accounting Standards;
- to foster acceptance and observance of international accounting standards internationally.

i

Within each country, local regulations govern, to a greater or lesser degree, accounting and disclosure requirements of financial statements. International Accounting Standards promulgated by the IASC do not override these legal regulations. The IASC pronouncements are in the nature of recommendations and do not, in themselves, carry direct or supra-national authority.

The recognition of the IASC's work comes from groups such as:

- several national bodies representing financial institutions, financial executives, trade unions, employers, stock exchanges and financial analysts;
- the United Nations (UN) and the Organisation of Economic Co-operation and Development (OECD). Both organisations invited the IASC to participate at an early stage, and the IASC has been involved in the discussions ever since.

As Wallace (1990b) suggests, the IASC seeks to work with those who have the power to enforce accounting requirements on both domestic and foreign companies. It also seeks to develop relationships with national regulators, and now works closely with the International Organisation of Securities Commissions (IOSCO). The major interest of the IOSCO is the facilitation of multinational securities offerings.

By the commencement of the research reported in this thesis, the Board of the International Accounting Standards Committee (IASC) has issued 31 International Accounting Standards. These standards dealt with the substantial majority of topics that affect the financial statements of business enterprises. The Board has also issued a framework for the preparation and presentation of financial statements for the purpose of:

- a. assisting the Board in developing future International Accounting Standards and in reviewing existing International Accounting Standards; and,
- b. assisting the Board in promoting the harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements. This can be accomplished by providing a basis for reducing the number of alternative accounting treatments permitted by International Accounting Standards.

The Board issued in January 1989, Exposure Draft No.32 on the 'Comparability of Financial Statements'. This draft dealt with twenty nine accounting issues where the choice of alternative accounting treatments may have a material effect on the definition, recognition, measurement and display of income, expenses, assets, liabilities and equity in the financial statements of an enterprise.

The objectives of the Exposure Draft (E32) were to:

1. eliminate all but one accounting treatment where the alternative treatments represent a free choice like translations and events; and,
2. ensure that the appropriate treatment is used where the alternatives represent different treatments which should be applied in different circumstances.

The E.32 sought to amend 13 IASs and to eliminate 23 accounting treatments currently permitted so as to reduce the many options available in IASs. The draft also specifies the accounting treatments which IASC intended to prefer.

Following reconsideration of each issue in the light of the comment letters on E32, the Board approved a Statement of Intent on the Comparability of Financial Statements in June 1990. The Statement of Intent identified three criteria that will form the basis of the Board's deliberations on the changes to the proposals in E32. It also identified 21 issues on which the Board decided to proceed with the E32 proposals unchanged. The Board recognised that many standards required revision for developments that had taken place since the standards were first issued. The implementation of the revisions in the Statement of Intent on the Comparability of Financial Statements created the opportunity to make the necessary revisions (IASC, 1994, P. 12).

The essence of the IASC's work is the worldwide harmonisation and movement of the accounting principles used in preparation of financial statements for the benefit of the public.

International Accounting Standards have done a great deal to both improve and harmonise financial reporting around the world (1992 Survey on the Use and Application of International Accounting Standards).

The IASC is claimed to be the most successful and influential international body in achieving some degree of harmonisation. Choi (1981b, p.28) points out that:

*Without doubt, the leading force in today's international accounting standards movement is the International Accounting Standards Committee.*

## **6.2 Uses of the IASC's standards**

Rutherford (1987, p.18) specifies a wide variety of ways in which the IASC's standards are used.

- As a vehicle for harmonisation within the developed Anglo-American oriented world;
- As a means by which sophisticated enterprises in one country can communicate with sophisticated investors in other countries;
- As a source of standards for indigenous enterprises in Third World countries;
- As a means of regulating the activities of multinationals within developing countries;
- As a uniform body of standards to be used by companies quoted on several national stock exchanges.

Many developing countries have (like Jordan) adopted all or some of the IASC's standards directly for their own use, or have standards in line with IASC recommendations. Even in the more advanced economies there is an increasing recognition of the necessity for an international interface; for example, the European Commission used the work of the IASC in developing the 7th Community Directive on Consolidated Accounts, and some European countries have made further use of IASs when implementing both the 4th and 7th Directives.

## **6.3 Examples of uses of the IASC's standards**

It was reported (World Accounting Report, September, 1986, p.3) that Pakistan has issued a Government Ordinance reporting compliance with IASC standards. Briston and El-Askker (1984) reported the adoption of IASs by Egypt after it had tried and adopted both the British and uniform (i.e., Soviet) accounting systems. In 1977, the Institute of Chartered Accountants of Nigeria (ICAN) issued a statement requiring its members to follow IASs when preparing and presenting financial reports (Wallace, 1987, p.101).

In 1989, the Jordanian Association of Certified Public Accountants (JACPA) issued a statement requiring Jordanian corporations to follow IASC standards when preparing and presenting financial reports.

As the 1988 Survey of the Use and Application of IASs shows, the financial statements of the substantial majority of major business enterprises around the world conform with the standards.

In the UK and Ireland, accounting bodies attach importance to fostering the harmonisation of accounting standards internationally. To this end, they have collectively undertaken to support the work of the IASC.

The London Stock Exchange announced, in October 1974, that, henceforth, it will require compliance with international standards and that any significant departure from or noncompliance with such standards should be disclosed and explained. In France, the Ordre des Experts Comptables et des Comptables Agréés has adopted all the committee's standards and has established disciplinary action that will be taken if an auditor does not comply with the standards (Cummings, 1976).

According to Doyle and Spencer (1986), the Toronto Stock Exchange, London Stock Exchange, Italian CONSOB, the World Bank, the Organisation for Economic Co-operation and Development (OECD), the United Nations, and the International Federation of Stock Exchanges, are major institutions genuinely interested in the use of international accounting standards.

#### **6.4 Success of the IASC**

At its inception, the IASC was perhaps seen as a rather weak body, of little relevance to domestic standards in more advanced countries. But over the years, the IASC has increased its status and success enormously.

The IASC has had some success in getting IASs incorporated into the national standards of certain member countries. However, the success is mostly in English speaking countries where accounting is already oriented towards fairness, and among developing countries that were former British colonies. It also appears that the IASC has been influential in moving Continental Europe and Japan towards consolidation accounting (Nobes, 1986).

Purvis et al. (1991, p.37) point out that:

*The International Accounting Standards Committee (IASC) is an obvious harbinger of increasing harmonisation, particularly since the appearance of Exposure Draft 32-Comparability of Financial Statements.*

They Purvis et al. (1991) added that the success of the IASC lies in its relationship with various national standards-setting bodies. If a co-operative relationship results, a significant increase in the degree of harmonisation and the concomitant quality of standards could result. As Wallace (1990b, p.21) points out the IASC is probably here to stay because it has managed to generate a global continuance of broad public support. Wallace (1990b, p.21) suggests that IASC's survival is being sustained by: (1) the increasing internationalisation of business and finance which make global harmonisation of accounting and disclosure practices desirable; (2) the composite nature of its standards and its preoccupation with topics of a general nature; (3) its evolutionary strategy; and (4) the absence of a rival organisation with keen and prolonged interest in the development and marketing of global accounting standards. Wallace (1990b, p.22) adds that as enterprises, investors and lenders continue to ignore national boundaries and cultures, they will continue to support those efforts which seek to encourage the increasing internationalisation of business and finance. It is on such support that the survival and future prospects of the IASC depend.

The IASC was needed to harmonise accounting practices on a worldwide basis in order to achieve compatibility in the financial reporting of transnationals, and also to facilitate international trade and investment (Samuels and Oliga, 1981, p.71).

However, others argue that the IASC has been unsuccessful in this project of harmonisation.

### **6.5 Obstacles to the success of IASC**

The IASC has been criticised for considering only non-controversial subjects and for taking a 'lowest common denominator' approach to standard-setting (Fitzgerald, 1981, p.26).

The IASC was too narrowly based in that it represented only the accounting profession, while other parties with interest in the harmonisation of national accounting standards were almost totally excluded from involvements (Aitken and Wise, 1985).



Hall (1977) observed that the IASC was created under the tutelage of a few dominant countries, especially the USA, the UK and, to a lesser extent, West Germany and The Netherlands. Even the IASC has been self-critical when stating that in the past, it

*tended to follow the developments in standard-setting that have taken place in countries where the regulatory environment and the accounting profession are well developed (IASC, 1988, P.16).*

This influence may be attributed to such reasons as the lack of resources on the part of developing countries to enable them to participate fully in IASC proceedings leading to the issuance of accounting standards. Moreover, two countries - the UK and USA - have invested too much time and money in developing accounting standards to afford not to exert significant influence to ensure the congruence of IASC standards with their own. Furthermore, the IASC's standards are predated by both UK and USA standards. Therefore, it is quite possible that the IASC could only issue a standard after the UK and USA have produced a similar one (Hove, 1990, p.56).

Only two international accounting standards advanced by the IASC (IAS 20: Accounting for Government Grants, and IAS 29: Financial Accounting in Hyper-inflationary Economies) had not been preceded by US accounting pronouncements which dealt with the same subject matter (Rivera, 1989, p.324).

Rivera (1989, p.321) points out that:

*the IASC's attempts at accounting harmonisation have been unsuccessful because of the following conditions:*

- 1. lack of a structured theoretical accounting framework underlying the issuance of specified standards;*
- 2. a multiplicity of permitted reporting and recording options introduced in the current standards;*
- 3. a tendency to address only those issues developed in or related to advanced economic environments where sophisticated markets and information prevail; and,*
- 4. the lack of enforceability of those international standards at the local and international levels.*

McKinnon and Janell (1984) examined the role of the IASC. They conclude that the IASC has not succeeded in codifying generally accepted practice, in serving as a neutral source for

standards, and in influencing groups with enforcement powers. Likewise, Choi and Bavishi (1982) find that the IASC standards have had a negligible harmonising effect in areas where there are major differences in accounting practices such as consolidations, goodwill, deferred taxes, long term leases and foreign currency translation.

According to Gernon, Purvis and Diamond (1990, p.6), the following two reasons lie behind the limited success of IASC harmonisation.

a. **Demand:** Low demand for the IASC's products from international investors. Most international investment is conducted through the stock exchange medium, and London and New York are the world's largest exchanges. Schieneman (1979, p.23), argues that: *since the UK and the US already conform to standards that many believe would be reasonable international norms*, there has been little demand from these investors for increased harmonisation.

The support of all member bodies is vital. The Business and Industry Advisory Committee to OECD at its Forum on harmonisation of accounting standards in 1985 pointed out:

*... international harmonisation of accounting requires a continuous process of cooperation between all those concerned with framing accounting law or standards .... The success of such efforts by international bodies depends very much on the support it gets from the authorities and opinion formers in each of the countries concerned. It is at the national level that the cause of harmonisation will be won or lost.*

According to Lochner (1991, p.109), the US, with one of the largest financial markets in the Third World and a fully developed regulatory structure, plays an essential role in determining the success or failure of efforts (by the IASC and others) to achieve harmonisation. He adds that an important step to encourage harmonisation is to give the US standard-setting process an international focus.

Similarly, Purvis et al. (1991, p.44) point out that for the IASC to be successful, it must win the commitment of standard-setters and regulators in at least three major markets - the United Kingdom, the United States and Japan - for comparability to proceed.

- b. Supply:** The existence of many suppliers of international accounting standards may have confused the issue. Perhaps it has been difficult for preparers and users in particular, to distinguish among the apparently competing claims of the IASC, the UN, and the OECD.

Furthermore, although not true of its more recent projects (such as financial instruments) it has been noted that the IASC

*tends to follow the national bodies rather than lead. Therefore, its work does not significantly affect the multinational standards and rules as they emerge, before any review is made by the IASC (De Bryne, 1980, p.36).*

One crucial problem with the IASC is its tendency to pander to the needs of developed market economies to the almost total neglect of the needs of majority of its membership - the developing and newly industrialising economies.

As Wallace (1993, p.129) argues that the future of international accounting harmonisation will probably be bright and prosperous only if the IASC and the accounting profession across the world anticipate and develop effective responses to crucial issues affecting the majority of developing and newly industrialised countries.

If the IASC is to do a good job of providing standards for developing countries, it must produce a new series of statements, especially designed for conditions in developing countries, which can be readily 'customised' to suit local circumstances. It should also provide advice and perhaps even a technical service in this area. It will need, however, to ensure that the representatives of developing countries are closely consulted at every stage of the process (Rutherford, 1987, p.17).

Rivera (1989, p.320) states that for international accounting standards to be accepted, IASC must recognise the existence of domestic requirements and the needs of individual nations to

ensure that international standards are representative and responsive to all countries and not simply to the larger numbers of the standard-setting group.

Moreover, Mckinnon and Janell (1984) point out that, for the IASC to be successful, its objectives should be changed to:

- serve as a research clearinghouse to study the effects of different principles in different reporting environments;
- provide a neutral model of possible standards for countries in the process of standards-setting and for multinational firms dealing with divergent regulations;
- provide temporary standards to fill the void existing before local standards can be set;
- channel efforts to influence harmonisation to incorporation of IASC standards into local legislation rather than to adoption of IASC standards themselves.

## **6.6 Empirical survey**

In order to determine whether the IASC is the appropriate organisation for promoting international harmonisation of accounting, Question 6 in Part 2 of the survey questionnaire administered in Jordan, solicited opinions on the organisation which respondents consider could successfully attain international accounting harmonisation. The mean responses reported in Table 6.1 indicate that the respondents were unanimous in their choice of the IASC as the “best” organisation most likely to achieve harmonisation.

**PART III: ACCOUNTING INFRASTRUCTURE IN  
JORDAN**

## Chapter Seven

### Accounting Profession in Jordan (Theoretical Section)

#### 7.1 Introduction

If a strong public accounting profession is regarded as a keystone in the growth of capital markets and the economy, public accounting profession in Jordan in its current form cannot contribute effectively to the advancement of the national economy because it is weak.

Lelivere et al. (1978, p.72) points out that:

*Public accounting is in its infancy in many developing countries [Jordan is included]. None has a strong professional body to which government authorities, organisations, industry, commerce and the general public can come for advice and assistance.*

In many developing countries, professional organisations do not exist, and where they do, accounting institutes generally tend to be weak and unable to fulfil their expected professional duties. Enthoven (1980, pp.76-78) described professional organisations in developing countries as follows:

*In Third World countries... no recognition may exist of the need for a professional institute to set standards for accounting and auditing, codes of conduct, training and qualification tests. The institutional set-up may suffer from insufficient professional interest, inadequate governmental encouragement and lack of support by private and public institutions.*

As a profession, public accounting in Jordan has been unable to organise itself effectively in a way that could facilitate that process of improvement. Whilst it was hoped that the Jordanian Association of Certified Public Accountants (JACPA) would be instrumental in unifying the profession and directing its activities towards the desired level of uniformity in practices and the reliability of accounting regulations, the association lacks not only the knowledge and resources, but also, and most importantly, the authority to lead the profession.

This association is one of the three main vehicles for promoting the growth of accounting profession in Jordan; the others are accounting firms and accounting departments at Jordanian

universities. However, there has been no effort to unite the three so as to tailor accounting education programmes to fit the needs of the profession, and change the status of accountants in the minds of average Jordanians (Helles, 1992, pp.363-364).

## **7.2 Accounting education and accounting profession**

Accounting education and the accountancy profession are closely related and cannot be separated from each other. Education must have a duty to prepare persons to become professional accountants. Solomons and Berridge (1974) described the links between these two fields of accounting. The co-operation and joint efforts between accounting educators and professional practitioners is necessary to promote continuing professional accounting education in developing countries. In this respect, Siegel and Spiceland (1987), (cited in Dahmash, 1992, July, p.24) conclude that there is a positive relationship between auditor's performance and his academic background. Siegel (1986) (cited in Dahmash, 1992) states that a background in academic accounting has a tangible and important influence upon the professional performance of an auditor.

Hadori (1988) also argues that the interrelation between the development of the accounting profession, social needs and various levels of education and the improvement or development of various institutions, is in harmony with the development of society.

Similarly, Hadori (1989, p.36) (cited in Helles,1992, p.196) states that:

*In developing countries, there is [an] even greater need for good co-operation and co-ordination between higher education institutions and professional organisations, to solve the problems in accounting education and accounting practices in the rapidly changing environment, given the inherent conditions of weak professional organisation, lack of laws and regulations related to accounting matters and unsettled national education systems.*

Hadori (1989) adds that the lack of co-operation and co-ordination between the two will cause inefficiency and waste national resources, or at least result in the slow down of accounting development and will not enable the accountancy profession to respond to the challenges of the modern world.

Moreover, Helles (1992, p.198) argues that efforts are needed to co-ordinate activities by accounting academics, practitioners, and bodies responsible for accounting practice (including governmental agencies, academics at universities and the Jordanian Association of Certified Public Accountants). This may be implemented by forming task-committees representing various groups, to work towards establishing an agreed strategy for improving accounting standards and auditing practices.

The development of the accounting profession in Jordan has been widely influenced by many factors such as accounting education, accountants coming from other countries, Jordanian students returning from abroad (mainly the USA and the UK), and the rapid change in the Jordanian social, economic, political and legal environment (Helles, 1992, p.201).

### **7.3 Legislation of accounting profession in Jordan**

Establishing acceptable accounting principles and auditing procedures are key factors of the existence of the accounting profession of a country. Legislation is the most important factor influencing public accounting practices in Jordan. Legislation relating to accounting and accountants takes a variety of forms related to matters that should be covered in an auditor's opinion. Also, admission to the profession is a legal matter in Jordan. Auditing and Accounting Profession law No.32, 1985, specifies that professional accountants in Jordan must be licensed. Licences are issued by a governmental agency, i.e., the Audit Profession Council (APC). The APC administers a uniform examination success at which is a prerequisite to the receipt of a licence to practise as a public accountant in Jordan. The examination is conducted twice a year (May and September).

According to the Auditing and Accounting Profession law No.32, 1985 Article 4, the following persons are expected to write the profession examination:

1. Those possessing a bachelor's degree or equivalent in accounting with a minimum experience of three years in accounting and auditing, of which at least one year is in auditing.



2. Those possessing a second university degree (master's or equivalent) in accounting with a minimum of two years experience in accounting and auditing, of which at least one year is in auditing.
3. Those possessing a first university degree or equivalent from the faculties of commerce or economics or law with a minimum of five years experience in accounting and auditing, of which at least one year is in auditing.
4. Those possessing a community college degree (two years following secondary school) in accounting with a minimum of six years of experience in accounting and auditing, of which at least two years worked are in auditing.
5. Anyone who has worked for the Audit Bureau or any other governmental department for seven years as a chief internal auditor and possesses a first university degree (bachelor's or equivalent).

Holders of a Ph.D. in accounting, with a minimum of one year auditing experience or two years teaching experience and those possessing certificates from any of the UK chartered accountancy institutes are exempt from the examination as a condition for entry into the public accounting profession.

With respect to the educational and professional qualifications of accountants, variations are recorded from country to country. Examination for admission is not a prerequisite in the majority of developing countries. These tests are required in Pakistan, Taiwan, Nigeria and Jordan, for example, but are not adopted in many other countries. A minimum educational background, normally a bachelor's degree in business or its equivalent, and a minimum of three years of experience are legal requirements that must be met before issuing a licence to an applicant.

#### **7.4 Auditing practice and financial reporting in Jordan**

In most developing countries (including Jordan), auditing practice tends to be highly influenced by the Companies Act or other legal and fiscal authorities within the country. Most Companies Acts require public companies to produce financial reports. There are no guidelines for financial reporting and auditing procedures developed specifically to provide a

comprehensive treatment of all matters pertaining to financial reporting in developing countries (Malallah, 1983).

The auditing of public sector agencies and programmes has become standard practice throughout the world. In most developing countries, state audit is a government activity separate from the executive branch. This pattern corresponds to the one adopted in Jordan where auditing of all government programmes, activities and organisations is conducted by the Independent Audit Bureau, which is accountable to the parliament (Dabbas, 1986).

In Jordan, the creation and development of supreme audit institutions took place in 1931 and was replaced in 1952 by the Audit Bureau.

Article 119 of the constitution of the Audit Bureau declares that: *state revenues and expenditures and inspect the methods used for such activities.*

The Bureau is administered by a president appointed by royal decree upon the recommendations of the Council of Ministers. To ensure the independence of the Audit Bureau, the legislation provided immunity for the president of the bureau. According to law, the president cannot be discharged, transferred, placed on pension, or disciplined without the consent of the Jordanian Parliament. These provisions were modified in 1959 by a law which provides that if parliament is not in session, the president of the Audit Bureau can be discharged by royal decree upon the recommendation of the Council of Ministers.

The president of the Audit Bureau has organised the agency into divisions corresponding to major agencies or ministries. For example, the Ministry of Health Division is responsible for auditing the programmes of the Ministry of Health and so on.

In 1986, 280 auditors reviewed the programmes of various ministries according to an overall audit plan prepared by the Audit Bureau (AB). The plan, which served as a guide for the auditors, is divided into sections, each of which is assigned to an agency and designates account records and transactions to be audited (Dabbas, 1986, p.21).

Rapid economic development and rising costs in Jordan have created the need to monitor rising government expenditure to ensure optimum economic and social returns and to improve the performance of government operations and activities.

The AB performs two major functions: pre-auditing of government expenditure and post-auditing of government payments.

**Pre-audit of government payments:** the AB, with the consent of the Prime Minister, is allowed by law to pre-audit government payments. This activity began in 1952 when the Prime Minister granted permission to pre-audit contract payments. In 1958, this authority was extended to cover all payments. The pre-audit of vouchers shifts much of the responsibility for the correctness of the voucher from the operating agency and the Ministry of Finance to the auditor. In addition to the pre-audit of expenditure vouchers, the bureau engages in other pre-audit activities. A representative of the bureau sits with all government committees reviewing bids for specific government projects, takes part in all procurement committees, serves on all committees dealing with the receipt and delivery of goods, and is a member of committees for the disposal of government property.

However, the AB always prefers to devote attention to his main remit-i.e. post-audit, concentrating upon financial analysis, evaluating institutional performance and using a scientific approach to planning (Adel Al-kudah, Chairman of AB, Al-Ra'i daily Newspaper, December 19, 1993, Jordan).

**Post-audit of government expenditures for regularity:** the AB law of 1952 and its amendments establish that the bureau:

- audits expenditures to ensure that money expended has been applied to the purpose for which the allocation was intended, and that payments were made in accordance with effective laws and regulations;
- audits vouchers and supporting documents to ascertain that they were valid and were accurately posted;
- checks that disbursement authorisations were properly issued;

- ascertains that expenditures were charged to the proper heading and sub-heading of the General Budget;
- checks that the law of the General Budget was observed and that the financial warrants were properly issued.

The bureau must ascertain that: (1) the amount expended against each item of the budget corresponds to the amounts entered in the documents; (2) the allocation made for each item of the budget has not been exceeded without prior permission; (3) the amounts expended as charges against the allocations made for development projects have been expended in the manner prescribed; (4) no commitment has been made by any department in such a way as to lead to exceeding the allocated amount in its budget; and, (5) the correct implementation of the provision of the laws in respect of the budget has been performed.

Moreover, the supreme audit in Jordan extends its audits to include the financial statements of special budgets and all institutions subsidised by the state or for which the state guarantees minimum profits.

At the beginning of the ordinary session of parliament, the president of the bureau submits an annual report. Copies of the report are sent to the Prime Minister and the Minister of Finance. The report, in accordance with the AB law, must include the president's observations on the ministries, accounts of government departments and institutions, and a description of any violations committed by these agencies. Disputes between the AB and any ministry or department are presented to the Council of Ministers for a final decision. The president of the bureau also includes in his report to parliament any financial matters that have been under dispute. For example, the AB report for 1990 included suggestions on how to improve financial laws and regulations; payments by agencies and ministries; funds (such as surcharges) collected by the efforts of the AB; fraud cases and related questions; results of auditing financial accounts; results of technical audits - especially the cost-penalties, efficiency and effectiveness of several public construction projects; and public revenues which had not been paid for by citizens (Jordan, AB, 1990).

The auditing of governmental activities has received great attention in the last decade due to the greater role governments have come to play in the lives of citizens at various levels. This

role is evidenced by the successive plans for economic development that most countries have undertaken. In Jordan, this is apparent in the development of economic plans described in chapter three. In this respect, Dahmash (1982, pp.89-90) points out that increased governmental spending on various kinds of programmes and activities in several areas has created tremendous problems in managing public resources in an economical and efficient manner. Such problem areas include: (1) the organisation of a planned economy; (2) the mobilisation and allocation of all types of available resources; and, (3) the formulation and implementation of development plans and programmes. The extensive and intensive utilisation of economic planning as a means of achieving economic development in the Arab states has challenged the highest-level audit institutions in these countries to play a more active role in determining whether governmental expenditures are disbursed properly and wisely.

Government audits in the Arab states ( including Jordan) are initiated, as a rule, to review the performance of an individual governmental units responsible for a particular function, programme, or activity. Most current audits are of the traditional type (financial compliance). The auditors determine whether expenditure for different programmes and activities are made for authorised purposes, and in accordance with budget constraints, applicable laws, and regulations. Auditing procedures related to revenue are designed to determine whether all resources of public revenue have been realised and collected in compliance with existing laws and regulations.

Within the majority of Arab states, the existing government auditing systems and techniques were conceived and installed during the pre-independence period, or before the advent of national development planning. Although some modifications have subsequently been made, the existing supreme audit institutions, and the prevailing audit systems, procedures, and standards, are still inadequate to meet the required objectives of the auditing process (Dahmash, 1982, p.93).

Yet, the Jordanian Audit Bureau has so far failed to match this progress because it has not develop new ways and means of auditing the various governmental activities (Helles, 1992, p.208).

## **7.5 Jordanian Association of Certified Public Accountants (JACPA)**

Jordan recognised the importance of the accounting profession when Article 18 of the 1985 Statute, No. 32 was passed founding the Jordanian Association of Certified Public Accountants (JACPA) with an objective of introducing accounting standards in Jordan, among others.

Article 4 of JACPA System, No. 42, of 1987, specifies the objectives of JACPA as improving the academic affairs and accounting profession through:

1. developing and improving the quality of members in society and support their autonomy;
2. maintaining ethics, principles and the traditions of the profession;
3. encouraging academic research in different activities of the profession;
4. determining the generally accepted auditing standards and rules;
5. co-operating with similar Arabic and international societies in academic journals;
6. issuing books, magazines and professional periodical and academic journals;
7. holding seminars, professional conferences and training programmes;
8. developing the profession and emphasising the role of auditing at a general level;
9. providing members of the society with social, health and pension funds.

Since its inception in 1987, JACPA has been unable to establish and develop standards of accounting and auditing in Jordan. This is because of the lack of a general understanding and skill as to how accounting standards should be set, and the absence of any form of co-ordination between governmental agencies and other practices. Beyond the minimum level of disclosure required by the Companies Act, companies in Jordan disclose only information which promotes their own interest which, in turn, makes accountants more flexible in accounting and disclosure practice and it is therefore likely that the Jordanian voluntary disclosure represents managements' response to market forces (demand for and supply of capital).

The results of the interviews made by the researcher suggest that Jordanians would like to see JACPA assume responsibility for collaboration between itself and other parties to issue the

agreed accounting principles that suit the local environment. To do so, JACPA must play the leading role and be given legal power and financial support by some governmental agencies (such as the Chamber of Industry and Commerce).

### **7.6 Status of accounting profession in Jordan**

The accounting profession in Jordan is still in its infancy and is not sufficiently developed to be able to undertake the setting of national accounting standards. The government is unlikely or unwilling to take responsibility for setting accounting standards. There is no Jordanian accounting plan. British and/or American practices, and Jordanian laws are the most influential factors in shaping the accounting principles applied in the preparation and presentation of financial statements in Jordan. Business entities are permitted in the absence of defined legal requirements to adopt such reporting practices as they see fit (El-Issa, 1988b, p.60).

The Companies Act (1989) has had an adverse effect on the profession, because it has limited and narrowed its scope, placing too many duties and responsibilities on the auditors. Neither does the law provide protection for the auditor. This researcher agrees with Helles (1992, p.221) conclusion that there are no accounting principles, auditing standards or procedures, or uniform audit reports in Jordan. Research and publication activities are very weak, there is a great shortage of Jordanian accountants, there is no relation between the profession and accounting education, there are no services other than financial external audit, and, above all, there is no effective public recognition other than those mentioned. Above all, these facts suggest that the status of the accounting profession is indeed very weak in Jordan.

Helles (1992, p.222) states that:

*Jordan must concentrate on evaluating and improving its own accounting system instead of rushing towards the adoption of [the] IAS, a tendency which has been brought about by foreign pressure due to [the] critical economic situation in the country.*

The accounting profession in developing countries should try to assist in designing reporting systems that are the most useful for economic decision-making within the country, rather than

trying to persuade the country to adopt systems which are needed for international trade and business.

In this respect, Douban (1988, p.3) states that:

*The crucial problems currently facing the Third World ... are not the problems confronting the industrialised world ... it would therefore be unreasonable to expect that accounting information that service the interest of the industrialised world would be equally relevant to the crucial problems of the Third World.*

### **7.7 Ways and means of improving the accounting profession in Jordan**

Abbasey (1992), (former chairman of Management Council of JACPA) reports that improving the auditing profession in Jordan can be achieved through the following means.

- (1) JACPA should respond quickly to the requirements of both the community and those who work in the accounting and auditing profession by drafting the necessary legislation, establishing and implementing professional training programmes and control the accounting profession.
- (2) The association must be fully independent in order to be able to attain the objectives and ambitions of their members. Two associations must be created from the large association. One should be called the Auditors association and the other the Accountants association. The two associations should co-operate in issuing auditing and accounting standards<sup>1</sup> to suit Jordanian laws and regulations and meet the professional requirements and keep updating to international standards in this respect.

One can add to the two proposals above the following pre-requisites to improvement.

1. Continuous professional training of both accountants and auditors;
2. The establishment of a clear list for auditors' fees based upon different standards such as work hours, the capital size of the company, the nature of the company's activities and the number of employees.



3. Communication and interaction between the association and accounting departments in universities.

In short, the following may act as recommendations and suggestions to improve the accounting profession in Jordan.

1. Hold continuous specialised training programmes for different sectors regarding accounting principles, standards and systems and how to apply them in their respective jobs.
2. JACPA must play the leadership role in the process of issuing local accounting standards and concepts.
3. Direct teaching programmes at university level towards emphasising the learning of accounting concepts, and principles.
4. The Companies Act in Jordan must include articles regarding the establishment of accounting policies.
5. The AFM must deliver special requirements and regulations relating to the disclosure of financial statements that are important to local investors and financial analysts.
6. JACPA must seek to study and adapt International Accounting Standards to the Jordanian environment in order to enhance the development of accounting standards in Jordan.

## Chapter Eight

### Survey Methodology

#### 8.1 Data collection

The primary source of information for this study was a postal questionnaire employed to elicit opinions on the accounting profession, accounting education and accounting practices in Jordan and ways to improve them.

Table 8.1 below shows the types and source of data gathering.

**Table 8.1: Types and sources of data**

Primary research	Secondary research
<p>a. Postal questionnaire incorporating</p> <ul style="list-style-type: none"> <li>• a survey of users of corporate reporting practices in Jordan.</li> <li>• their understanding and perceptions of the accounting profession.</li> <li>• the need to develop national accounting standards.</li> <li>• adoption and adaptation of IASC's standards.</li> <li>• the suitability of current reporting practices to the Jordanian environment</li> <li>• collect views regarding the methods and ways of improving the accounting profession in Jordan</li> <li>• collect views regarding the factors affecting accounting education in Jordan</li> </ul> <p>b. Personal interviews used to elicit further information on important issues arising out of the above procedures.</p>	<ul style="list-style-type: none"> <li>• review of accounting literature</li> <li>• review of laws, rules and government regulation in Jordan</li> <li>• examination of companies' annual reports in Jordan</li> </ul>

In order to cover a large area at minimum cost it was decided to use a survey methodology (questionnaire) to gather the primary information desired for this study. The design of the questionnaire was based upon a study of previous similar work and discussions with practitioners and academics in Jordan.

The questionnaire was first designed in the English language, and then translated into Arabic. Before the final typing of the questionnaire, its early draft was pilot-tested both in Jordan and the UK using professional and academic accountants as testing agents, and amended accordingly. Also, the Arabic translation was reviewed in Jordan using academics in accountancy and the Arabic language and amended accordingly before the final typing of the Arabic translation

The questions are classified according to the type of information, as shown in Table 8.2 below.

1. Background information about the current status of the accounting profession in Jordan.
2. Background information about academic institutions in Jordan.
3. Information about the need for national accounting standards and membership of the authority to be charged with setting national accounting standards.
4. Information about the IASC and the relevance of its standards to Jordan.
5. General information about the respondents and the organisations they work for.

The questionnaire (in English) and the rationale for each question are reproduced in this thesis as Appendix 1 and 2 respectively.

**Table 8.2** Classification of the questions in the questionnaire

No	Information type	Question Nos.
Part 1/1	Background information about the current status of accounting profession in Jordan	1 - 6
Part 1/2	Background information about academic institutions in Jordan	7 - 12
Part 1/3	Information about the need for national accounting standards and the membership of the authority charged with setting national accounting standards	13 - 17
Part 2/4	Information about the IASC	1 - 15
Part 3/5	General information about the respondent and the organisation he/she works for	1 - 3h

## 8.2 Sample selection and size

Responses to survey are more meaningful when elicited from informed participants. In Jordan, the informed participants can be drawn from those persons who are knowledgeable about accounting reporting needs and practices. These persons are those who work as accountants in public practice, as auditors in national corporations (significant business enterprises), as officers in charge of accounts or corporate reporting matters in government offices, Amman Financial Market and the Central Bank of Jordan. In addition, teachers and lecturers of accounting and finance in universities and community colleges are considered to be sufficiently knowledgeable that their views cannot be ignored since they are the instructors of the future Jordanian accountants.

The study population consists of individuals drawn from three major groups as shown in Table 8.3 below:

**Table 8.3** Categories of the study population

<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>
<b>Professional bodies</b>	<b>Academic institutions</b>	<b>Governmental agencies</b>
<ul style="list-style-type: none"> <li>• Jordanian Association of Certified Public Accountants (JACPA)</li> <li>• Accounting Firms</li> <li>• National corporations</li> </ul>	<ul style="list-style-type: none"> <li>• Universities (public and private)</li> <li>• Community colleges (public and private)</li> </ul>	<ul style="list-style-type: none"> <li>• Audit Bureau</li> <li>• Income Tax Department</li> <li>• Central bank of Jordan</li> <li>• Ministry of Finance</li> <li>• Chamber of Commerce and Industry</li> <li>• Amman Financial Market</li> <li>• Others</li> </ul>

The target population consisted of professional accountants in practice in industry (Group 1), all accounting educators in academic institutions (universities and community colleges) (Group 2), relevant governmental organisations (Group 3).

A list of licensed auditors was obtained from JACPA. At the time of conducting the research, there were 310 licensed auditors working in the country. During an interview with the managers of major accounting firms working in Jordan, the researcher was advised to send them the required number of copies of the questionnaire (the number determined by the manager) and the manager himself assumed the responsibility for distribution of copies to the right colleagues to fill them. Also, a copy of the questionnaire was distributed to each financial manager/head of accounting department of each national company listed on the AFM. Furthermore, questionnaires were distributed to the main governmental agencies - namely, AFM, Audit Bureau, Central Bank of Jordan, Ministry of Finance, Ministry of Trade and Industry, Chamber of Commerce and Industry, Income Tax Department and other governmental departments.

Each respondent was given an A4 envelope containing a covering letter, the questionnaire, and a stamped self-addressed envelope for returning the questionnaire, in order to increase the probability of obtaining a reasonable response rate. To improve participation in the study, the researcher delivered the questionnaires to the offices of the respondents, reminded participants about the questionnaire from time to time and, in most cases, collected the questionnaires in person.

The overall response rate to the final questionnaire is 68%, with a usable response rate of 66.5% which seems adequate in view of typical rates of 40-60% reported for survey research (Simon, 1969, p.118). Test of non-response bias using procedures (early versus late respondents null hypothesis test and the representativeness of the non-respondents by the respondents) recommended by Wallace and Mellor (1988) suggests that non-response has no significant effect on the results. Two hundred and seventy two questionnaires were returned out of 400 distributed, 266 questionnaires were included in the survey; 6 questionnaires were excluded, since they contained too many unanswered questions.

The response rates for each group are shown in Table 8.4 below.

**Table 8.4** Distribution of questionnaires among population and the response rate

Group	Types of organisation	No. of questionnaires distributed	No. of questionnaires returned	No. of questionnaires excluded	Usable response rate (%)
1	Accounting firms and corporations	228	141	2	61
2	Academic institutions	80	56	-	70
3	Governmental agencies	92	75	4	71
	Total	400	272	6	66.5

### **8.3 Questionnaire validity**

The questionnaire for this study was divided into three main parts; the completed questionnaire and covering letters are presented in Appendix 1.

The covering letter accompanying the questionnaire set out to the potential respondents the nature and importance of the study, explaining that the opinions of participants were needed to complete the study, and as a preliminary step towards evaluating the status of the accounting profession in Jordan. The letter also stressed that all responses to the questionnaire would be completely confidential and anonymous and would be reported only in the form of statistical summaries that did not reveal the personal views of specific individuals.

A letter from the Dean of the Faculty of Economics and Administrative Sciences (FEAS), Yarmouk University, where this researcher is employed as Senior Lecturer, was also obtained and sent with each questionnaire. The Dean's letter indicated the need for and the importance of this study in the process of evaluating the current state of accounting profession in the country. His letter also appealed to all parties concerned to facilitate the researcher's job in every possible way.

The first part of the questionnaire elicited opinions on the current status of the accounting profession, accounting education, the need for national accounting standards and the composition of the authority charged with setting national accounting standards. The second

part included sought the opinions of respondents on the IASC, relevance of IASs to Jordan, harmonisation and impact of the IASC's standards upon Jordan. The third part requested demographic information on respondents' qualifications, location of the university from which they received their current degree, years of experience in accounting and auditing, specialisation, occupation, membership of an accounting society and the name of the organisation for which the participant worked.

A 5-point Likert scale with anchors ranging from -2 to 2 was used, with each respondent being asked to rate whether he/she agreed with a given statement. A rating of -2 represents Strongly Disagree, -1 represents Disagree, 0 represents No View, 1 represents Agree and 2 represents Strongly Agree. In a few cases, a scale varying from 1 to 5 was used - 1 representing less important and 5 representing most important.

Also, open-ended questions were used in the questionnaire.

The validity of the questionnaire in this study was achieved by careful construction and through the judgement of competent professional and academic accountants in both the UK and Jordan. They were asked to examine the questionnaire in order to eliminate any unclear instructions, ambiguous questions, unnecessary questions, difficult vocabulary and poor question arrangements. All comments and suggestions from those individuals were taken into consideration. The rationale for the questions contained in the questionnaire is attached at appendix 2.

In order to minimise non-response, every effort was made to keep the questionnaire simple, understandable and short. The translation of the questionnaire into the Arabic language was reviewed by several professors of accounting and Arabic language in Jordan in order to ensure that the Arabic version of the questionnaire was consistent with the original English version.

#### **8.4 Data analyses**

Data analyses were performed as follows.

1. Analysis of the responses from Part 3 of the questionnaire was to give a picture of the spread of the respondents surveyed.
2. Analysis based only upon Part 1 and 2 of the questionnaire was to:

- a. indicate the overall ranking of the items of information in order of importance;
  - b. relate the responses to the research questions;
  - c. to investigate, if there is a significant difference in the perceptions of various groups, whether such a difference is brought about by any particular user group.
3. Analysis based upon the combined responses of Parts 1, 2, and 3 of the questionnaire are into two parts:
- a. statistical sampling analysis was undertaken to identify if the variability in the perceptions of users on the items of information is a function of one or more of the elements of the vector of independent variables - age, qualification, education, experience, occupation, specialisation, gender, etc.;
  - b. content and judgmental analysis of the responses to the open-ended questions in the questionnaire to identify commonalities in recommendations. Where controversy is discovered, the issues giving rise to this are identified and made the subject of a face-to-face interview with persons whose opinions are considered important for accounting development in Jordan (see the section on interview below).

The respondents were requested to indicate the degree of importance they attached to each item of information. Each was told to use a frame of reference (for judging each item of information) which would match his decision. The expected response was structured on a 5-point Likert scale. The ordinal scales were transformed into metric for computational purposes by scoring as 2 for items which respondents perceived as 'strongly agree', tapering down to -2 for items considered as 'strongly disagree'. Frequency distributions of preferences were used to compute overall mean scores of each item of information. Non-responses to items were not included in this computation.

A ranked list on the basis of the overall mean scores is given in appendix 4, which also provides parallel information on the mean scores and ranks of the items of information by each user group and the level of significance of the non-parametric statistics.

Statistical tests for differences between all three groups were undertaken using Kruskal-Wallis 1-way Anova (an extension of the Mann-Whitney test for dyads) and criterion is  $p \leq 0.05$ .



Statistical tests for a dyad (i.e., two groups at a time compared for homogeneity) is by Mann-Whitney U statistics with  $p \leq 0.05$ .

The non-parametric tests (Kruskal-Wallis and Mann-Whitney) provide the basis for inferring the level of significance of the differences of mean scores (and so, the degree of consensus) between and among user groups on an item-by-item basis. These tests were conducted because it was assumed that the values of different user-groups may be clustered into approximately consensual patterns. If an item is scored by a user-group higher than every other user-group such an item was presumed to be more relevant to the user-group than to the others. If, however, the distribution about the mean score for an item has a large standard deviation, the item is usually presumed to mean different things to different people. This type of item was considered ambiguous or irrelevant in the context of discriminating the preference pattern of a user-group with those of another user-group.

The Kruskal-Wallis procedure was used to test whether the user-groups are homogeneous and whether they perceive the items of information under study in an identical fashion. In the context of the ordinality of the perception scales, this test is the most plausible and valid for determining the existence of consensus among different user-groups.

Because the investigation of the relationships between all possible dyads will provide micro explanation of the differences between varying combinations of user-groups, the Mann-Whitney test was performed to establish the level of significance between the item mean-scores from each dyad of user groups. The results of non-parametric tests of significance on each question in parts 1 and 2 of the questionnaire are reported in Appendix 5. Following the analyses of responses, there was a need to clarify some confounding results. A face-to-face interview was conducted with some of the respondents who were sent questionnaire. Details of these interviews are provided in the following section.

## 8.5 Interviews

To provide an in-depth follow up to the survey conducted in Jordan, interviews were carried out (January, 1995) with various individuals at different institutions (as shown in Table 8.5 below) in Jordan to find out their perceptions of the current status of the accounting profession and to offer suggestions for improvements.

Interviews with governmental agencies included individuals from AFM, Audit Bureau, Central Bank of Jordan, Chamber of Commerce and Income Tax Department. The recorded tapes of these individuals are analysed and synthesized.

**Table 8.5** The distribution of interviews

Type of institution	Number of interviews	Percent of total (%)
Auditing firms	5	26.3
corporations	2	10.5
Academics	3	15.8
Governmental agencies	9	47.4
Total	19	100

A list of the 19 individuals interviewed, their positions, and the names of the organisations they work for were presented in appendix 3.

No standard interview format was adopted; general views were sought on the status of the accounting profession, and the ways of improving the situation in general. The interviews indicated that none of the individuals interviewed were satisfied with the status of the accounting profession, and all would like a greater effort to be made to develop and improve the accounting profession.

## Chapter Nine

### Accounting Profession in Jordan (Empirical survey)

The purpose of this chapter is to present the views of practitioners, academics and governmental agencies regarding the status of the accounting profession in Jordan. These views are presented after the data collection procedure and the analytical methodology have been described.

#### 9.1 Accounting experts' characteristics

Five demographic factors characterise the study population, i.e., 266 professional, academic and governmental agencies. In several cases, total respondents are slightly lower than 266 due to item non-response. A brief description of these factors is presented as follows.

##### 1. Occupation

Table 9.1 reports the frequency distribution of the occupations of the respondents.

**Table 9.1** Frequency distribution of occupations for the whole population study and for each group of respondents

No.	Occupation	Accountants in private sector Group 1	Academic accountants Group 2	Public sector managers Group 3	Total
1	Auditor	67 49.3%	-	4 6%	71 27.5%
2	Financial Manager	30 22.1%	-	8 11.9%	38 14.7%
3	Accountant	21 15.4%	-	46 68.7%	67 26%
4	Professors (Ph.D.)	-	23 41.8%	-	23 8.9%
5	Lecturers (master or less)	-	32 58.2%	-	32 12.4%
6	Others	18 13.2%	-	9 13.4%	27 10.5%

Auditors constitute the largest group (27.5%) followed by accountants (26%), financial managers (14.7%), lecturers with a master's degree (12.4%) and professors with a Ph.D. qualification (8.9%).

## 2. Qualification

Table 8.6 describes the educational level of respondents. The majority of the total hold a bachelor's degree (70%). It is important to note that most respondents with high qualifications (Ph.D. and master's holders) mainly teach at Jordanian universities.

**Table 9.2** Frequency distribution of the qualifications of each group and as a whole.

<b>Level of education</b>	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>Total</b>
Secondary school	5 3.6%	1 1.8%	1 1.5%	7 2.7%
Baccalaureate diploma	5 3.6%	-	8 11.8%	13 4.9%
Bachelor's degree	116 83.5%	20 35.7%	48 70.6%	184 70%
Master's degree	8 5.8%	18 32.1%	9 13.2%	35 13.3%
Doctoral degree	1 0.7%	17 30.4%	2 2.9%	20 7.6%
Others	4 2.9%	-	-	4 1.5%

### 3. Specialisms

Table 9.3 describes the specialisms of respondents. It is clear from the table that respondents in all groups have mainly specialised in accountancy (82.2% of Group 1, 72.2% of Group 2 and 79.7% of Group 3).

**Table 9.3** Frequency distribution of the specialisation of respondents

<b>Specialisation</b>	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>Total</b>
Accounting	106 82.2%	39 72.2%	47 79.7%	192 79.3%
Management	7 5.4%	10 18.5%	5 8.5%	22 9.1%
Economics	6 4.7%	2 3.7%	4 6.8%	12 5%
Finance	4 3.1%	1 1.9%	-	5 2.1%
Others	10 4.7%	2 3.7%	3 5.1%	11 4.5%

4. Country of formal education: Table 9.4 specifies the country in which the most recent degree held by respondents was obtained. It is clear from the table that the majority of respondents in Group 1 hold their current degrees from Arab countries other than Jordan and slightly more than a third of the respondent in Groups 2 and 3 also obtained their degrees in an Arab country. The second country of formal education is Jordan, followed by the USA and UK.

**Table 9.4** Frequency distribution of respondents by country of formal education

Country	Group 1	Group 2	Group 3	Total
Jordan	42 30.4%	14 25%	37 52.9%	93 35.2%
Another Arab country	71 51.4%	20 35.7%	26 36.6%	117 44.3%
UK or USA	21 15.2%	12 21.4%	6 8.5%	39 14.8%
others	4 2.9%	10 17.9%	1 1.4%	15 5.7%

5. **Years of experience:** Table 9.5 shows that there is consistency between all groups regarding the years of experience, in that about half of respondents have more than ten years experience.

**Table 9.5** Frequency distribution of respondents regarding years of experience

Years of experience	Group 1	Group 2	Group 3	Total
Less than 5 years	27 19.6%	14 26.9%	24 33.8%	56 24.9%
From 5 to 10	31 22.5%	16 30.8%	21 29.6%	68 26.1%
More than 10 years	80 58%	22 42.3%	26 36.6%	128 49%

6. **Membership in an accounting society:** Table 9.6 shows that the majority of respondents are not members of any accounting society (68.6%). It is also important to note that most of the respondents who are members of an accounting society are in Group 1 (79.5%). The group with the least members in an accounting society is Group 3, whereas one fourth of Group 2 are members of an accounting society.

**Table 9.6** Frequency distribution of membership of professional accounting society

	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>Total</b>
Yes	66	14	3	83
%	48.2%	25%	4.2%	31.4%
No	71	42	68	181
%	51.1%	75%	95.8%	68.6%

**Table 9.7** Frequency distribution of the name of professional accounting society

<b>Name of accounting society</b>	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>Total</b>
UK 1 (ACCA)	3	-	-	3
UK 2 (ICAEW)	2	1	-	3
UK 3 (CIMA)	1	1	-	2
USA (USCPA)	9	2	-	11
France (FACPA)	-	1	-	1
Arab (ASCA)	16	1	-	17
Iraq (AIAA)	-	2	-	2
Syria (ACPA)	-	4	-	4
Jordan (JACPA)	53	-	3	56
Total	84	12	3	99

**Key:**

JACPA Jordanian Association of Certified Public Accountants.

ACCA The Chartered Association of Certified Accountants.

ICAEU The Institute of Chartered Accountants in England and Wales.

CIMA The Institute of Cost and Management Accountants.

USCPA American Certified Public Accountants.

FACPA French Association of Certified Public Accountants.

ASCA Arab Society of Certified Accountants.

AIAA Association of Iraqi Accountants and Auditors.

SCPA Syrian Certified Public Accountants.

Table 8.11 shows that the majority of respondents who are members of an accounting society belong to Group 1 and are members of JACPA Society. No Group 2 respondent is a member of JACPA though 12 of them are members of accounting professional bodies from other countries. This is only to be expected as the JACPA Society is required by professionals to have a licence in auditing which is not required for academics appointment.

## 9.2 Opinions regarding the activities of the accounting profession

Questions 1a to 1f of Part 1 solicited the opinions of respondents on the status of the accounting profession in Jordan. These questions and their related responses are presented in Table 9.8 below.

**Table 9.8** Respondents opinions regarding the activity of the accounting profession

Question 1, Part 1 Please indicate the extent to which you agree or disagree that accounting profession in Jordan is considered to be active in terms of

	Group 1		Group 2		Group 3		Total	
	Mean	Std. dev.	Mean	Std. dev.	Mean	Std. dev.	Mean	Std. dev.
a. identifying the problems facing auditing firms	.597	1.068	.429	1.059	.652	1.041	.576	1.058
b. providing solutions to the problems facing auditing firms	.551	1.184	.518	1.160	.643	1.008	.568	1.132
c. developing a code of ethics	.609	1.223	.339	1.195	.700	.953	.576	1.154
d. developing accounting standards	.547	1.235	.304	1.278	.543	1.112	.494	1.213
e. developing auditing standards	.446	1.229	.214	1.317	.609	1.101	.493	1.219

The responses to questions 1-a to 1-f indicate a general support by the respondents to the activities specified by the questions, however, there is variation in the preferences of the respondent among the groups regarding each question.

Table 9.9 reports that Group 2 respondents has more tendency than the other groups to underscore all cases, while Group 3 has more tendency to overscore in 4 out of 5 cases.



**Table 9.9** Variations in the preferences of each group regarding the activities of  
accounting profession in Jordan

Group	No. of preferences greater than other groups	No. of preferences lesser than other groups	No. of preferences not greater or lesser than other groups
1	1	-	4
2	-	5	-
3	4	-	1
Total	5	5	5

Some respondents suggested, in the “any other method” portion of suggestible approaches, the establishment of training programmes. But because the option was not originally available to respondents, it was not possible to calculate the mean and standard deviation.

On the other hand, a surprising result was obtained by the researcher through the interviews, in which 68% of the interviewees suggested that the accounting profession in Jordan is either weak or in its early stage of development, whereas 26% indicated that the accounting profession is active in dealing with the profession. The remaining 6% were in between. On being asked why their answers regarding the activities of the accounting profession in Jordan were not identical in the questionnaire and the interview, the respondents answered that the question, as posed in the questionnaire, was not clear and they thought the questions wanted facts not indication of their preferences. Therefore, the answers regarding the question were misleading.

In short, based on the interview, the accounting profession in Jordan is in need of continuous development.

**9.3 Attitudes towards government involvement in improving the state of the accounting profession in Jordan.**

Question 2-Part 1 was asked to solicit opinions regarding the role of government in improving the state of accounting in Jordan. The frequency distribution of the responses are presented in Table 9.10.

**Table 9.10** Frequency distribution regarding the role of government in improving the state of accounting profession in Jordan

	Group 1	Group 2	Group 3	Total
Yes	123	46	59	228
%	88.5%	82.1%	86.6%	86.7%
No	16	10	9	35
%	11.5%	17.9	13.2%	13.3%

The Table shows a strong support from all groups for the active role of government in the improvement of the state of accounting in Jordan. One reason for this overwhelming support for government action may be the belief of Jordanians that any project which seeks to improve national economy is the primary function of government. This belief is at variance with what obtains in the UK where private initiatives are often preferred to government action on matters that affect the free market mechanism such as the development and operation of professional accountancy bodies.

Questions 3a to 3f of Part 1 of the questionnaire elicited the opinions of respondents regarding the methods by which the government can improve the accounting profession in Jordan.

Although the respondents in all groups supported all the different means suggested in the questionnaire (see Table 9.11), there are variations in preferences among the groups regarding each suggested approach.

**Table 9.11** Opinions regarding the methods by which the government can improve the accounting profession in Jordan.

Question 3 - Part 1 Please indicate the extent to which you agree or disagree with each of under listed methods as a means by which the government could improve the accounting profession

	Group 1		Group 2		Group 3		Total	
	Mean	Std. dev.	Mean	Std. dev.	Mean	Std. dev.	Mean	Std. dev.
a. Provide financial support	.797	1.187	.739	1.182	1.150	.840	.878	1.113
b. Provide effective accounting legislation	1.459	.605	1.305	.940	1.311	.827	1.389	.745
c. Establish a licensing authority	1.148	.993	1.130	1.024	1.150	.899	1.145	.971
d. Establish a broad-based national committee to advance accounting education	1.000	.932	.978	1.145	.656	1.196	.904	1.057
e. Establish a broad-based national committee to advance accounting practices	1.000	.950	1.196	1.025	833	1.122	.996	1.015
f. Establish a governmental agency responsible for advancing accounting practices	.479	1.219	.761	1.158	1.131	.957	.711	1.170

All user-groups most preferred the provision of effective legislation. They, however, differ on their “second best” method. Practitioners would like government to establish a licensing authority, academics would prefer the establishment of a broad-based national committee that can advance accounting practices, while government functionaries are indifferent between the establishment of a licensing authority and the provision of financial support to JACPA.

**Table 9.12** Variations in the preferences of each group regarding the means by which the government could improve the accounting profession in Jordan

<b>Group</b>	<b>No. of preferences (greater than other groups)</b>	<b>No. of preferences (less than other groups)</b>	<b>No. of preferences (not greater or less than other groups)</b>
G.1	2	1	3
G.2	1	3	2
G.3	3	2	1
Total	6	6	6

Table 9.12 shows that Group 1 has more tendency to overscore in 2 out of 6 cases, 3 cases stay in between and 1 case was less than other groups. Group 2 overscored in 1 case out of 6, underscored in 3 and 2 cases stay in between. Group 3 has more tendency to overscore in 3 cases out of 6 and underscore less than other groups in 2 cases and 1 case stays in between. This table also suggests inter-rates consistency.

#### **9.4 Factors essential for improving accounting practices in Jordan**

One of the objectives of the survey was to solicit opinions on factors that are essential for improving accounting practices in Jordan. The respondents were asked to indicate their agreement on whether each of the factors suggested could lead to improvement in accounting practices at the local level.

**9.4.1 Opinions regarding the existence of an independent professional authority as a means of improving accounting practices in Jordan.**

Table 9.13 reports the results which suggest that all the three groups indicate a strong support to the suggestion that the existence of an independent professional authority could improve accounting practices in Jordan.

**Table 9.13** Frequency distribution regarding the establishment of an independent professional authority

	Group 1	Group 2	Group 3	Total
Yes	126	42	52	220
%	94%	87.5%	86.7%	90.9%
No	8	6	8	22
%	6%	12.5%	13.3%	9.1%

Responses from the interview of some of those respondents who supported the suggestion that the establishment of an independent professional authority was critical, justified their views on the following grounds.

1. The independent authority is expected to have full control over accounting matters, involve itself directly in the problems facing the accounting profession and find some solutions to such problems, develop accounting standards and a code of ethics, without external interference (especially from the government).
2. The authority is expected to be the only party qualified to deal with accounting practices; to provide practitioners with up-to-date information because of its familiarity with the accounting profession; to develop plans to improve the accounting profession and its practices; and to develop accounting laws and systems.
3. It should be expected that the authority will facilitate the procurement of any needed resources; contact other institutions without impediments; improve its way of thinking and

avoid bureaucratic fixation by reacting quickly to unexpected matters that may confront the accounting profession without having to seek permission from the government.

4. It can be a point of reference for auditors, accountants and users of accounting information, encourage their creativity, and organise the business market for accountants.
5. It can provide undergraduates with training programmes and courses without delay.

On the other hand, those respondents who supported the suggestion of the establishment of an independent professional authority with some sort of connection with the government, justified their views that government authority is needed to:

- a. control and regulate the accounting profession in Jordan;
- b. provide financial compliance and legal support to the suggested authority;
- c. improve accounting practices in Jordan by co-operation between practitioners and the government.

The responses to the interviews conducted by the researcher revealed that 47% of the interviewees supported the establishment of an independent professional authority, 37% recommended some sort of link between professional authority and the government in order to provide financial support, and ensure legal compliance. Only 16% recommended that the government should be represented in the suggested authority.

**9.4.2 Opinions regarding the factors affecting the improvement of accounting practices in Jordan**

Questions 5a to 5j of Part 1 asked for views regarding the factors affecting the improvement of accounting practices in Jordan. These questions and related responses are presented in Table 9.14 below.

**Table 9.14** opinions regarding the factors affecting the improvement of accounting practices in Jordan

Question 5 Please indicate the extent to which you agree or disagree that the following items are essential to the improvement of accounting practices in Jordan.

	Group 1		Group 2		Group 3		Total	
	Mean	Std. dev.	Mean	Std. dev.	Mean	Std. dev.	Mean	Std. dev.
a. Active self - regulation in the accounting profession	.804	1.086	.857	1.069	1.149	.839	.904	1.031.
b. Accounting standards suitable to the local environment	1.101	.764	1.125	.916	1.147	.868	1.118	.823
c. Auditing standards board	1.209	.631	1.143	.841	1.269	.709	1.210	.699
d. Greater support by the government	1.029	.974	1.037	.889	1.209	.789	1.077	.912
e. Code of professional conduct	1.366	.632	1.204	.855	1.303	.632	1.315	.685
f. Collaboration with international organisations	1.362	.661	1.473	.742	1.358	.865	1.385	.734
g. Effective accounting education system	1.493	.557	1.600	.596	1.471	.762	1.510	.624
h. The support of the auditing firms	1.209	.756	1.291	.712	1.090	.917	1.195	.792
i. Establishment of accounting development centres	1.338	.813	1.250	1.049	1.373	.795	1.328	.862
j. Post - graduate training of accountants	1.424	.590	1.370	.853	1.515	.611	1.437	.657

The results from this table suggest that respondents from the three groups overwhelmingly believed that the installation of effective accounting education system, the post-graduate training of accountants and collaboration with international organisations are more crucial at present, for the improvement of accounting practices in Jordan than the active regulation of accounting profession, the development of accounting standards suitable for the local environment.

Although the responses to questions 5a to 5f as shown in Table 9.14 above, indicate a general support of the establishment of effective undergraduate and post-graduate accounting education systems, there are variations in preferences among the groups regarding each item as shown in Table 9.15.

**Table 9.15** Variations in preferences regarding the factors affecting the improvement of accounting practices in Jordan

<b>Group</b>	<b>No. of preferences (greater than other groups)</b>	<b>No. of preferences (less than other groups)</b>	<b>No. of preferences (not greater or less than other groups)</b>
G.1	1	3	6
G.2	3	4	3
G.3	6	3	1
<b>Total</b>	<b>10</b>	<b>10</b>	<b>10</b>

Table 9.15 shows that G.3 has more of a tendency to overscore (6 out of 10 cases).

Some respondents suggested two other factors not included in questionnaire that may affect the improvement of accounting practices; namely, the establishment of an independent league for the accounting profession and undergraduate training for accountants. Because there are insufficient cases to support these factors, it was impossible to calculate the mean and standard deviation, but at least they are considered to be important factors.



**9.5 Contribution of academic institutions to the improvement of accounting profession in Jordan**

Questions 6a to 6f of Part 1 of the questionnaire solicited opinions on possible methods by which Jordanian academic institutions could be involved in the improvement of the local accounting profession. The questions and related responses are presented in Table 9.16.

**Table 9.16** opinions regarding the contribution of academic institutions in the improvement of accounting profession in Jordan

Question 6 From your experience, do you think that academic institutions can play an important role in improving the accounting profession in terms of providing

	Group 1		Group 2		Group 3		Total	
	Mean	Std. dev.	Mean	Std. dev.	Mean	Std. dev.	Mean	Std. dev.
a. Effective academic training for accounting personnel	1.158	.783	1.161	.910	1.257	.716	1.185	.793
b. Effective professional training for accounting personnel	1.144	.848	1.161	.826	1.357	.835	1.204	.842
c. Seminars and training courses to government employees	1.137	.782	1.054	.999	1.414	.807	1.192	.847
d. Recommendations and advice for developing and advancing accounting concepts	1.065	.773	1.321	.811	1.257	.695	1.170	.767
e. Appraisal of accounting in school curriculum	1.000	.901	1.268	.904	1.014	.925	1.060	.911
f. Research base for local purposes	.920	.875	1.179	.855	.971	.834	.989	.863

Again, the responses to questions 6a to 6f indicate a general support for all the suggested approaches. Government functionaries voted training programmes for government employees as the best approach as should be expected. Practitioners desired greater emphasis on the provision of effective training for accounting personnel while academics voted more favourably for improvement in accounting curriculum in schools.

**Table 9.17** Variations in preferences of each group regarding the role of academic institutions in improving accounting profession in Jordan

Group	No. of preferences (greater than other groups)	No. of preferences (less than other groups)	No. of preferences (not greater or less than other groups)
G.1	-	5	1
G.2	3	1	2
G.3	3	-	3
Total	6	6	6

However, Table 9.17 reports the general tendency of Group 1 respondents (practitioners) to underscore (in 5 out of 6 cases).

## 9.6 Summary

The primary purpose of this chapter was to describe the research methods used to elicit the opinions of knowledgeable persons in Jordan on several aspects of accounting in Jordan. The questionnaire was developed after a careful review of the accounting literature and was pilot-tested before the initial mailing on December, 1993. 400 questionnaires were distributed to the following three groups of participants.

- a) Accounting firms and corporations.
- b) Academic institutions.
- c) Governmental agencies.

The rate of reply from these groups was 68% while the usable rate was 66.5%.

The responses to the questionnaires suggest that the local accounting profession is still in a stage of infancy. The overall results indicate that the following must be accomplished to improve the profession and practice of accounting in Jordan.

1. Active self-regulation (i.e., with government control) of the accounting profession.
2. Accounting standards suitable to the local environment.
3. The establishment of an auditing standards board.
4. Greater support from the government.
5. A code of professional conduct.
6. Collaboration with or membership of international organisation (such as IASC).
7. An effective accounting education system.
8. The support of auditing firms.
9. Establishment of accounting development centres in major universities.
10. Post-graduate training of accountants.
11. Undergraduate training of accountants.

The results also indicate that academic institutions can help in improving the accounting profession by providing.

- a. effective academic training for accounting personnel;
- b. effective professional training for accounting personnel;
- c. seminars and training courses for government employees;
- d. recommendations and advice for developing and advancing accounting concepts;
- e. appraisal of accounting curriculum;
- f. research base for local purposes.

Finally, the results indicate that the government can help in improving the state of the accounting profession by.

1. providing financial support to the accounting profession;
2. providing active accounting legislation;
3. establishing a licensing authority for setting standards for admission into accounting practices;
4. establishing a broad-based national committee (including accountants and non-accountants) to advance accounting education;
5. establishing a broad-based national committee (including accountants and non-accountants) to advance accounting practices;
6. establishing a governmental agency responsible for advancing accounting practices.

*de.*

## **Chapter Ten**

### **Accounting Education in Jordan (Theoretical Background)**

#### **9.1 The characteristics of education in Jordan**

The term 'academic education' as used in Jordan includes schools (kindergarten, primary, preparatory, and secondary schools), middle institutions and universities. Education is free in Jordan from class (1) primary school up to class (12) secondary school. Accounting education is introduced to students in class (11). Jordan has a well established educational infrastructure with a network of government schools throughout the country. The term 'educational infrastructure' refers to the quality of education offered as well as the access of students to education (Agami and Alkafaji, 1987, p.161).

Professional education constitutes an important part of the educational system in Jordan. Commercial education (which includes accounting, economics and management) constitutes the major field of professional education in Jordan. The purpose of commercial education in Jordan is to prepare and provide a number of graduates with commercial training that meet the requirements of economic and development plans in both sectors (public and private). Commercial education has been given special attention by the Ministry of Education in Jordan and has become the most important channel to meet the needs of development. Comparative statistics of the number of schools, students and teachers for the year 1991/92 in both general secondary education and commercial secondary schools are shown in Tables 10.1 and 10.2 below.

**Table 10.1** Distribution of Secondary schools, students and teachers, year 1991/92 for  
general secondary education

Sex	Grand total			Government			UNRWA			Private		
	Sch	stud	teach	sch	stud	teach	sch	stud	teach	sch	stud	teach
Male	327	56,203	3,161	297	51,661	2,743	1	564	60	29	3,978	358
Female	304	53,227	2,869	295	50,924	2,759	0	0	0	9	2,303	110
Mix	80	-	-	48	-	-	-	-	-	32	-	-
Total	711	109,430	6,030	640	102,585	5,502	1	564	60	70	6,281	468

**Key:**

- sch numbers of schools
- stud numbers of students
- teach numbers of teachers

\*Government schools consist of Ministry of Education schools and other government schools.

\*\*UNRWA - United Nations Relief and Work Agency.

Source: The Educational Statistics Handbook, scholastic year 1991/92, p.116.

**Table 10.2** Distribution of commercial schools, students and teachers, year 1991/92 for  
commercial secondary education

Sex	Grand total			Government education			Private		
	School	student	teachers	school	student	teachers	school	student	teachers
Male	34	2,863	227	28	2,730	209	6	133	18
Female	31	4,280	232	30	4,221	231	1	59	1
Total	65	7,143	459	58	6,951	440	7	192	19

Source: The Educational Statistics Handbook, scholastic year 1991/92, p.153).

**Table 10.3** Distribution of schools, students and teachers of 1st and 2nd secondary school of commerce for the scholastic year 1992/93.

Sex	Schools	Students	Teachers
Male	33 sections + 3 complete	4,195	189
Female	31 sections + 3 complete	5,505	300
Total	64	9,700	480

**Table 10.4** The allocation of students to 1st and 2nd secondary school of commerce

	Male	Female	Total
1st class	2,175	2,859	5,034
2nd class	2,020	2,646	4,666
Total	4,195	5,505	9,700

Source: Professional Education Guide, Ministry of Education, 1993, p.14.

According to Professional Education Guide, published by the Ministry of Education, the total number of students in the 1st class of academic secondary schools, at the end of 1992, is 43,063 (including private education). The rate of the number of students in 1st class commerce secondary schools to academic is  $(5,034/43,063) = 11.7\%$

There are 61 community colleges (providing two years further education after secondary school) in Jordan. Some of these colleges are subject to the Higher Education Ministry standards and some are not. The colleges that are subject to Ministry of Higher Education standards include those controlled by the Ministry of Higher Education, Ministry of Education, UNRWA, other ministries and governmental agencies and private entrepreneurs. Those that are not are predominantly private.

The distribution of community colleges subject to Ministry of Higher Education standards and the total number of students are shown in Tables 10.5 and 10.6.

**Table 10.5** The distribution of community colleges subject to Ministry of Higher Education (HEM) standards in Jordan in the year 1990/91

	Total number	Teaching accounting
Related to Ministry of Higher Education	12	8
Related to Ministry of Education	2	1
Related to UNRWA	2	1
Related to other ministries and government agencies	9	-
Related to army	5	-
Private	21	14
Not subject to HEM standards	10	-
Total	61	24

Table 10.5 shows that the rate of community colleges teaching accounting is about 39.3% of the total.

**Table 10.6** The distribution of students enrolled in community colleges for education and administration programmes by faculty and specialisation for the year 1992/93.

	Male	Female	Total
Grand total (faculty)	6,692	7,588	14,280
Number in accounting	1,594	1,105	2,699

The rate of accounting students to the total is  $2,699/14,280 = 19\%$ .

Source: The Annual Statistical Report on Higher Education in Jordan for the year 1992/93, p.159.

Concerning education at university level, Jordan has four major institutions funded by government: Jordan University, established in 1962; Yarmouk University, established in 1976; Mo'tah University, established in 1981 (has two systems: military, established in 1981; and civil, established in 1988); and, the Jordan University of Technology and Sciences, established in 1987. All of them, except the Jordan University of Technology and Sciences, offer degrees in accounting. Also, there are many private universities which offer associate



degrees in accounting. These universities have adopted and adapted the university system of the United States (credit hours). The teaching medium at the University of Jordan is Arabic.

**Table 10.7** The distribution of the total number of students among Jordanian universities and among Faculties of Economics and Administrative Sciences and Accounting Departments (1991/92).

	Total	JU	YU	MU	STU	AUC	ANU	PU	AIU	ASU	JUW	PS
Grand	40595	17610	11919	2912	3474	608	2135	264	549	553	451	120
FEAS	7967	2675	2994	638	-	-	1231	54	100	201	74	-
Acc.	1618	433	567	117	-	-	354	16	49	71	11	-
Dept.	20.3	16.2	19	17.5	-	-	29	29.6	49	35.3	14.9	-
Faculty rate %	19.6	15.2	25	22	-	-	57.7	20.5	18.2	36.3	16.4	-
Dept. rate %	20.3	16.2	19	17.5	-	-	29	29.6	49	35.3	14.9	-

Source: The Annual Statistical Report on Higher Education in Jordan for the year 1991/92, Ministry of Higher Education-Jordan, pp. 52, 55.

**Key:**

Government universities

- JU Jordan University.
- YU Yarmouk University.
- MU Mo'tah University.
- STU Sciences and Technology University.

Private universities

- AUC Amman University College for Applied Engineering.
- ANU Amman National University.
- PU Philadelphia University.
- AIU Al-Isra University.
- ASU Applied Sciences University.
- JUW Jordan University for Women.

PS	Princess Summaya.
FEAS	Faculty of Economics and Administrative Sciences.
Acc. Dept.	Accounting department
Faculty rate	The rates of faculty enrolment to the total university enrolment.
Dept. rate	The rates of enrolment in accounting department to enrolment in the faculty.
Grand	Total number of enrolment in the university.

About 88.5% of the total enrolment in the universities is accounted for the four government universities. However, 69% of those enrolled on Accounting degree courses are registered in the three government universities running accountancy courses.

Interest in business and accounting education is growing. At present, however, only 19.6% of total university enrolment is in economics and administrative sciences (including accounting). Students are admitted to state-owned Jordanian universities on the basis of achievement scores on the General Secondary School Certificate Examination (Twjehi). The trend has been that students with the highest scores on these exams prefer to enter medicine, engineering, and physical science. Students with somewhat lower scores select business administration / economics. The remaining students prefer the humanities and the liberal arts. Preference for engineering and sciences by the high achievers is attributed to the high prestige accorded to these fields in the Middle East in general and in Jordan in particular. However, the engineering field is losing its ground to business and computer science due to the high unemployment rate amongst graduates in the engineering field.

Accounting is relatively unpopular in Jordan with about 4% of total university enrolment concentrating on the subject. This relative unpopularity of accounting in Jordan can be partially explained by the low prestige accorded to professionals in that field. As in other developing countries, accountants in Jordan do not appear to enjoy the time-honoured prestige of such professionals as medical doctors, engineers, and college professors. This conclusion is similar to the results of a study by Tahir and Yavas (1982, p.21) which reported that Saudi students rated accountants much lower than other business and management professionals.

## **10.2 Components of accounting education in Jordan**

### **10.2.1 Faculty**

Although there is a shortage of qualified indigenous workforce at all levels in Jordan, the shortage of staff with postgraduate qualifications in accounting is acute. As a result, a greater proportion of the accounting faculty in Jordan is foreign. This has implications for accounting education in Jordan.

The accounting systems, methods, and techniques taught in accounting should be orientated towards the accounting environment of the country. This is mostly untrue of the situation in Jordan where courses are based on textbooks and training programmes are based on the environments of foreign countries from where the foreign lecturers are educated. In addition, most of the indigenous lecturers in business faculties of governmental universities and indigenous practising accountants in Jordan received their higher degrees either from the USA or the UK. The foreign educational antecedents of these Jordanians reinforces the cultural cringe of the present accounting elites on foreign practices.

It is only when higher education in accounting originate from and are based on the needs of the country that the present situation of copying foreign practices will change. This is a slow process.

At the postgraduate level, Jordan University offers postgraduate programmes leading to a Master's degree in Business Administration with a concentration on accounting. The number of students in the MA/MSc programme at Jordan University in the year 1991/92 was 80 (Source: The Annual Statistical Report on Higher Education in Jordan for the year 1991/92, Ministry of Higher Education, Jordan). Whereas Yarmouk University is in the process of establishing programmes that offer a master's degree in Business Administration, Public Administration, Banking and Finance, and Accounting.

The accounting degree programmes of universities in Jordan are not too different from each other. The accounting programmes of the University of Jordan and Yarmouk University are offered as illustrations.

The Faculty of Economics and Administration Sciences (FEAS) at the University of Jordan was established in 1965. Until 1976, the University of Jordan followed the year system (the British system). In 1976, the system changed from year system to the credit system (Qtaishat, 1988, p.41). The requirements for graduation in both the academic year 1976/1977 and the academic year 1982/1983 are the same. But the differences between those two and the year 1967/1970 occurred as a result of the change from the year system to the credit system. The prospectuses of accounting requirements for graduation for both the academic years 1969/1970 and 1982/1983 are shown in Table 10.8.

**Table 10.8** Accounting programmes at the Department of Accounting of the FEAS/University of Jordan - Prospectus of academic year 1969/1970

**First year Common subjects required of all business students**

<b>Course</b>	<b>Weekly hours</b>
Principles of Economics	4
Principles of Management	4
Principles of Accounting	4
Principles of Politics and Public Administration	2
Principles of Law	2
Psychology	2
English Language	3
Arabic Language (3 hrs) must pass the exam (not counted)	-
<b>Total</b>	<b>21 hours</b>

**Second year choice of majors**

<b>Course</b>	<b>Weekly hours</b>
Partnership and Corporate Accounting	4
Special Studies in Accounting (contingency branch and departmental)	2
Cost Accounting	2
Commercial Law	3
Business Mathematics	3
Public Finance	2
Principles of Statistics	3
<b>Total</b>	<b>19 hours</b>

### Third Year

Course	Weekly hours
Advanced Cost Accounting	3
Cost Accounting for Farms	2
Financial Statement Analyses	2
Statistics	3
Jordanian Financial Legislation	2
Accounting in English	3
Elective course	3
<b>Total</b>	<b>18 hours</b>

### Fourth Year

Course	First half	Second half
Auditing	3	3
Accounting for Banks	2	2
Tax Accounting	3	3
Security Exchange Accounting	2	2
Accounting in English	3	3
Elective course	3	3
<b>Total</b>	<b>16</b>	<b>16</b>

The requirements were later changed to more closely resemble those of American universities. In 1970, the University of Jordan started following the credit hours system (the American system), and currently uses the semester system. The total credit hours for the bachelor's degree in accounting is 134 with two options: single and major specialisations. The Study Plan listed in the 1989 prospectus is given in Table 10.9.

**Table 10.9** BSc in Accounting Study Plan (General Requirements)

Requirements	Single specialisation credit hours	Major specialisation credit hours
University requirements	20*	20*
Faculty requirements	21**	21**
Required courses	60	39
Elective courses	24	18
Free electives	9	9
Minor specialisation	-	27
<b>Total</b>	<b>134</b>	<b>134</b>

\* Common body of knowledge for all students

\*\* Basic business courses

Source: University of Jordan prospectus 1989, p.130.

The Department of Accounting offers an academic programme that leads to the Bachelor's Degree in Accounting as a single or major specialisation as shown in Table 10.10.

**Table 10.10** Accounting programme at the Department of Accounting of the FEAS/ University of Jordan

	<b>Course</b>	<b>Credit hours</b>		
<b>A.</b>	<b>University requirements</b>			
	Arabic Language	3		
	English Language	3		
	Military Sciences	3		
	General Culture	3		
	Free electives	9		
	<b>Total</b>	<b>20 hrs</b>		
<b>B.</b>	<b>Faculty Requirements</b>			
	Accounting Principles I & II	6		
	General Mathematics	3		
	Principles of Economics I & II	6		
	Principles of Management	3		
	Principles of Statistics	3		
	<b>Total</b>	<b>21 hrs</b>		
<b>C.</b>	<b>Accounting Department Requirements</b>	<b>C/H*</b>	<b>S/S**</b>	<b>M/S* **</b>
	Corporate accounting I & II	6	X	X
	Special Financial accounting	3	X	X
	Accounting Studies (in English)	3	X	X
	Cost Accounting I & II	6	X	X
	Accounting for Banks	3	X	
	Budgetary Statement & Analysis	3	X	X
	Accounting Studies (in English)	3	X	
	Governmental Accounting	3	X	X
	Auditing I & II	6	X	X
	Managerial Accounting	3	X	X
	Accounting Studies (in English)	3	X	X
	Accounting for Taxes	3	X	X
	Accounting Theory	3	X	
	Principles of Statistics	3	X	
	Principles of Marketing	3	X	
	Principles of Law	3	X	
	Commercial Law	3	X	
		<b>60</b>	<b>60</b>	<b>39</b>

Source: University of Jordan Prospectus 1989 (pp.15-18, 131, 132).

\*C/H: Credit hours

\*\*S/S: Single specialisation

\*\*\*M/S: Major specialisation

The Accounting Department of Yarmouk University offers two systems of specialisation: single specialisation in accounting and major specialisation in accounting with a minor in another area. The department also offers a minor specialisation in accounting to students from other faculties in the university.

The students in the Accounting Department must successfully complete the graduation requirements as shown in Table 10.11. before 1991 and as shown in Table 10.12 thereafter.

Table 10.11 Bachelor's degree in accounting (single specialisation and combined honours accounting and a minor subject) / Yarmouk University - Jordan for the period from 1984 - 1990.

	<b>Single specialisation in accounting</b>	<b>Combinend honours accounting and a minor subject</b>
<b>Clarification of above graduation requirements.</b>		
<u>Subject</u>	<u>Hours/weekly</u>	
<b><u>1. Completion of university requirements</u></b>		
- Arabic Language	6 hrs	6 hrs
- English (communication skills)	6 hrs	6 hrs
- Computer Science	3 hrs	3 hrs
- Military Sciences	3 hrs	3 hrs
- Human and Social Science	3 hrs	3 hrs
- Free electives	6 hrs	6 hrs
- Community Service (2 hrs not counted)		
- Total	<b>27 hrs</b>	<b>27 hrs</b>
<b><u>2. Completion requirements of the Faculty of Economics and Administrative Sciences</u></b>		
- Management	6 hrs	6 hrs
- Economics	6 hrs	6 hrs
- Maths	3 hrs	3 hrs
- Statistics	3 hrs	3 hrs
- Computer and Information Sciences	3 hrs	3 hrs
- Total	<b>21 hrs</b>	<b>21 hrs</b>
<b><u>3. Completion requirements of the Accounting Department</u></b>		
<b>(compulsory requirements)</b>		
<b>A. Common department requirements</b>		
- Research Methods	2 hrs	2 hrs
- Organisation Behaviour	3 hrs	3 hrs
- Introduction to Finance	3 hrs	3 hrs
- Marketing	3 hrs	3 hrs

- Quantitative analysis	3 hrs	3 hrs
- Accounting Principles I & II	6 hrs	6 hrs
- Principles of Public Finance	3 hrs	3 hrs
- Buying and Warehouse Management	3 hrs	3 hrs
- System Analysis	3 hrs	3 hrs
- Personnel Management	3 hrs	3 hrs
- Public Administration	3 hrs	3 hrs
- Total	<b>35 hrs</b>	<b>35 hrs</b>
<b>B. Accounting requirements</b>		
- Accounting Theory	3 hrs	3 hrs
- Partnership Accounting	3 hrs	3 hrs
- Banking Accounting	3 hrs	-
- Special Financial Accounting	3 hrs	3 hrs
- Tax Accounting	3 hrs	-
- Management Accounting	3 hrs	-
- Cost Accounting	3 hrs	3 hrs
- Auditing	3 hrs	3 hrs
- Governmental Accounting	3 hrs	-
- Advanced Cost Accounting	3 hrs	-
- Seminar and Research	3 hrs	3 hrs
Total	<b>33 hrs</b>	<b>18 hrs</b>
<b>C. Elective requirement for the department</b>		<b>6 hrs</b>
		<b>6 hrs</b>
<b>4. Accounting electives or minor specialisation requirement</b>	<b><u>12 hrs</u></b>	<b><u>21 hrs</u></b>
<b>Total requirements for Bachelor degree in accounting</b>	<b><u>128 hrs</u></b>	<b><u>128 hrs</u></b>



**Table 10.12**

Bachelor's degree in Accounting (single specialisation and combined honours accounting and a minor subject), Yarmouk University - Jordan, covers the period from 1991 - onwards

<u>subject</u>	<b>Single Accounting specialisation</b>	<b>Combinend honours accounting and a minor subject</b>
	<u>Hours/week</u>	
<b>1. <u>Completion of university requirements</u></b>		
- English (communication skills)	3 hrs	3 hrs
- Arabic Language	3 hrs	3 hrs
- Military Sciences	3 hrs	3 hrs
- Free electives	9 hrs	9 hrs
- Total	<b>18 hrs</b>	<b>18 hrs</b>
<b>2. <u>Completion requirements of the Faculty of Economics and Administrative Sciences</u></b>		
- Management I & II	6 hrs	6 hrs
- Accounting Principles I & II	6 hrs	6 hrs
- Economics I & II	6 hrs	6 hrs
- Statistics	3 hrs	3 hrs
- Introduction to Maths in Economic	3 hrs	3 hrs
- Introduction to Computer and its applications	3 hrs	3 hrs
- Introduction to Finance	3 hrs	3 hrs
- Total	<b>30 hours</b>	<b>30 hrs</b>
<b>3. <u>Completion requirements of the Department</u></b>		
<b>A. Compulsory requirements</b>		
- Intermediate Accounting I & II	6 hrs	6 hrs
- Partnership Accounting	3 hrs	3 hrs
- Corporation Accounting	3 hrs	3 hrs
- Research Methods	3 hrs	3 hrs
- Special Financial Accounting	3 hrs	-
- Government Institutions Accounting	3 hrs	3 hrs
- Financial Statements Analysis	3 hrs	-
- Auditing I & II	6 hrs	6 hrs
- Cost Accounting I & II	6 hrs	6 hrs
- Tax Accounting	3 hrs	3 hrs
- Management Accounting	3 hrs	3 hrs
- Accounting Theory	3 hrs	-
- Research	3 hrs	3 hrs
- Financial Mathematics	3 hrs	-
- Introduction to Finance	3 hrs	3 hrs
- Introduction to Marketing	3 hrs	3 hrs
- Quantitative Analysis and Management	3 hrs	3 hrs
- System Analysis	3 hrs	-
- Commercial Law	3 hrs	3 hrs
- Public Finance	3 hrs	3 hrs
- Organisation Behaviour	3 hrs	3 hrs

-Total	72 hrs	57 hrs
B. Elective requirements ( from Faculty courses, level 200 or above)	<u>12 hrs</u>	6 hrs
C. Minor specialisation requirement	-	21 hrs
<b>Total requirements for graduation</b>	<b><u>132 hrs</u></b>	<b><u>132 hrs</u></b>

### 10.2.2 Curricula and Methods of Instruction

The curricula in the Jordanian universities do not require practical training programmes for students. The role of accounting in economic, social, and legal development and its interdisciplinary aspects are not emphasised. However, a few courses devoted to these aspects do appear in the catalogues, but they are not offered on a regular basis.

The emphasis is on accounting methods and procedures rather than on accounting theory.

By far the most common method of accounting instruction in Jordanian universities is the lecture method. The lecture method essentially results in a one-way communication and, hence, does not create a good learning environment for students. Students' study and learning habits become passive, mechanical, and tend to focus on description and techniques rather than analysis. The students do not approach the analysis of facts and ideas in meaningful ways and so the development of their problem-solving skills is impaired.

Agami and Alkafaji (1987, p.158) point out that:

*An accounting educational system that places excessive emphasis on accounting and inadequate emphasis on general education is likely to graduate skilled accounting technicians but is not likely to produce broadly educated human beings. The graduates from such narrow educational systems will not be able to appreciate their human cultural heritage or to provide the informational needs of society.*

Gree (1990) points out that accounting education should focus on developing analytical and conceptual skills, rather than bookkeeping and amortisation. The emphasis should be on developing life long learning skills rather than immediate skills. Students also should use

computer facilities in solving sophisticated problems and this can only be done after the concepts involved have been understood.

Thus, the role of accounting education in economic development rests on a clear understanding of what is required to efficiently achieve and implement economic and social policies. Such policies may be supported by ideas maintaining that:

1. accounting has to be structured in developing countries to conform to the social, political and economic systems of institutions;
2. economic development rests on development planning in general and project appraisal in particular;
3. the role of accounting education in economic development rests on its usefulness and adaptability to the environment of development planning (Belkaoui, 1988, p.191).

Such deficiencies in the intellectual growth of Jordanian students becomes of paramount importance when viewed in conjunction with the Jordanian secondary school education system, which like its counterparts in other Middle East countries, still emphasises learning by rote.

However, a need exists to provide an active learning environment, which injects realism into accounting education, in Jordan. This can be achieved through the use of cases, practice sets, laboratory sessions, and computer-augmented accounting sessions.

Dahmash (1993, P.18) points out that the role of universities should not be concerned only with teaching and graduating students, but should also be concerned with the development process, the continuous updating of information, and providing training programmes to students. Dahmash (1993) emphasises that changes to and development of programmes and curricula must be consistent with any new changes and current issues in order to graduate students who are able to adjust themselves to practical life.

Academics and practitioners cannot be separated. The academic profession teaches, prepares and makes graduate students aware of the knowledge required. The academic must conduct research essential to the profession, and help in the improvement and development of the

practical applications of accountants. On the other hand, practitioners provide continuous improvements to accountancy performance through the evaluation and efficient utilisation of accounting art. It is also important to include different subjects among the accounting curriculum such as Arts, Mathematics, Economic, and Human and Social Sciences. This may help students to communicate and study accounting and management in a more efficient way by concentrating upon statistical analysis, law and a variety of accounting subjects.

Apart from the deficiency arising from the gap between teaching and practice, university teaching is difficult because of the existing high student-teacher ratios. In addition, the non-availability of cases, textbooks, and other reading materials related to the Jordanian business environment still remains a serious problem facing accounting education in Jordan. Local academic Journals on accounting and cognate topics, are few in number and exist mainly in the universities such as the Dirasaat Journal at Jordan University, the Mu'tah Lil-Buhooth Wa Al-Dirasat Journal at Mu'tah University and the Abhath Al-Yarmouk Journal at Yarmouk University. The accounting articles published in English and Arabic in these journals provide a forum for academicians and professionals to exchange views on matters of professional interest.

A recent phenomenon is the holding of academic and professional accounting conferences in Arab states. The purpose of these conferences is to exchange opinions and views on issues of current interest. For example, the Accounting and Finance and Banking Departments of the Faculty of Economics and Administrative Sciences at Yarmouk University, Jordan, held its first conference in accounting and finance in December 1989. Academicians and professionals from Jordan, other Arab countries and America attended and participated.

Also, the General Union of Arab Accountants and Auditors held their ninth conference in Amman, Jordan, in July 1992, devoted to the objective of developing accounting and auditing standards that would enhance the Arab economic union.

## **Chapter Eleven**

### **Accounting Education in Jordan (Empirical survey)**

The purpose of this chapter is to present an analysis of the results of the survey regarding accounting education in Jordan. This chapter is devoted to an analysis of the opinions of practitioners, academic and governmental agencies on the existing accounting education programmes in Jordan; to defining the extent to which these programmes are deficient, indicating the reasons for such deficiencies and examining how they can be improved. This chapter will also identify the major factors that influence teaching at local academic institutions.

#### **11.1 Opinions regarding the state of accounting graduates from Jordanian universities**

One objective of the survey was to solicit opinions regarding the state of accounting education from Jordanian academic institutions (especially universities and community colleges).

The respondents were asked to indicate their opinions regarding whether or not accounting graduates from universities are adequately prepared, and if not, to spell out the major reasons for this problem.

Another objective of the study was to solicit opinions regarding the establishment of Accounting Development Centres (ADC) sponsored by the government as a means to improve accounting education in Jordan. The respondents were also asked to indicate their opinions on the appropriateness of each of many suggested vehicles for improving the teaching of accounting at local academic institutions. Also, respondents were asked to indicate their opinions on the means and procedures suggested for the improvement of accounting educational systems in Jordan.

### 11.1.1 Opinions regarding the state of accounting graduates from Jordanian universities

Question 7 of Part 1 of the questionnaire solicited opinions on the state of accounting graduates from Jordanian universities. It sought to determine whether respondents believe that accounting graduates are adequately prepared for the demands of workplace. The responses in all groups indicate that slightly over half (53.6% of the respondents) believe that graduates are inadequately prepared. This result is (more or less) the same among the three groups. The responses are shown in Table 11.1.

**Table 11.1:** Frequency distribution of the opinions regarding the state of accounting graduates from Jordanian universities

	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>Total</b>
inadequately prepared %	76 54.7%	32 57.1%	34 48.6%	142 53.6%
adequately prepared %	63 45.3%	24 42.9%	36 51.4	123 46.4%

The explanation obtained from the interviews conducted by the researcher, for the general belief that accounting graduates from Jordanian universities are inadequately prepared was the agreement amongst interviewees that there is a gap in the teaching process between theory and practice.

### 11.1.2 Opinions regarding the reasons for graduates being inadequately prepared

Questions 8a to 8e of Part 1 of the questionnaire solicited the views on the perceived reasons for graduates from Jordanian universities being inadequately prepared. These questions and related responses are presented in Table 11.2.

**Table 11.2:** Opinions regarding the reasons for graduates from Jordanian universities being inadequately prepared.

**Question 8** Please indicate the extent to which you agree (+2, +1) or disagree (-2, -1) (or not sure = 0) with each of the following as one of the major reasons for the problem identified in Question 7 above (i.e., inadequately prepared accounting graduates).

	Group 1		Group 2		Group 3		Total	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
a. Poor remuneration scheme. Most professors supplement their income by having their own practice	.316	1.023	.345	1.233	.344	.971	.328	1.051
b. Inadequate resources. Scarcity of textbooks that meet educational needs of the students	.579	1.123	.467	1.306	.273	1.039	.482	1.144
c. Poor university infrastructure means that most professors have heavy loads	.360	.925	.700	1.317	-.61	.864	.333	1.035
d. Poor university infrastructure resulting in the creation of ineffective class groups. For example, a large number of students in class may lead to less participation by students in class discussions	.711	.991	.933	1.143	.485	1.149	.705	1.066
e. Inadequate computer facilities and other support equipment and resources	.947	.893	.767	1.165	.938	.801	.906	.935

The responses in Table 11.2 indicate a general support for all the suggested reasons for inadequately prepared graduates except that Group 3 does not support the suggestion that poor university infrastructure (i.e, most professors have heavy loads) could be a major reason.

Although the responses indicate a general support for the reasons specified in the question, there is a variation in preferences among the groups regarding each question, as shown in Table 11.3. Group 1 and 3 suggest “inadequate computer facilities and other support equipment and resources” as the most preferred reason for the perceived inadequate accounting education in Jordan. Group 2 considers this reason as the second best and “poor university infrastructure” as the most preferred though Group 1 and 3 consider this factor as the second best.

Table 11.3: Variations in preferences regarding the reasons behind the problem of the accounting graduates from Jordanian universities being inadequately prepared.

Group	No. of preferences greater than other groups	No. of preferences lesser than other groups	No. of preferences not greater or lesser than other groups
G 1	2	1	2
G 2	3	1	1
G 3	-	3	2
Total	5	5	5

When their mean scores for each suggested reason were considered, (see Table 11.3), G 2 overscores in 3 out of 5 cases and underscores in 1 case and in 1 case stays in between. Group 1 overscores in 2 out of 5 cases, 2 cases stays in between and underscores in 1 case. Group 3 underscores in 3 out of 5 cases and in 2 cases stays in between.

Moreover, some respondents provided two additional reasons for the perceived accounting education inadequacy, namely, “inadequate practical applications” and “loss of professors”. This prompted the search for additional reasons to the ones specified in the questionnaire.

On the other hand, interviews conducted by the researcher revealed the following additional reasons for the problem of the accounting graduates from Jordanian universities being inadequately prepared for the demands of the workplaces.

1. Carelessness of some professors in the teaching process, some others are unqualified or not up-to-date in their knowledge, while others are inadequate in training applications.
2. Loss of qualified professors because of low remunerations, and this results in a shortage of better qualified professors.
3. Textbooks and references are either wrongly translated or are old and not updated.
4. Inappropriate teaching methods (i.e., using lecture style), less concentration on case studies and insufficient consideration of the local environment in the teaching process.
5. Most professors in accounting are foreigners who are not aware of the local environment and apply old teaching styles.



6. Carelessness of accounting students towards accounting education. Students concentrate upon marks to pass the course rather than upon the information. This, however, results in inadequate graduates.
7. No emphasis upon international accounting and auditing standards in the university curriculum.
8. The large number of students in classes results in less participation and discussion by the students.
9. Inadequate training programmes and practical applications available for students.
10. The gap between academics and practitioners results in little participation, by accounting professionals, in the establishment of accounting courses and their contents and teaching plans.
11. Private universities and community colleges are established on a commercial basis and this affects the quality of teaching through accepting students with low average scores from Twjehi (secondary school).

### **11.1.3 Opinions regarding the need for the establishment of Accounting Development Centres (ADCs) sponsored by the government as a means to the improvement of accounting education in Jordan**

Questions 9a to 9e solicited opinions on the need for the establishment of ADCs sponsored by the government as a means to the improvement of accounting education in Jordan.

The questions and the related responses are presented in Table 11.4.

**Table 11.4:** Opinions regarding the need for the establishment of ADCs.

Question 9 The establishment of Accounting Development Centres sponsored by the government is essential to the improvement of accounting education in Jordan in terms of:

	Group 1		Group 2		Group 3		Total	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
a. formalising the institutional development of accounting	.799	.949	.722	.960	1.000	.853	.835	.930
b. Fostering research	1.022	.880	.943	.969	1.104	.781	1.027	.873
c. facilitating the writing and production of local text materials	.957	.741	1.094	.714	.925	.659	.977	.715
d. devising a scheme for professional training and qualification for different levels and skills	1.086	.775	1.148	.787	1.134	.625	1.112	.740
e. upgrading the quality of teaching and curricula	1.167	.770	1.056	.920	1.077	.835	1.121	.818

The responses to questions 9a to 9e indicate a strong support in most cases by each group and all groups as a whole. However, there was less enthusiasm with the desire to use ADCs to formalise the institutional development of accounting. The desire to upgrade the quality of teaching and curricula devise a scheme for professional training and differing levels of accounting qualifications.

## **11.2 The state of accounting educational programmes adopted by Jordanian academic institutions**

Questions 10 to 12 of Part 1 solicited opinions on the state of current educational accounting programmes in Jordan; the factors which influence the teaching process, and the possible means and procedures which can lead to ways of improving accounting educational systems in Jordan. Responses to each of these questions are now discussed.

### **11.2.1 Opinions regarding the state of accounting educational programmes adopted by Jordanian universities.**

Question 10 of Part 1, sought to elicit the perceptions of respondents on whether the accounting educational programmes adopted by Jordanian universities satisfy the local needs of the accounting profession. The responses of groups 1 and 2 indicate that about 50% support the suggestion and 50% were against it. Whereas Group 3 (governmental agencies) support strongly the suggestion that accounting educational programmes adopted by Jordanian universities satisfy the local needs of the accounting profession. Generally, the pooled responses indicate that all the three groups support the suggestion (52.5%). The responses of each group and all groups together are summarised in Table 11.5.

Table 11.5: Frequency distribution of the opinions regarding the state of accounting educational programmes adopted by Jordanian universities

	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>Total</b>
Yes	66	28	44	138
%	47.5%	50%	64.7%	52.5%
No	73	28	24	125
%	52.5%	50%	35.3%	47.5%

### **11.2.2 Factors that influence teaching at local academic institutions**

Questions 11a to 11d of Part 1, solicited opinions on the factors that are capable of influencing the quality of teaching at local academic institutions. The questions and the related responses are presented in Table 11.6.

Table 11.6: Opinions regarding the factors that influence teaching at local academic institutions.

Question 11: From your experience, please state whether you agree or disagree that the following factor(s) influence(s) teaching at local academic institutions:

	Group 1		Group 2		Group 3		Total	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
a. Accounting procedures and principles derived from the practices of developed countries (particularly the UK and USA) are the basis of instruction	.389	1.133	.731	1.041	.880	1.013	.561	1.103
b. Instructors' university of graduation (Local, US, UK)	.714	1.038	.320	1.345	.500	.834	.588	1.077
c. Most accounting textbooks used by Jordanian universities are based on the business environment of developed countries (particularly UK and USA) without adaptation	.569	1.111	.885	1.243	.920	.954	.707	1.114
d. Most teaching methods are based on lectures that do not allow the opportunity to participate, research, analyse etc	1.239	.801	1.115	1.143	1.417	.776	1.248	.878

The responses to questions 11a to 11d indicate a general support by each group of all factors. In general, there is a strong agreement by respondents that the “lecture method” does not allow accounting students to participate in the discussion of, research and analyse contemporaneous accounting problems. This factor is closely followed by the use of foreign textbooks as the critical factor influencing accounting education in Jordan.

### **11.2.3 Means and ways of improving accounting educational systems in Jordan**

Question 12 (open ended) of Part 1, was asked respondents to offer suggestions on the possible means and ways of improving the accounting educational systems in Jordan.

The list of means and ways suggested by the respondents are:

1. to develop research base; case studies; present seminars and research papers on teaching process;
2. to use up-to-date accounting curriculum; locally-written textbooks; journals; references; teaching materials and so on;
3. to develop teaching approaches and plans, update academic schemes and syllabi and use local environment and experience in teaching;
4. to use the experience of developed countries only where appropriate;
5. to establish research centres in the universities to deal with accounting issues;
6. to up-date accounting professors through participation in research programmes and national and international conferences;
7. to foster greater co-operation between academics and practitioners. Academics should join professionals in some organisations (such as JACPA) and practitioners should be encouraged to bring their experiences into the classroom by serving as adjunct professors or guest lecturers at universities;
8. to improve teaching process by establishing on-the-job training, increasing class discussions, use student teams system, and reduce the number of students in classes;
9. to adopt high grade admission system which will raise the pre-admission entry qualification;
10. to encourage local authors to write textbooks in the Arabic language;
11. to adopt the teaching of international accounting and auditing standards at university level;
12. to bridge the gap between theory and practice by concentrating upon the practical aspects of the accounting profession and allowing students to get training at auditing firms;
13. to establish precise laws and regulations for the accounting profession and its practices;

14. to reduce university requirement courses, increase accounting department requirement courses and develop an effective examination system.

In addition, the following additional means of improving the accounting educational systems were obtained from interviews.

1. to require accounting students at universities and community colleges to join internship with government departments and accounting firms. This can be implemented by allowing accounting students to work for a period of not less than one semester in order to provide them with practical experience. This may help in evaluating the teaching process as well as professors through the knowledge students acquire.
2. To minimise the use of lecture style of instruction, develop new teaching methods and educational plans and concentrate upon case studies derived from the local environment.
3. To hold annual conferences and seminars with the participation of experts from around the world. This would provide accounting professors the opportunity to update the knowledge.
4. To reduce the gap between the practical and theoretical aspects of accounting education by developing partnership between universities and community (private sector), by identifying market needs and then establishing plans for accounting education based on the local market.
5. To establish remuneration and motivation systems for professors (e.g., increase their salaries and reduce their work loads).

### 11.3 Summary

The purpose of this chapter has been to present the results of the survey and the interviews conducted by the researcher to collect data regarding the accounting educational systems in academic institutions in Jordan.

The results show that slightly over 50% of the respondents and interviewees support the suggestion that graduates from Jordanian universities are inadequately prepared and need to establish ADCs.

The results regarding the state of accounting educational programmes adopted by Jordanian universities show that the respondents are divided equally between supporting the suggestion that these programmes satisfy the local need of the accounting profession and the opposing suggestion that the existing programmes do not satisfy the local needs of the accounting profession in Jordan.

Furthermore, suggestions from the interviewees on the possible ways and means of improving accounting education were reported in this chapter.

## **Chapter Twelve**

### **National Accounting Standards in Jordan**

Following the discussion of the status of the accounting profession and education in Jordan, this chapter examines the need to establish a body responsible for the setting of National Accounting Standard (NASs). It deals with the structure and membership of the accounting standard-setting authority.

#### **12.1 National Accounting Standards**

There are no nationally-developed accounting standards in Jordan. The discussion in the section emphasises the importance of accounting standards for a country by calling upon what people have said about the benefits of installing an accounting standard-setting mechanism in a country.

##### **12.1.1 Need for Accounting Standards**

Several reasons have been suggested for the development of accounting standards across the world. Bromwich and Hopwood (1983) state that the purposes of accounting standards are:

1. to facilitate the process of specific corporate accountability and to be a vehicle in the regulation of the corporation;
2. to respond to demands for specific accountability which requires a precise identification of the user and his legitimate needs for information.

Also, it can help public accountants to deal with their clients by providing rules of authority to which the accountants can appeal (Benston, 1975, 1979, 1980 and 1983 ). According to McMonnies, (cited in Baxter, 1986, p.45) standards attempt to improve reports from the standpoint of shareholders. McMonnies (cited by Baxter, 1986) adds that standards may help the accountant and auditor in at least three ways.

1. It may convince an auditor's client, or an accountant's boss, that the whole profession would condemn some proposed piece of creative accounting.



2. It may provide helpful evidence of rectitude if a case comes before the courts.
3. It reduces thinking time and effort. Accounting standards have a function to ensure that investors are furnished with the information necessary for informed investment decisions.

Accounting standards protect auditors in:

1. strengthening the auditor's hand in dealing with unwilling companies;
2. creating greater clarity for the auditor in deciding whether or not an unqualified opinion can be given for a specific financial report (Baxter, 1981, and McMonnies, 1985).

Accounting standards might be useful to investors in assessing the yields and risks of alternative investments (Chambers, 1974b and Benston, 1983, p.54).

Accounting standards have a function to provide investors with the information necessary for informal investment decisions. In this respect, MacDonald (1967, p.653) points out that:

*Accounting standards play a vital role in the encouragement of private investment. Any erosion of the investor's confidence in the accounting standards of a particular nation must inevitably discourage investment in enterprises domiciled in that nation and thereby ultimately retard the growth of its economy.*

Stamp (1971, p.65) states that:

*Accounting standards, whether national or international, govern the contents of published financial statements. The contents of such statements will vary widely, depending upon the type of standards or lack of standards, in force.*

A variety of acceptable accounting principles and practices exist whereby widely different financial statements could be prepared from the same underlying set of financial data. Some companies in preparing financial statements, may adopt accepted practices which would enable the profit position to be shown in the best possible light, whereas others would adhere to the traditional principle of 'conservatism' (Samuels, 1981) cited in Khasharmeh (1986, p.67). The possibility of 'creative' accounting results in problems of comparability and understandability in published financial statements and hence eliminates the trustworthiness of such statements.

Therefore, the primary need for regulating accounting practices by the establishment of standards, arises from the need to narrow the areas of difference which exist in the methods of recording similar transactions or events.

From a management point of view, it is essential to have reliable standards for measuring and evaluating performance. Otherwise, essential elements of planning and control would be lacking, for investors and creditors. In addition, the divergent results likely to emerge from using different practices make the tasks of analysis and comparison extremely difficult. The drive towards the establishment of standards is therefore directed, in large part, to the elimination of undesirable practices, and focusing on those which can be shown to be meaningful and appropriate to the needs of the users of financial information (as well as consultant) (Miles, 1978, p.28).

The occurrence of economic consequences has added a social value dimension to the regulation of external financial reporting. It is widely believed that the income numbers reported in published financial statements may have the potential to influence the structure of security prices and, thereby, affect the distribution of wealth in a society and the allocation of capital to various users in the economy. Thus, accounting standards create a basis for confidence in corporate activities and the functioning of financial markets and provide information for economic decision-making.

Both measurement and disclosure dimensions can have potential economic consequences. One of the principal effects is the impact which a standard is likely to have on reported earnings, shareholders' equity, and other significant accounts and ratios of affected companies.

In spite of the tremendous benefits of accounting standards, that objective has been criticised by some authors on the following grounds.

- The making of standards is becoming costly and bureaucratic. Standards may also burden companies with high start-up and running costs.
- Accounting standards-setting procedures may become petrified procedures. What starts as progress may later become a check on progress.
- Accounting figures are not docile, and do not lend themselves to standardisation.
- Accounting standard-setters may have to bow to political pressures.

### 12.1.2 Who sets Accounting Standards?

In promulgating standards, standards-setters should consider the following issues.

- No set of standards will be effective unless it has sufficient support from the community and from the profession.
- No support from the community will be forthcoming unless a standard strikes a fair balance between conflicting interests.
- No support from the profession will be forthcoming unless standards involve truth and fairness in presentation as perceived by the profession. Politicians, in addressing accounting issues, should recognise the expert dimension, and should accept that accounting exists to serve its own objectives, and not the political aims of government (Burggraaff, 1983, p.11).

There is a strong belief within the profession world-wide that accounting standards, and especially those of measurement, should be set by the profession because professional accountants are considered to be experts on the subject. They have a thorough knowledge of the business environment and business practices and of the accounting treatments appropriate to reflect them. Moreover, professional accountants are independent of both preparers and users and, thus, they can express an unbiased opinion on how transactions, events and conditions can best be accounted for in order to ensure that financial statements fairly present financial position and results (Burggraaff, 1983, p.5). In this respect, Accounting Principles and the City Code: The case for Reform (Butterworths, 1970), (cited in Stamp, 1973, p.14) states that:

*If modern accounting practice is to retain flexibility and adaptability, in order to establish and ensure its continuing relevance to the needs of investors, it seems essential that the development of accounting principles should be left in the hands of the profession. Only in this way will the necessary flexibility be preserved.*

According to Kirkpatrick (1981), the accounting profession must always have a special position in standard setting because, after all, it is the profession which is acknowledged as possessing the particular skills required in developing standards.

Abu-Ghazaleh (1986), in his paper at the meeting of US accountants, states that the existence of an active recognised professional accounting body is a prerequisite for establishing accounting and auditing standards.

Others argue that multinational corporations should also be involved in standard setting. Cummings and Rogers (1978, p.12) point out that:

*Our suggestion to the multinational is to become involved in the setting of standards and guide-lines and then use these harmonised reporting and guide-lines suggestions to more fully communicate [their] accomplishments to others. While we understand that such standardisation of reporting will not solve all multinational/host country disputes or cause a totally rational discussion between labour and business, we do believe a more standardised reporting which addresses the information needs of each may improve the dialogue.*

Others (including Abu-Ghazaleh, 1986) believe that responsive government and public support together with the existence of an accounting body are all required for effective standard-setting. In the case of responsive government, it is considered to be the most important factor for the effective implementation of accounting standards. It is the government which lays down the rules for preparation of financial statements and licenses auditors to check adherence to such rules and regulations.

Public support is closely linked with responsive government. It is considerably easier to obtain adoption of accounting standards where there is support from the public at large. In the case of existing professional bodies, it is essential that there exists an established professional society that can develop and promulgate standards and establish an ethical code which has strong persuasive authority.

Purvis, Gernon and Diamond (1991, p.25) point out that standard-setters are institutions or groups responsible for setting national accounting and reporting standards. These groups may be in the private sector, e.g., the Financial Accounting Standards Board (FASB) and the Current Accounting Standards Committee in Canada and the United Kingdom.

In some countries, these national standards-setters may be government agencies, or even the government itself. For example, in Japan, the Business Accounting Deliberations Council, affiliated to the Ministry of Finance, is involved in setting accounting standards, whereas in Germany, accounting standards are set by parliament through the Ministry of Justice. In the Netherlands, parliament has primary responsibility (again through the Ministry of Justice), but there is also an independent, private sector council for annual reporting.

In general, the body setting accounting standards must consist of people who are not only accountants but also experts in language and in legal matters relating to Company Law, amongst others.

In short, all users of financial statements (investors, employees and their representatives, creditors, suppliers, customers, governments and the public at large) expect such information to provide a true and fair view of the enterprise and its activities. The best way to ensure that users' interests are adequately reflected is to have them participate in the standard-setting process. For this purpose users' groups can either be represented on decision-making bodies, participate in consultative groups and/or be given an opportunity to comment in writing on draft standards.

## 2.2 Empirical survey

Against the background of corporate reporting unfettered by accounting standards, the views of practitioners, academics and governmental agencies were solicited on the need for developing national accounting standards (NASs) and the preconditions for developing NASs.

### 12.2.1 Opinions regarding the need for developing National Accounting Standards (NASs) in Jordan.

Question 13 of Part 1 of the questionnaire asked for opinions regarding the need for developing NASs in Jordan.

Table 12.1 presents the summary of the responses to the question on the need for developing NASs.

**Table 12.1** Frequency distribution regarding the need for developing  
NASs in Jordan

	Group 1	Group 2	Group 3	Total
Yes	113	49	59	221
%	84.3%	90.7%	86.8%	86.3%
No	21	5	9	35
%	15.7%	9.3%	13.2	13.7%

Table 12.1 shows that there is a strong support by each group. The pooled response (i.e., 86.3%) suggests that there is a need to develop national accounting standards in Jordan.

### 12.2.2 Opinions regarding the preconditions for developing NASs in Jordan.

Questions 14a to 14d of Part 1 of the questionnaire asked for opinions regarding the preconditions for developing NASs in Jordan. These questions and the related responses are presented in Table 12.2.

**Table 12.2** Opinions regarding the preconditions for developing NASs in Jordan.

**Question 14** Do you think that when developing national accounting standards the following items should be taken into consideration?

	Group 1		Group 2		Group 3		Total	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
a. Stage of economic development	1.131	.764	1.036	1.053	1.114	.790	1.107	.828
b. The needs of accounting information users	1.311	.617	1.255	.515	1.100	.684	1.242	.639
c. Recommendations from international bodies (such as International Accounting Standards Committee (IASC) and the United Nations (UN))	1.250	.718	1.145	.803	1.043	.788	1.172	.758
d. Internal environmental factors (such as cultural, political and social characteristics)	.970	.897	1.145	.756	.944	.998	1.000	.899

Table 12.2 shows that there is a general support by all groups for each suggested precondition for developing NASs in Jordan. In addition to the four preconditions listed in the questionnaire, some respondents suggest one precondition for developing NASs, namely, the local tax system.

**12.3 The structure and membership of the authority to be charged with setting national accounting standards in Jordan**

**12.3.1 Opinions regarding the membership of NASs in Jordan**

Questions 15a to 15f of Part 1 were asked to solicit opinions regarding the structure and membership of the proposed NASs authority in Jordan. These questions and the related responses are presented in Table 12.3.

**Table 12.3** Opinions regarding the membership of NASs Authority in Jordan  
Question 15 Which of the following should take part in the setting of accounting standards in Jordan?

	Group 1		Group 2		Group 3		Total	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
a. Jordanian Association of Certified Public Accountants (JACPA)	1.609	.490	1.250	.640	1.362	.747	1.468	.616
b. Government agencies (such as Ministry of Finance, Amman Financial Market, Audit Bureau)	1.130	.886	1.125	.810	1.275	.662	1.167	.816
c. Academics in universities	1.254	.745	1.429	.499	1.377	.709	1.323	.692
d. Social, religious and legal advisors	.543	.990	.732	1.000	.706	1.052	.626	1.008
e. Auditing firms	1.404	.734	1.278	.596	1.377	.644	1.371	.683
f. Suggested accounting standards authority created from members of the above mentioned bodies	1.163	.956	1.302	.822	1.333	.657	1.237	.858



Table 12.3 shows that there is strong support from all groups about each suggested member of the proposed authority, except for the social, religious and legal advisors where there is general support by all groups but not strong. Groups 1 and 2 tended to favour their respective profession. Group 1 best preferred the accounting profession (JACPA) and auditing firms as members of the accounting standard-setting body. Group 2 best preferred academics in universities. Group 3 respondents tended to be somewhat neutral. They strongly recommended auditing firms and academics in universities (equally) for membership and, like other two groups - rated government participation as the second least preferred members. Some respondents suggested the inclusion of the private sector, and Amman Financial Market.

### 12.3.2 Who should play the leading role in setting NASs in Jordan?

Question 16 of Part 1 of the questionnaire, asked for opinions regarding the organisation which should play the leading role in setting NASs. The results of the responses are shown in Table 12.4.

**Table 12.4** Frequency distribution regarding the organisation which should play the leading role in setting NASs in Jordan

Name of organisation	Group 1	Group 2	Group 3	Total
JACPA ,	120 87%	42 76.4%	52 74.3%	214 81.4%
Governmental agencies	5 3.6%	4 7.3%	11 15.7%	20 7.65
Academics	2 1.4%	7 12.7%	3 4.3%	12 4.6%
Social, religious and legal advisors	1 0.70%	2 3.6%	-	3 1.2%
Auditing firms	8 5.8%	-	3 4.3%	11 4.2%
Others	2 1.4%	-	1 1.4%	3 1.1%

Table 12.4 shows that there is strong support by all groups (81.4%) for JACPA to play the leading role. In support of the locale response to the suggestion that government should participate in standard-setting, responses to the interviews conducted by the researcher in Jordan suggest that governmental agencies should not be part of the membership of the authority but can participate by providing financial, legal and compliance support to the authority to be charged with setting up the NASs in Jordan.

Against the backdrop of the preceding report of responses from the questionnaire, Diagram 12.1 was developed to provide a framework for the structure and membership of the proposed NASs authority in Jordan.

### **12.3.3 The structure and membership of the authority**

The structure of the proposed authority shows that membership includes the following organisations (bodies)

1. JACPA as a leader
2. Professional audits and accounting firms
3. Private sector enterprises
4. Amman Financial Market
5. Academic accountants
6. Religious and legal advisors

The structure also suggests that government agencies be excluded from the membership of the accounting standard authority but however, can participate through its agencies (such as the Audit Bureau, Ministry of Trade and Industry, Ministry of Finance, Central Bank of Jordan, and others) in providing legal, compliance and financial support to the authority.

Moreover, the structure shows the likely influence of internal factors (such as community attitudes, income tax law and so on) and external factors (such as the IASC's standards, World Bank, UN, and so on) upon the establishment of the proposed NASs authority.

Furthermore, the structure also shows the process of issuing Jordanian accounting standards, in which the Authority first issues an exposure draft of a JAS for comments from

constituencies, then the authority issues the accounting standards after considering the comments to the exposure draft.

**12.3.4 Opinions regarding whether the Authority of setting NASs in Jordan should be independent from governmental influence**

Question 17 of Part 1 of the questionnaire, was asked to solicit opinions regarding the independence, from governmental influence, of the authority which assumes the responsibility of setting up NASs. Table 12.5 presents the results of the respondents in this regard.

**Table 12.5:** Frequency distribution regarding whether the body assuming the responsibility of setting NASs be independent from governmental influence

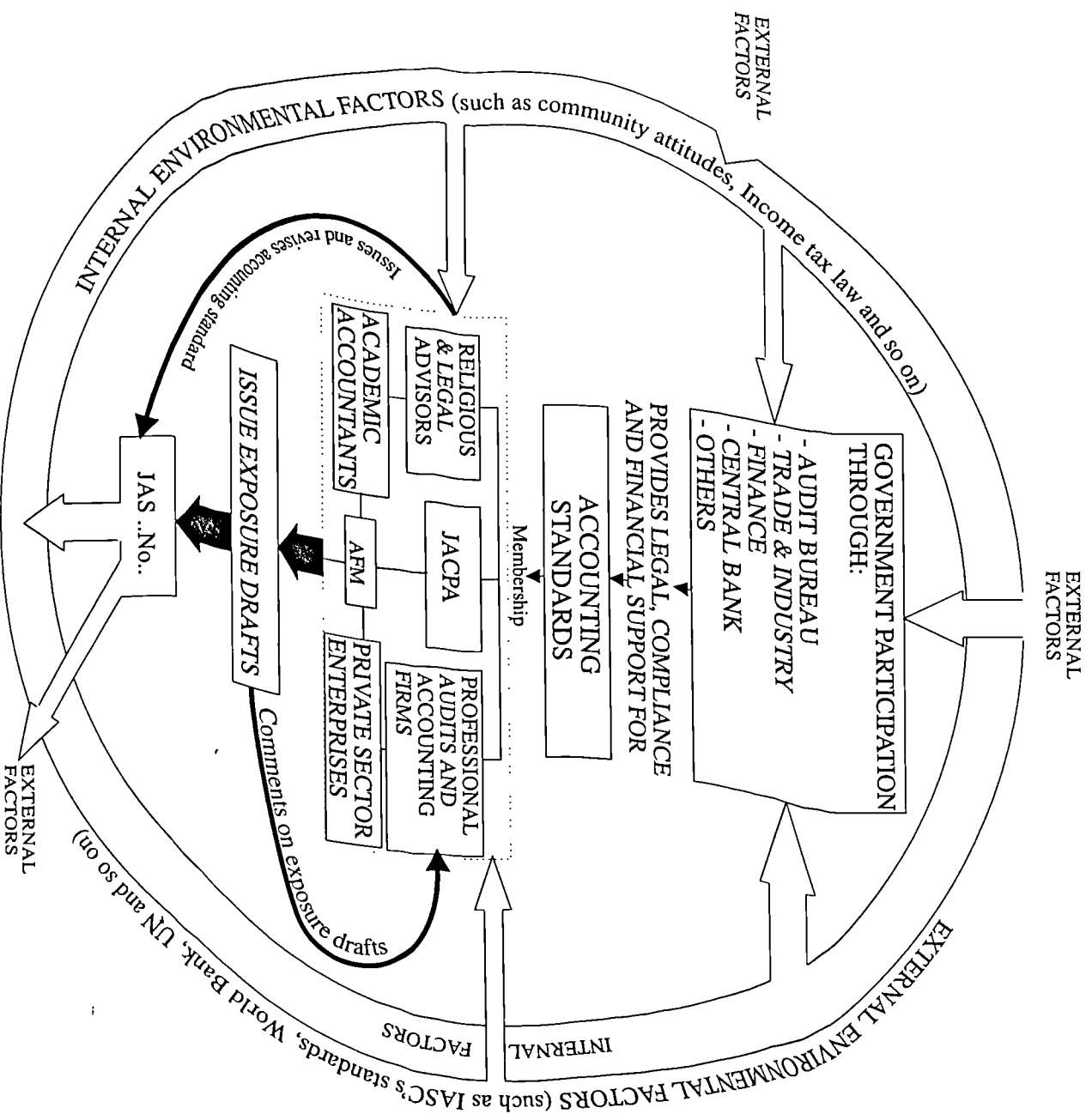
	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>Total</b>
Yes	109	34	50	193
%	79%	60.7%	70.4%	72.8%
No	16	8	14	38
%	11.6%	14.3%	19.7%	14.3%
Unsure	13	14	7	34
%	9.4%	25%	9.9%	12.8%

Table 12.5 shows that all groups generally support the suggestion (72.8%). But, as mentioned earlier in this chapter, most of the interviewees recommend that the government should participate in terms of providing legal, compliance and financial support only to the proposed authority.

**12.4 Summary**

The purpose of this chapter was to solicit views regarding the need to develop National Accounting Standards (NASs) in Jordan and the preconditions for their development. The results show strong support by all groups on the need to develop NASs and the suggested preconditions.

Moreover, the results indicate strong agreement by all groups on the structure of the authority, and that JACPA should play the leading role in setting up the NASs.



**Key :**

- IASC** International Accounting Standards Committee.
- UN** United Nations
- JACPA** Jordanian Association of Certified Public Accountants
- AFM** Amman Financial Market
- JAS** Jordanian Accounting Standard

DIAGRAM 11.1: PROPOSED STRUCTURE OF ACCOUNTING STANDARDS AUTHORITY - JORDAN

**PART IV - THE QUALITY OF CORPORATE  
FINANCIAL REPORTING IN JORDAN**

## Chapter Thirteen

### Corporate Financial Reporting in Jordan

The main purpose of this chapter is to evaluate corporate annual reporting by Jordanian enterprises with reference to national and international relevance. More specifically, this chapter aims to:

1. examine the impact of the IASC's standards upon corporate reporting practices in Jordan through a study of the perceptions of users, accounting academics and government functionaries.
2. evaluate the adequacy of corporate reports and accounts in Jordan.

#### **13.1 Empirical survey of the impact of the IASC's standards upon corporate financial reporting practices in Jordan.**

##### **13.1.1 Knowledge of the International Accounting Standards Committee (IASC)**

Questions 1 and 2 of Part 2 of the questionnaire were asked to solicit opinions regarding knowledge of the IASC.

Tables 13.1 and 13.2 present opinions regarding knowledge of the IASC.

**Table 13.1: Knowledge through having heard about the IASC**

	<b>Accounting firms and corporations Group 1</b>	<b>Academic institutions Group 2</b>	<b>Governmental agencies Group 3</b>	<b>Total</b>
Yes	121	42	42	205
%	87.1%	77.8%	59.2%	77.7%
No	18	12	29	59
%	12.9%	22.2%	40.8%	22.3%

Table 13.1 shows that 87.1% of Group 1 respondents have heard of the IASC because they use IASC's standards on a day-to-day basis. About 77.8% of Group 2 respondents have heard of the IASC. This group of respondents teach accounting and accounting standards of the IASC. However, only 59.2% of Group 3 respondents have heard of the IASC. This is surprising given the fact that IASC's standards are recommended by JACPA (the accountancy profession) for use as bases for preparing annual reports and accounts in Jordan.

**Table 13.2:** Knowledge about the function of the IASC

	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>Total</b>
Yes	84	32	29	145
%	73%	80%	70.7%	74%
No	31	8	12	51
%	27%	20%	29.3%	26%

Those respondents who indicated that they have a knowledge of IASC were asked if they knew the function of IASC. The response revealed that a majority of them are aware of IASC's functions. Table 13.2 shows that a greater proportion of Group 2 (academics) respondents have a very good knowledge of the function of the IASC than the respondents from the other two groups. This result is expected because most academics graduate from either the UK or the USA and have been taught about the IASC. In contrast, Groups 1 and 3 have almost the same level of knowledge (good) about the function of the IASC. Most of those who indicate knowledge of the functions of the IASC state the predominant function of the IASC to be issuing international accounting standards.

**13.1.2: Advantages to Jordan resulting from requiring the annual reports and accounts of Jordanian enterprises to conform with IASC's standards**

Questions 3a to 3e of Part 2 of the questionnaire were asked to solicit opinions regarding the advantages to Jordan that could result from requiring financial reporting by Jordanian enterprises to conform with IASs. The questions and the related responses are presented in Table 13.3.

**Table 13.3:** Opinions regarding the possible advantages to Jordan resulting from the reporting by Jordanian enterprises to conform with the IASs.

**Question 3** Please indicate the extent of your agreement with the following possible advantages to Jordan that would result from the requirement that financial reporting by Jordanian enterprises should conform with the IASs.

	Group 1		Group 2		Group 3		Total	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
a. Saves time and effort in developing national standards	1.233	.618	.619	.987	.875	1.017	1.035	.831
b. Reduces the set-up and production costs of accounting standards	1.099	.700	.500	1.042	.950	.815	.946	.834
c. Facilitates the growth of direct foreign investments in Jordan	1.050	.878	.452	.993	1.079	.784	.930	.916
d. Facilitates the growth of domestic investment	.725	.907	.405	1.061	.825	1.035	.678	.972
e. Enhances comparability of financial statements	1.336	.655	1.244	.860	1.225	.768	1.295	.722



Table 13.3 shows that there is general support by all groups for the suggested advantages.

On the basis of the mean scores of responses there is a “constructed unanimity” in the belief that the “enhancement of comparability of financial statement” is “the most important” of the suggested advantages. There is also an agreement between Groups 1 and 2 respondents that the second advantage to Jordan from adopting IASC’s standards is that it saves time and effort in developing national accounting standards. This advantage was ranked fourth by Group 3 respondents. All respondents seem to believe that “the facilitation of the growth of domestic investment” is the least important advantage to Jordan from adopting IASC’s standards.

The responses from interviews conducted by the researcher in Jordan suggest the following additional advantages.

1. Improves the perception of the accounting professions across the world of financial reporting in Jordan.
2. Encourages international financial institutions such as the World Bank to grant funds to Jordan.
3. Facilitates the growth of foreign investments in Jordan.

### 13.1.3 Opinions regarding the possible means to achieve international accounting harmonisation

As a part of a mail survey conducted by the researcher to elicit opinions of Jordanians on several issues of accounting, Questions 5a to 5f of Part 2 of the questionnaire solicited opinions on the preferred means of achieving international accounting harmonisation.

The survey elicited opinions from three different user-groups in Jordan - Group 1 comprises professional accountants, Group 2 refers to university lecturers in accounting while Group 3 is made up of government accounting officials. The questions relating to harmonisation and the mean score of responses are presented in Table 13.4.

Table 13.4: Opinions on possible means of achieving international harmonisation  
**Question 5.** Please indicate the extent to which you agree or disagree with each of the following as possible means to achieve international accounting harmonisation.

	Group 1		Group 2		Group 3		Total	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
a. By co-operation and support of national standard-setting bodies from industrialised economies	1.159	.632	.968	.795	1.211	.843	1.136	.712
b. By the support of international organisations such as the world bank	.796	.862	.935	.814	.923	.957	.848	.873
c. By the support of international accounting/auditing firms	1.333	.547	1.355	.661	1.075	.917	1.279	.671
d. By the support of international investors	.785	.869	.839	.860	.769	.931	.791	.877
e. By the support of multinational firms	.792	.881	.933	.785	.718	1.025	.800	.897
f. By the support of developing countries	.729	.875	1.000	.743	1.000	1.076	.835	.908

Although the respondents in all groups support the suggested ways and means to achieve international accounting harmonisation, there are variations in the preferences of the groups regarding each item in the question. Both Groups 1 and 2 ranked “support of international accounting/auditing firms” as the

most preferred option while Group 3 suggests that “co-operation and support of national standard-setting bodies from international economies” is most crucial for the success of international accounting harmonisation. Similarly, Group 1 and 2 were least enthusiastic about “support of developing countries” as the crucial vehicle for harmonisation while Group 3 offers a weak support for “multinational firms”.

**Table 13.5:** Variations in the preferences of each group regarding the possible means to achieve international accounting harmonisation

Group	No. of preferences greater than other groups	No. of preferences lesser than other groups	No. of preferences not greater or lesser than other groups
G 1	-	1	5
G.2	4	1	-
G.3	1	3	1
Total	5	5	6
No. of preferences which two or more groups valued higher/lesser than the rest	1	1	
	6	6	

Table 13.5 above shows that Group 2 has a greater tendency to overscore (4 out of 6 cases). Group 3 has a greater tendency to underscore (3 out of 6 cases). Group 1 seems to be less sure than the other groups (it neither overscores nor underscores in 5 out of 6 cases).

**13.1.4 Opinions regarding the organisation most likely to attain international harmonisation of accounting standards**

In order to determine whether the IASC is the appropriate organisation for promoting international harmonisation of accounting, Question 6 in Part 2 of the survey questionnaire administered in Jordan, solicited opinions on the organisation which respondents consider could successfully attain international accounting harmonisation. The mean responses reported in Table 13.6 indicate that the respondents were unanimous in their choice of the IASC as the “best” organisation most likely to achieve harmonisation.

**Table 13.6** Opinions regarding the organisation most likely to attain international harmonisation of accounting standards.

Question 6 If you think that harmonisation is desirable, with rate on a scale of 1 (most improbable) to 5 (most probable), score each of the following as the one that could attain such a goal.

	Group 1		Group 2		Group 3		Total	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
a. United nations	2.818	1.310	3.186	1.258	3.122	1.503	2.956	1.344
b. International Federation of Accountants	4.041	1.136	3.860	.915	3.950	1.176	3.985	1.098
c. International Accounting Standards Committee	4.471	.827	4.023	.976	4.488	.870	4.379	.885
d. A body comprising securities organisation / authorities from different countries	3.067	1.262	3.163	1.214	3.737	1.329	3.214	1.284
e. An international body comprising national standards	3.000	1.270	3.068	1.246	3.439	1.285	3.102	1.274
f. A body comprising national accounting standards from Arab countries	3.500	1.209	3.568	1.208	3.854	1.370	3.585	1.244

This unanimity on the choice of IASC as the “best” organisation to promote international accounting harmonisation may be due to the bias which might have resulted from the adoption of IASs in Jordan and the lack of opportunity to experiment with any other organisation.

The choice of the IASC by Jordanian respondents as the “best” organisation that can promote international accounting harmonisation was further probed by asking the respondents to the earlier question to indicate whether they believe that the IASC could achieve international harmonisation of accounting practices. The survey indicates a strong support from the three user - groups.

Table 13.7 presents the results. There is a striking asimilarity in the agreement with the view that the IASC can achieve international accounting harmonisation - so affirming the “correctness” of the decision of JACPA and the belief that the use of IASs can help developing countries to improve the level of the financial reporting by companies domiciled in them. Countries lacking strong professional accounting bodies or regulatory agencies capable of producing indigenou standards like Jordan can simply adopt IASC pronouncements at negligible cost and can increase the confidence of international investors whilst doing so. Another support for Jordan’s action is Larson’s (1993) conclusion that those countries that have adopted and modified IASs have experienced significantly higher rates of economic growth than those countries that either have not adopted the IASC's standards or have adopted them without modification.

The price they may pay in achieving such economies is, of course, to impose disclosure requirements on their own enterprises that are too complex or otherwise inappropriate to local needs (Peasnell, 1993, p.5).

**Table 13.7** Frequency distribution regarding the possibility of the IASC achieving international accounting harmonisation

	Group 1	Group 2	Group 3	Total
Yes	108	32	40	180
%	89.3%	74.4%	95.2%	87.4%
No	13	11	2	26
%	10.7%	25.6%	4.8%	12.6%

### 13.1.5 Appropriateness of the IASC's standards for Jordan

The preceding revelation that there is a general agreement that the adoption of IASC's standards in Jordan has advantages is no indication that those standards are appropriate for Jordan. To elicit the perceptions of respondents on the appropriateness of each of the 30 extant IASC's standards, Questions 8.1 to 8.31 of Part 2 of the questionnaire were asked.

Table 13.8 presents the questions and the related responses.

**Table 13.8:** Appropriateness of the IASC's standards for Jordan

Question 8: To what extent do you agree that each of the following IASC's standards are appropriate for Jordan? Please rate your opinion on a scale of 1 to 5 below.

	Group 1		Group 2		Group 3		Total	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
IAS 1 - Disclosure of accounting policies	3.959	.970	3.409	.923	3.650	.975	3.780	.983
IAS 2 - Valuation of inventories	3.868	.957	3.558	1.031	3.650	1.051	3.760	.996
IAS 3 - Consolidated financial statements	3.810	.977	3.250	1.014	3.475	1.109	3.624	1.034
IAS 4 - Depreciation accounting	3.917	.927	3.614	.993	3.610	.0919	3.791	.947
IAS 5 - Information to be disclosed in financial statements	3.975	.880	3.818	.971	3.775	.891	3.902	.902
IAS 7 - Cash flow statements	3.775	1.000	3.795	.795	3.707	.901	3.766	.936
IAS 8 - Unusual and prior period items and changes in accounting policies	3.744	1.004	3.465	.984	3.561	.976	3.649	.997
IAS 9 - Accounting for research and development activities	3.455	1.008	3.318	1.052	3.400	1.057	3.415	1.024
IAS 10 - Contingencies and events occurring after the balance sheet date	3.802	1.013	3.386	.841	3.600	.900	3.673	.968
IAS 11 - Accounting construction contracts	3.625	1.005	3.409	.897	3.487	1.121	3.552	1.005
IAS 12 - Accounting for taxes on income	3.083	1.234	3.116	1.028	3.268	1.162	3.127	1.176

IAS 13 - Presentation of current assets and current liabilities	3.967	.869	3.750	.811	3.756	.943	3.878	.874
IAS 14 - Reporting financial information by segment	3.504	.919	3.523	.902	3.561	1.026	3.520	.934
IAS 15 - Information reflecting the effects of changing prices	3.133	1.137	3.091	1.137	3.244	1.157	3.146	1.137
IAS 16 - Accounting for property, plant and equipment	3.754	1.045	3.636	.892	3.795	.864	3.736	.977
IAS 17 - Accounting for leases	3.092	1.164	3.182	1.147	3.488	1.121	3.191	1.157
IAS 18 - Revenues recognition	3.800	1.001	3.523	.976	3.683	1.083	3.717	1.014
IAS 19 - Accounting for retirements benefits	2.744	1.084	3.070	1.163	3.225	.947	2.910	1.090
IAS 20 - Accounting for government grants	3.000	1.094	3.000	.964	3.415	1.024	3.084	1.061
IAS 21 - Accounting for the effects of changes in foreign exchange rates	3.400	1.008	3.395	1.072	3.475	1.154	3.414	1.047
IAS 22 - Accounting for business combinations	3.233	.985	3.409	1.168	3.390	1.093	3.302	1.046
IAS 23 - Capitalisation of borrowing cost	3.342	1.096	3.302	1.059	3.171	1.321	3.299	1.133
IAS 24 - Related party disclosure	3.347	.999	3.182	1.018	3.231	1.087	3.289	1.018
IAS 25 - Accounting for investments	3.750	.928	3.581	1.029	3.561	1.001	3.676	.964
IAS 26 - Accounting and reporting by retirement benefit plans	2.822	1.137	3.364	1.163	3.220	1.061	3.020	1.147
IAS 27 - Consolidated financial statements	3.556	1.029	3.545	.999	3.268	1.184	3.495	1.057
IAS 28 - Accounting for investments in associates	3.347	.990	3.318	1.073	3.325	.971	3.337	1.000
IAS 29 - Financial reporting in hyper inflationary economies	2.754	1.141	3.295	1.304	2.875	1.343	2.899	1.234
IAS 30 - Disclosure in financial statements of banks	3.731	.989	3.810	.804	3.634	.942	3.728	.941
IAS 31 - Financial reporting of interests in joint ventures	3.154	1.080	3.136	1.047	3.390	1.115	3.198	1.079

Table 13.8 shows that there is a general agreement by the respondents of all groups that all IASC's standards are appropriate for Jordan since no IAS had a mean score of less than 2.5. However, the perceived appropriateness of each IAS to each group of respondents varies relatively. When the IASs with the top mean scores are considered, one is able to draw out those IASs on which there appears to be some amount of agreement. Table 13.9 below reports the top 10 and last 3 IASs in the relative order of appropriateness to Jordan's environment. Seven IASC's standards featured in the list of top 10 from each group. These are IAS 2 (Valuation of inventories), IAS 4 (Depreciation accounting), IAS 5 (Information to be disclosed in financial statements), IAS 7 (Cash flow statements), IAS 13 (Presentation of current assets and current liabilities), IAS 16 (Accounting for property, plant and equipment), and IAS 18 (Revenue recognition). In addition, four IASs appeared in the list of top 10 appropriate standards from two groups of respondents: IAS 1 (Disclosure of accounting policies) and IAS 10 (Contingencies and events occurring after the balance sheet date) from groups 1 and 3; IAS 3 (Consolidated of financial statements) from groups 1 and 2; and IAS 30 (Disclosure in financial statements of banks) from groups 2 and 3. Only Group 2 respondents considered IAS 25 (Accounting for investments) as one of top 10 appropriate standards for Jordan. The 3 least appropriate IASs for Jordan as perceived by the three groups of respondents include - IAS 19 (Accounting for retirement benefits) considered by all the three groups to be least appropriate. This is because welfare schemes are not popular in Jordan. IAS 29 (Financial reporting in hyperinflationary economies) was considered least appropriate by Groups 1 and 3 respondents, probably because hyperinflation is not a problem in Jordan. In fact, Group 2 respondents did not consider IAS 15 (information reflecting the effect of changing prices) appropriate in Jordan. IAS 26 (Accounting and reporting by retirement benefit plans) was not valued highly by group 1 respondents. Similarly, IAS 20 (Accounting for government grants) and IAS 23 (Capitalisation of borrowing costs) were not thought of as highly appropriate for Jordan respectively by Groups 2 and 3 respondents.



**Table 13.9** 10 most appropriate and 3 least appropriate IASs as perceived by 3 Jordanian groups of respondents

Rank	Group 1 standard		Group 2 standard		Group 3 standard	
	<u>Top 10</u>					
1	IAS 5	Information to be disclosed in financial statements	IAS 5	Information to be disclosed in financial statements	IAS 16	Accounting for property, plant and equipment
2	IAS 13	Presentation of current assets and current liabilities	IAS 30	Disclosure of financial statements of banks	IAS 5	Information to be disclosed in financial statements
3	IAS 1	Disclosure of accounting disclosure	IAS 7	Cash flow statements	IAS 13	Presentation of current assets and current liabilities
4	IAS 4	Depreciation accounting	IAS 13	Presentation of current assets and current liabilities	IAS 7	Cash flow statements
5	IAS 2	Valuation of inventories	IAS 16	Accounting for property, plant and equipment	IAS 18	Revenue recognition
6	IAS 3	Consolidated financial statements	IAS 4	Depreciation accounting	IAS 30	Disclosure in financial statements of banks
7	IAS 10	Contingencies and events occurring after the balance sheet date	IAS 25	Accounting for investments	IAS 1	Disclosure of accounting policies
8	IAS 18	Revenue recognition	IAS 2	Valuation of inventories	IAS 2	Valuation of inventories
9	IAS 7	Cash flow statements	IAS 27	Consolidated of financial statements	IAS 4	Depreciation accounting
10	IAS 16	Accounting for property, plant and equipment	IAS 14	Reporting financial information by segment	IAS 10	Contingencies and events occurring after the balance sheet date
			IAS 18	Revenue recognition		
<u>Least 3</u>						
1	IAS 26	Accounting and reporting by retirement benefit plans	IAS 15	Information reflecting the effects of changing prices	IAS 19	Accounting for retirement benefits
2	IAS 29	Financial reporting in hyperinflationary economies	IAS 19	Accounting for retirement benefits	IAS 23	Capitalisation of borrowing costs
3	IAS 19	Accounting for retirement benefits	IAS 20	Accounting for government grants	IAS 29	Financial reporting in hyperinflationary economies

Those respondents to face-to-face interviews who regarded some of the IASs as less appropriate, attribute their attitudes to lack of relevance of IASs to local circumstances.

1. For example, regarding IAS 12 - Accounting for taxes on incomes: the respondents indicate that IAS 12 is not applicable in Jordan because the Local Income Tax Law

applied is totally different from the IAS 12 requirements. For example, recognition of the term 'deferred tax' in financial statements would be at variance with the desire to avoid paying tax at present and on the future.

2. IAS 21 - Effects of changes in Foreign Exchange Rates: In 1988, when Jordan devalued its currency (Jordanian Dinar) by about 50%, companies with foreign debts experienced high losses. In order to reduce the burden of devaluation losses on the reported income on the corporate annual report of 1988, the government approved the amortisation of devaluation losses over 5 years. This is inconsistent with IAS 21.
3. IAS 19 and 26 are not applicable to the present situation of Jordan since it is not the practice of employers to cater for their employees after leaving their employment. There is a national provident fund scheme similar to the national insurance scheme in the UK and employers have no obligation to create other schemes in addition to the national provident scheme.

#### **13.1.6 The impact of the IASC's standards upon domestic financial reporting practices in Jordan.**

Questions 9.1 to 9.31 of Part 2 of the questionnaire were asked to solicit opinions regarding the impact of the IASC's standards upon domestic financial reporting practices in Jordan. These questions and the related responses are presented in Table 13.10.

**Table 13.10:** Opinions regarding the impact of the IASC's standards upon domestic financial reporting practices in Jordan

Question 9 To what extent do you agree that the IASC's standards have an impact upon domestic financial reporting practices in Jordan?

(Figure in parenthesis refers to the rank out of 30 standards)

	Group 1		Group 2		Group 3		Total	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
IAS 1 - Disclosure of accounting policies	3.842 (2)	.979	3.136	1.047	3.561 (3)	.950	3.634	1.023
IAS 2 - Valuation of inventories	3.800 (3)	.866	3.432 (4)	1.065	3.561 (3)	.838	3.673	.916
IAS 3 - Consolidated financial statements	3.550 (10)	.934	3.159 (10)	1.055	3.225	1.074	3.402	1.000
IAS 4 - Depreciation accounting	3.758 (4)	1.004	3.341 (6)	1.077	3.385 (8)	.990	3.596	1.031
IAS 5 - Information to be disclosed in financial statements	3.739 (5)	.952	3.364 (5)	1.059	3.575 (2)	.931	3.626	.979
IAS 7 - Cash flow Statements	3.555 (9)	1.039	3.477 (2)	.976	3.439 (6)	1.119	3.515	1.039
IAS 8 - Unusual and prior period items and changes in accounting policies	3.383	1.109	3.024	1.115	3.341 (9)	.938	3.300	1.082
IAS 9 - Accounting for research and development activities	3.092	1.004	2.955	1.257	3.049	.937	3.054	1.053
IAS 10 - Contingencies and events occurring after the balance sheet date	3.567 (8)	.959	3.023	1.151	3.250	1.149	3.387	1.061
IAS 11 - Accounting construction contracts	3.467	1.076	3.136	1.047	3.025	1.143	3.309	1.095
IAS 12 - Accounting for taxes on income	2.908	1.167	3.048	1.188	3.049	1.048	2.966	1.145
IAS 13 - Presentation of current assets and current liabilities	3.867 (1)	.925	3.591 (1)	1.064	3.600 (1)	.900	3.755	.957
IAS 14 - Reporting financial information by segment	3.108	1.035	3.205 (9)	1.069	3.244	.969	3.156	1.027
IAS 15 - Information reflecting the effects of changing prices	2.667 (29)	1.176	2.814 (28)	1.332	2.850 (28)	1.167	2.734	1.206

IAS 16 - Accounting for property, plant and equipment	3.658 (6)	.992	3.341 (6)	1.077	3.500 (5)	.906	3.559	.998
IAS 17 - Accounting for leases	2.967	1.115	2.886	1.224	2.902	1.221	2.937	1.155
IAS 18 - Revenues recognition	3.608 (7)	1.102	3.318 (8)	1.116	3.275	1.062	3.480	1.103
IAS 19 - Accounting for retirements benefits	2.950	1.213	2.932	1.228	2.700 (29)	.911	2.897	1.162
IAS 20 - Accounting for government grants	2.917	1.127	2.721 (29)	1.297	2.974	.972	2.886	1.137
IAS 21 - Accounting for the effects of changes in foreign exchange rates	3.233	1.019	2.841	1.160	3.400 (7)	.871	3.181	1.037
IAS 22 - Accounting for business combinations	3.142	.929	2.886	1.243	3.051	1.050	3.069	1.027
IAS 23 - Capitalisation of borrowing cost	3.075	1.116	2.864	1.173	2.949	1.255	3.005	1.154
IAS 24 - Related party disclosure	3.142	1.087	2.841	1.033	3.103	.968	3.069	1.055
IAS 25 - Accounting for investments	3.445	.997	3.045	1.033	3.250	1.006	3.320	1.015
IAS 26 - Accounting and reporting by retirement benefit plans	2.758 (28)	1.053	2.907	1.211	2.897	.912	2.817	1.061
IAS 27 - Consolidated financial statements	3.333	1.040	2.854	1.195	3.175	1.152	3.204	1.106
IAS 28 - Accounting for investments in associates	3.250	.981	3.045	1.329	3.250	.927	3.206	1.054
IAS 29 - Financial reporting in hyper inflationary economies	2.487 (30)	1.178	2.636 (30)	1.448	2.600 (30)	1.172	2.542	1.236
IAS 30 - Disclosure in financial statements of banks	3.467	1.061	3.455 (3)	1.150	3.325 (10)	.997	3.436	1.065
IAS 31 - Financial reporting of interests in joint ventures	2.957	1.099	2.977	1.267	2.875	.911	2.945	1.099

Table 13.10 shows that respondents from the three groups support the suggestion that most of the IASC's standards have an impact upon domestic financial reporting practices in Jordan. The results also show that all groups of respondents view some of the IASC's standards as having little impact upon domestic financial reporting practices in Jordan (e.g., IAS 15 - Information reflecting the effects of changing prices, IAS 19 - Accounting for

retirements benefits, IAS 20 - Accounting for government grants, IAS 26 - Accounting and reporting by retirement benefit plans, IAS 29 - Financial reporting in hyper inflationary economies, all ranking between 28th and 30th positions in the ratings from all three groups):  
Going by the ratings of Groups 1 and 3 respondents who are closely related to activities connected with the preparation, auditing and monitoring compliance with generally accepted accounting practices of financial statements, the following IASs are perceived as useful in the construction of financial statements in Jordan:

IAS 13	Presentation of current assets and current liabilities (scored highest by all three groups)
IAS 1	Disclosure of accounting policies
IAS 2	Valuation of inventories
IAS 4	Depreciation accounting
IAS 5	Information to be disclosed in financial statements
IAS 7	Cash flow statements

#### **13.1.7 Opinions regarding the reasons behind the impact of the IASC's standards upon domestic financial reporting practices in Jordan**

Questions 10a to 10f of Part 2 of the questionnaire solicited the opinions of respondents on the reasons for the impact of the IASC's standards upon domestic financial reporting practices in Jordan. The questions and the related responses are presented in Table 13.11.

**Table 13.11:** Opinions regarding the reasons behind the impact of the IASC's standards upon domestic financial reporting practices in Jordan

Question.10 If your answer to any item in question 9 above rated the impact of the IASC's standards as average or better, then rank each of the following reasons for such impact (+ 2 for strongly agree to - 2 for strongly disagree).

		Group 1		Group 2		Group 3		Total	
		Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
a.	Historical ties (colonial influence)	.135	1.057	.415	.999	.378	1.010	.243	1.039
b.	Pressures from international lenders such as World Bank	.696	1.056	.833	.653	.595	1.066	.707	1.015
c.	Pressures from international accounting firms	.611	1.004	.878	.812	.514	.804	.649	.933
d.	Pressures from powerful or multinational corporations	.554	.919	.575	.874	.333	.956	.516	.916
e.	External political pressures	.018	1.009	.075	1.118	.278	1.210	.079	1.071
f.	Internal political pressures	.028	1.000	.048	1.103	.405	.956	.108	1.021

Table 13.11 shows that the respondents gave average support to some suggested reasons such as historical ties (colonial influence), pressures from international lenders such as the World Bank, pressures from international accounting firms and pressures from powerful or multinational corporations and marginal support to other suggested reasons such as external and internal political pressures.

In addition, results from some to face-to-face interviews suggest two more reasons behind the perceived operational impact of IASC's standards upon domestic financial reporting practices in Jordan, namely; the development of an accounting profession in Jordan, and the lack of guidance on accounting practices in local laws and regulations.

A few respondents were asked in face-to-face interviews to state their reasons as to why some IASC's standards have little or no impact upon domestic financial reporting practices in Jordan. The respondents summarised their reasons as follows.

- a. Some of the IASs do not apply in Jordan because of local Income Tax Law and the Companies Act.
- b. There are no compulsory requirements to force Jordanian enterprises to comply with the IASs.

### **13.1.8 Modifications to the IASC's standards when applied in Jordan**

Questions 11 to 14 of Part 2 of the questionnaire solicited opinions on whether IASC's standards should be modified to reflect local conditions (i.e. adapted) before adoption in Jordan. Tables 13.12, 13.13, 13.14 and 13.15 respectively present opinions regarding (a) the awareness of the respondents of any attempt to adapt the IASC's standards to suit Jordan's environment; (b) the need to modify the IASC's standards when applied in Jordan; (c) whether there is a need to adapt the IASC's standards; and (d) the extent of any adaptation.

**Table 13.12:** Frequency distribution of the respondents regarding the awareness of any attempt to adapt the IASC's standards to suit Jordan's environment

	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>Total</b>
Yes	31	6	4	41
%	25.8%	14.3%	9.8%	20.2%
No	89	36	37	162
%	74.2%	85.7%	90.2%	79.8%

Table 13.12 shows that 79.8% of the respondents from the groups are not aware of any attempt to adapt the IASC's standards to suit the local environment. Those who are aware (20.2%) of any attempt to adapt the IASC's standards cite one case of adaptation, namely, the treatment of the effects of changes in foreign exchange rates (IAS 21) in 1989 when Jordan devalued its currency. However, devaluation of currency was not covered by IAS 21, so this was not a case of adaptation but a government fiat allowing reporting companies to amortise any losses arising from the devaluation of Jordanian Dinar.

**Table 13.13:** Frequency distribution of the respondents regarding the need to modify the IASC's standards when applied in Jordan

	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>Total</b>
Yes	100	38	36	174
%	83.3%	88.4%	87.8%	85.3%
No	20	5	5	30
%	16.7%	11.6%	12.2%	14.7%

Table 13.13 shows that the respondents from the three groups strongly support the suggestion that there is a need to modify the IASC's standards when applied in Jordan. However, the



reasons from those respondents who replied to a request to state their reasons if their answers were negative are summarised below:

1. The world has become a smaller place where social and economic relations is closer and communication is easier and as such should be treated as one unified economic group. In addition, they suggest that because IASC's standards often take into consideration different circumstances all over the world, they suit all countries including developing countries and, therefore, IASC's standards could be applied in Jordan without any difficulties.
2. To increase international trust in Jordan's economy and to encourage foreign investments, financial statements of Jordanian enterprises should be based on a set of principles acceptable to the international business and financial community..

**Table 13.14:** Frequency distribution of the respondents regarding the extent of adaptation of the IASC's standards

	<b>Group 1</b>	<b>Group 2</b>	<b>Group 3</b>	<b>Total</b>
Yes	16	14	11	41
%	16.3%	38.9%	32.4%	24.4%
No	82	22	23	127
%	83.7%	61.1%	67.6%	75.6%

**Note:**

“Yes” indicates all IASs should be adapted to local conditions

“No” indicates selective adaptation

Table 13.14 shows that 75.6% of the respondents of all groups support the suggestion that adaptation should be applied to some IASs and not others. This suggestion is strongly supported by Group 1 respondents and moderately supported by Groups 2 and 3 respondents. The results of the face-to-face interviews conducted by the researcher in Jordan regarding the suitability of the IASs to Jordan's environment indicate that respondents support the

suggestion that the IASs suit Jordan's environment but only after making some adjustments. They justified their attitudes along the following lines:

1. Accounting problems in Jordan are less complex than those that exist in developed countries. For example, Jordan does not apply pension and deferred tax accounting.
2. Jordan ignored IAS 21 (Foreign Currency Exchange Rates) in 1988 when the Jordanian Dinar (JD) was devalued. Respondents emphasised that if Jordanian companies were to apply IAS 21, their accounts would reveal apparent bankruptcy because of the high translation losses arising from devaluation. For this reason, Jordan issued a one-off ruling permitting the spreading of the losses over five years.
3. Lease accounting is limited in Jordan. It only exists in the Jordanian Royal Airline.

By probing the response to the suggestion that there is a need to modify some of the IASC's standards when applied to Jordan further, questions 14a to 14e of Part 2 of the questionnaire were asked to solicit opinions regarding the forms of modifications. These questions and the related responses are presented in Table 13.15.

**Table 13.15:** Opinions regarding the forms of modifications of some of the IASs when applied in Jordan

Question 14. Adaptation can take several forms. Please indicate the extent to which you agree or disagree with each of the following modifications (+ 2 for strongly agree to -2 for strongly disagree).

	Group 1		Group 2		Group 3		Total	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
a. To harmonise IASs with Islamic principles	.571	1.204	.525	1.062	.676	1.132	.582	1.158
b. To disallow some provisions of IASs that are not in consonance with the traditions	.387	1.059	.675	.829	.389	1.103	.446	1.026
c. To include certain practices that the IASC has disallowed but which are conducive to good practice in Jordan	.798	.907	.846	.745	.694	.889	.789	.871
d. To translate IASs into Arabic	1.145	.931	1.075	.859	1.083	1.105	1.119	.947
e. To exempt some companies from the need to comply with IASs	-.504	1.056	-.125	1.137	.056	1.218	-.321	1.123

Table 13.15 shows that the respondents responded positively and in that order to the following modifications.

1. Translate IASs into Arabic.
2. Include certain practices that the IASC has disallowed but which are conducive to good practice in Jordan.
3. Harmonise IASs with Islamic principles.
4. Disallow some provisions of IASs that are not in consonance with the traditions.

However, the results suggest that respondents were almost unanimous in disagreeing with the suggestion that some companies be exempt from the need to comply with IASs.

### **13.1.9: Role of the IASC in encouraging Jordan to conform with the IASC's standards**

Questions 15a to 15f of Part 2 of the questionnaire solicited opinions regarding the possible means the IASC could use in order to encourage Jordan to conform with the IASC's standards. These questions and the related responses are presented in Table 13.16.

**Table 13.16:** Opinions regarding the possible means the IASC could use to encourage Jordan to conform with the IASC's standards

Question 15 It has been said that the IASC can play an important role in encouraging Jordan to conform with the IASC's standards. Please rate each of the following possible means that the IASC could use (+ 2 for strongly agree to - 2 for strongly disagree).

	Group 1		Group 2		Group 3		Total	
	Mean	Std.	Mean	Std.	Mean	Std.	Mean	Std.
a. To undertake research studies into the state of accounting problems in the Middle East and Jordan	1.183	.710	1.250	.488	1.293	.559	1.220	.638
b. To develop a system of providing experts to assist accounting standards-setting bodies	1.100	.726	1.159	.776	1.073	.468	1.107	.720
c. To introduce programmes which will help to train people in Jordan to set their own standards	.975	.835	1.091	.741	1.293	.642	1.063	.786
d. To provide financial assistance to support accounting research	1.267	.707	1.341	.608	1.282	.510	1.286	.650
e. To provide consultancy services	1.217	.638	1.273	.499	1.146	.615	1.215	.605
f. To allow for greater participation in the process of setting IASs	1.183	.710	1.023	.762	1.171	.667	1.146	.713

Table 13.16 shows that the respondents from three groups strongly support each of the five suggested possible means the IASC could use to encourage Jordan to conform with the IASC's standards. This response suggests that the IASC needs to do more than mere production of accounting standards. It needs to market the standards and to create the need for those standards in environments different from those that form the bases for the IASC's standards. More importantly, the IASC should conduct research on the needs for accounting standards in some developing countries.

### 13.1.10 Significance test on items of information in the questionnaire

It was mentioned earlier that the non-parametric tests (Kruskal-Wallis and Mann-Whitney) would provide the basis for inferring the level of significance of the differences in mean scores (and so the degree of consensus) between and among user-groups on an item-by-item basis. These tests were conducted because it was assumed that the values of different user-groups may be classified into approximately consensual patterns.

The results of significance tests conducted represent the number of different ways of combining any two of three groups as shown in Appendix 5. The results including the entire mean scores, and the mean scores from the user-groups are shown in Appendix 4.

Moreover, the results contained in Appendixes 5 and 4 are summarised in Table 13.17 and 13.19 below.

Table 13.17 (Appendix 5) shows a high degree of consensus (homogeneity) between accounting firms and corporations user-group and academics user-group (78.5%) and less consensus between the accounting firms and corporations user-group and governmental agencies user-group (70%), whereas the consensus between academics and governmental agencies was 77.9%. The table also shows a weak degree of consensus when data are pooled (68.5%).

**Table 13.17:** Degree of consensus among and between user-groups.

Groups	Dyads of user groups.	Items of information				% of consensus
		significant at			not significant	
		P ≤ 0.10	P ≤ 0.05	P ≤ 0.01	i.e., P > 0.10	
(1 + 2)	Accounting firms and corporations / Academics.	10	19	3	117	78.5%
(1+3)	Accounting firms and corporations / Governmental agencies.	13	18	14	104	70%
(2+3)	Academics / Governmental agencies.	13	19	1	116	77.9%
	Pooled data.	7	26	14	102	68.5%

The percentage of consensus is calculated by dividing the number of items of information “not significant” by the total number of items of information (e.g., the percentage of consensus between Groups 1 and 2 is  $117/149 = 78.5\%$ ).

To capture the extent to which users' perceptions of information items in Jordan are affected by professional bias, the cumulative cross-over technique introduced by Wallace (1987) was adopted. The cumulative cross-over technique (Grove and Hannum, 1986) states that there is no cross-over if mean scores of every item of information from one group are greater than (or equal to) the mean scores of every identical item of information from another group. If there is no cross-over, one group is obviously showing a more vigilant response (a metaphor for bias) than another. The cross-over effect can be discovered by observation of the mean scores of each user-group. If there is no cross-over within a greater range of the items, one group is either over sensitive (or under sensitive) to information items.

A summary (Table 13.18) of the detailed table of mean scores from the three user groups (Appendix 4) reveals the following patterns of perceptions.

**Table 13.18: Consensual patterns**

		Preference values				Total number of items	Index of agreement $3/(1+2)$	Rank
		1	2	3	4			
	User groups	Number of items given high preference than other user-groups	Number of items given lower preference than other user-groups	Number of items not peculiar to user-groups	Number of items which two or more user-groups valued higher/lower than the rest			
Group 1	Accounting firms and corporations	56	44	47	2	149	0.47	2
Group 2	Academics	37	70	40	2	149	0.37	3
Group 3	Governmental agencies	53	35	59	2	149	0.67	1
	Total	146	149	146	6			

The academics user-group was the one least in agreement with others. This user-group had less preference for 70 out of 149 items when compared with other user-groups. This user-group gives higher preference than other user-groups to 37 items of information. The behaviour of this user-group could be due to the fact that they are not practitioners and as such have no operational experience of the use and relevance of IASC's standards to Jordan.

Accounting firms and corporations (practitioner) user-group seemed to value a greater number of items (56) than the other user-groups, and had less preference for 44 items when compared with the other user-groups.

The governmental user-group was in second place as the group which valued more items than other user-groups but was the first user-group in terms of the number of items not peculiar to user-groups.

### **3.1.11 Simplified Bootstrap Technique for testing item homogeneity**

The bootstrap technique introduced by Efron (1979) is a cross-validation procedure for evaluating the distribution of the test statistics where observations are drawn from the empirical distribution defined by sample observations (Burgstahler, 1984). Following Wallace (1987), the repeated distributions which arise from the generation of Mann-Whitney tests of significance on all 3 possible dyads provides the empirical distribution. According to Wallace (1987), this technique is likely to be useful in two cases:

- (i) where the assumption of normality in the distribution of the test statistic does not hold; and,
- (ii) where there is no readily available estimator of the variability of the test statistics- simply when knowledge is required about the way consensus on information items changes from one dyad to another (Marais, 1984).

To identify if one user-group provides a biasing influence on the results of the significance tests, the 3 dyad results were broken into two clusters - one cluster with 2 dyads each having the accounting firms and corporations (practitioner) user-group and the other with 1 dyad without the practitioner user-group.



Table 13.19 provides a frequency distribution of the number of items of information on the basis of the degree of consensus. This table shows that there is an apparent “perfect” agreement - i.e., complete homogeneity on 80 of the 149 items of information because all the 3 dyads agreed on these 80 items. When the 3 dyads were separated into two clusters on the basis of the dyads with or without the practitioner user-group, the results are

more revealing. Homogeneity on 116 out of 149 items was revealed in the case of the 1 dyad without the practitioner user-group, whilst only 86 out of the 149 items yielded "perfect" consensus in respect of the 2 dyads with the practitioner user-group. On 15 items out of 149 the 2 dyads produced a "perfect" lack of consensus. A closer look at these 15 items illustrates strongly the biasing effect of the practitioner user-group (see Table 12.16).

**Table 13.19:** Frequency distribution of the number of items of information on the item-by-item basis of the degree of consensus of user-group dyads

Perception of consensus or homogeneity	All 3 dyads			2 dyad with A and C			1 dyad without A and C		
	Relevant frequency of dyads	No. of items with NS	%	Relevant frequency of dyads	No. of items with NS	%	Relevant frequency of dyads	No. of items with NS	%
100%	3	80	53.7	2	86	57.7	1	116	77.9
66.7%	2	30	20.1	1	48	32.2	0	33	22.1
33.3%	1	36	24.2	0	15	10.1	-	-	-
0%	0	3	2	-	-	-	-	-	-
Total		149	100		149	100		149	100

Note:

NS Not significant at  $p \leq 0.05$

A & C Accounting firms and corporations user-group

Table 13.20 presents this information showing the results of the significance tests for all three groups as one population, the 2 dyads with the practitioner user-group and the 1 dyad without the practitioner user-group.

**Table 13.20: Results of significant tests on 15 items of information**

Item No.		All (3 dyads)	2 dyads	1 dyad	Extent of agreement
25	Recommendations and advice for developing accounting concepts	S	SS	NS	100%
30	Poor university infrastructure (heavy teaching loads of professors)	S	S	S	0%
46	Jordanian Association of Certified Public Accountants (JACPA)	S	S	NS	100%
52	Save time and efforts	S	SS	NS	100%
62	The support of developing countries.	S	S	NS	100%
73	Historical ties (colonial influence)	S	S***	S	0%
75	Pressures from international accounting firms	S	S***	NS	100%
80	Disallow some provisions of IASs that are not in consonance with the traditions	S***	S***	NS	100%
83	Exempt some companies from the need to comply with IASs	S***	S***	S	0%
90	Disclosure of accounting policies.	S***	S***	NS	100%
92	Consolidation of financial statements.	S	S***	NS	100%
107	Accounting for retirement benefits.	S	S	NS	100%
114	Accounting and reporting by retirement benefit plan.	S	S	NS	100%
122	Consolidated financial statements.	SS	SS	NS	100%
123	Depreciation accounting.	S	S	NS	100%

Key: \*\*\* Highly significant difference discovered at  $p \leq 0.01$

In respect of the above 15 items of information, the practitioner user-group is in total disagreement with the constituencies they are purported to serve. Perhaps, this is because what accounting firms and corporations user-group perceives as important are not relevant to other user-groups.

## **13.2 Corporate financial reports and accounts in Jordan**

### **13.2.1 Introduction**

A major purpose of corporate financial reporting is to assist in the efficient allocation of scarce resources by the provision of information useful to those responsible for making investment decisions. Because financial reporting provides feedback information about values and resources held by the firm, the financial report is also a measure of the value of the business for any interested user. Moreover, it provides a historical record of events which might provide a basis on which to predict future events (predictability function). It is a way of making corporate managements accountable as stewards of shareholders' funds.

A study by Price Waterhouse (1971) cited in El-Issa (1988, p. 10) concluded that:

*Financial statements are designed to report to investors on the use of funds they have invested in their enterprise in such a way as to facilitate their investment decisions of the future.*

In addition, Arthur Andersen and Co. (1972) cited in El-Issa (1988, p. 10) have expressed similar views on the central objective of the financial statements:

*the overall purpose of financial statements is to communicate information concerning the nature and value of the economic resources of a business enterprise, the interest of creditors, and the equity of owners in those economic resources.*

### **13.2.2 Survey of annual reports and accounts in Jordan**

The rest of this chapter reports on the results of a survey of the contents of annual reports and accounts issued by 49 companies which responded to the call for the supply of annual reports and accounts from the 72 companies quoted on the AFM, Jordan (the name and type of industry of these companies are presented in Appendix 9). The annual reports and accounts cover those issued by national companies for the years 1988 and 1992. The two years were selected because they represent convenient windows for observing the effect of IASs which were adopted in 1990 as bases for preparing annual reports and accounts published by Jordanian reporting companies.

#### **13.2.2.1 Sample of companies**

One hundred and nineteen companies are listed on the AFM (Jordanian Shareholding Companies Guide, 1993). The companies are classified by the AFM into four categories: Banking and Finance; Industrial; Insurance; and Services. There are 35 companies classified under Banking and Insurance which are excluded from this study because of their special nature. Of the remaining 84 companies, 12 (10 industrial and 2 services) were excluded because they were established after 1988 and cannot be used because the study involves the comparison of companies annual reports for the years 1988 and 1992. This leaves 72 companies used in the study.

Letters were mailed to financial managers of these companies requesting them to send the annual reports and accounts of their companies for the years 1988 and 1992 and to which request 49 companies responded. The comparative distributions of the companies in the population and the response rates are presented in Table 13.21.

**Table 13.21:** The comparative distributions of the companies in the population and the response rates

Categories of companies	Population		Responses		Sample/Population	
	Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Industrial	45	62.5	30	61.2	30/72	41.7
Services	27	37.5	19	38.8	19/72	26.4
Total	72	100	49	100	49/72	68.1

The measurement of the extent and scope of reporting was based on a scoring sheet (shown as Appendix 6) which was used to grade each reporting company's annual report. The scoring sheet was divided into two parts: **Part I** was used to extract certain information about the attributes of a sampled company and **Part II** was used to rate the extent of its actual disclosure.

In the determination of the disclosure score all disclosure items were perceived by this researcher to be equally important. Each item is given a score of 1 whenever it is (and 0 when it is not) disclosed in an annual report being scored. Each company was evaluated on the basis of the relationship between what it disclosed and what it was expected to disclose. If a company was not expected to disclose an item of information, such an item was given '9' and excluded from the evaluation of the company's index. For example, if a company has no subsidiary or associated company it would not be expected to publish group or consolidated accounts, so all the items of information relating to consolidated accounts will be excluded from the items by which such a company is evaluated (Wallace, 1987). An accounting report is then scored by counting the number of selected items it carries, and relating it to the total possible number of items to yield an index as shown in the following formula (Copeland and Frederick, 1968).

Disclosure Index = The actual score of the company divided by the maximum score expected of a company.

An item-by-item comparison was made between the contents of annual reports and the contents required by the IASC's standards.

### **13.2.2.2 Adequacy of disclosure information in annual financial reports**

This research is concerned with the determination of the adequacy of disclosure in annual financial reports in Jordan with reference to national and international relevance. According to Wallace (1987) "adequacy refers to the ability of financial reports to meet minimum acceptable standards of disclosure, or the ability of such reports to fulfil the needs or requirements of each user or group of users. To be adequate, a financial report ought to serve the needs of users. Serving the needs of users implies that the information disclosed in a financial report (1) fulfils the needs of all users, (2) is presented in a manner which can easily be understood by a user and would enable him to receive/select the relevant signals from such a disclosure, (3) complies with the disclosure regulation regime - the Companies Act and generally accepted accounting principles". In chapter 8, it was reported that Jordanian respondents do not agree with the suggestion that annual reports and accounts published in Jordan are adequate to the needs of Jordanian users. The financial laws in Jordan require reporting firms to prepare financial statements according to generally accepted accounting principles. They also require auditors to make sure that the reporting firms prepare their financial statements according to the laws and generally accepted accounting principles. On the other hand, the JACPA adopted IASC standards in 1989 to be effective from 1990 as generally accepted accounting principles. Adoption of IASC standards as a basis for preparing annual accounts would satisfy Jordanian laws. As a result, the adequacy that is reported upon in this thesis is in respect of conformity with IASs. However, in order to determine the incremental effect of the adoption of IASs on corporate reporting in Jordan, the annual reports and accounts of national companies for the years of 1988, and 1992 were used in this study.

Disclosure is defined as any intentional release of financial information beyond those members of the reporting enterprise who have a "need to know" in order to discharge duties which would affect their future and that of the reporting enterprise and its management (Wallace, 1987, p.620). This survey is concerned with the determination of the adequacy of disclosure

in Jordan by relating the contents of information disclosed in annual financial reports of selected enterprises to IASC's standards.

The disclosure index methodology is adopted because the index summarises the quality or adequacy of disclosure in a single number, and can be adopted to take cognisance of the changing nature and importance of items of information. The disclosure index is a measure by which the level of financial reporting of one company can be compared with another.

An aggregate score for the annual report of an enterprise provides the basis for comparing that enterprise with another. The higher the score, the higher the quality. So the scores have been used to measure the relative importance of the items of information to users, to measure the level of disclosure of each item of information in the annual financial reports of a sample of enterprises and also to measure the overall extent of an enterprise's disclosure of different groupings of items of information.

The disclosures scores were then used as dependent variables in a regression analysis which utilises the information on each company's assets, sales size, liquidity ratio, ownership by the government and type of industry, as independent variables which may explain the variability in disclosure scores.

### **13.2.2.3 Determinants of disclosure quality**

The company characteristics for explaining the variation in disclosure indexes were chosen on the basis of the literature review. The selection of the explanatory variables has been based on what the academic and the practitioner world consider to be a positive influence upon financial reporting in a developing country (Wallace, 1989, p.201).

The disclosure indexes of the sample Jordanian companies reported in Appendixes 7 and 8 suggest the presence of differences in the quality and extent of disclosure of the sampled enterprises. The reasons for these differences may lie in those characteristics which differentiate one enterprise from another. The attempts that have been made to identify the determinants of corporate disclosure quality in the industrialised world (e.g. Buzby 1975; Cooke 1989, 1991) indicate that it is likely that disclosure quality may depend on specific

corporate characteristics such as size of total assets, total sales, liquidity, debt ratio, proportion owned by government, type of industry.

Many studies on the relationship between financial corporate disclosure and company characteristics have been conducted. An early study by Cerf (1961) regressed disclosure index scores of 527 U.S. companies against three corporate characteristics, namely, company size, shareholder number and profitability. One conclusion is that the 50 highest (lowest) scoring companies had, on average, larger (smaller) asset sizes than the whole sample.

Using U.S. firms, Singhvi and Desai (1971) studied the relationship between disclosure and six corporate characteristics: asset size, listing status, audit firm size, number of shareholders, rates of return, and earnings margin. They found that 'listing status' was the most significant predictor of disclosure level. They also found a relationship between higher levels of disclosure and:

- a. asset size;
- b. number of shareholders;
- c. audit firm size;
- d. higher rates of return (defined as net profit to net worth); and,
- e. higher earnings margins (defined as net profit to net sales).

Buzby (1974a) found that the extent of financial disclosure in the U.S. was positively associated with the size of a company's assets, but the extent of disclosure was not affected by a company's listing status.

In a study of UK companies, Firth (1979) found that both the size and the stock market listing variables were related to disclosure, but size and status of a company's auditors had no impact. Companies with a stock market listing released significantly more information than companies that were unlisted. Larger companies tend to disclose more information in their annual reports.



Kahi and Belkaoui (1981) investigated the overall extent of disclosure by banks located in 18 countries. Disclosure adequacy was measured by the extent to which 30 selected information items are presented in the annual reports. They conclude that differences in disclosure adequacy exist among the countries included in their study, with considerable variability in extent. They also concluded that there is a positive correlation between asset size and extent of disclosure.

Using firms domiciled in the Kingdom of Saudi Arabia, Abdel-Salam (1985) studied the relationship between the extent of disclosure and the following specific company characteristics:

- a. size of the company according to market capitalisation and total assets;
- b. growth (results whether profits or losses);
- c. whether the company receive a government subsidy or not;
- d. whether the company is privately owned or the government has a share in its capital;
- e. audit firm size.

The study reported negative results for the first two variables, and unclear results for the other variables.

Using firms operating in Mexico, Chow and Wong-Boren (1987) investigated the effect on disclosure scores of three variables:

1. firm size measured by the market value of equity plus the book value of debt;
2. financial leverage measured by the book value of debt divided by size;
3. proportion of assets in place measured by dividing the book value of fixed assets (net of depreciation), by total assets.

They found that the extent of disclosure is significantly and positively related to size, but not to financial leverage, and assets in place.

In a study of firms domiciled in Nigeria, Wallace (1987) examined the effect of eight variables on disclosure scores:

(1) Size of assets; (2) Size of sales; (3) Number of shareholders; (4) Profitability (defined as profit after taxation as a percentage of capital employed); (5) Liquidity (defined as current assets over current liabilities); (6) Type of management; (7) Country of origin of the multinational; and (8) Type of business.

The results show a positive association between type of management and statutory disclosure index. The study also shows a weak positive correlation between assets size and overall disclosure index. It also shows that there is no noticeable correlation between the two risk factors - liquidity and profitability.

In a study of 90 Swedish annual reports including both listed and unlisted corporations, Cooke (1989a) examined the effects of five variables on disclosure scores:

(1) quotation status; (2) parent company relationship; (3) annual sales; (4) total asset size; and (5) number of shareholders.

The results show a significant association between the extent of disclosure and listing status. The study also shows that there is a significant association between the size of enterprises and the extent of disclosure.

In a study of 35 Japanese annual reports listed corporations, Cooke (1992) investigates the influence of size, stock market listing and industry type on the extent of disclosure (both voluntary and mandatory) in the annual reports. The results reveal that size and listing status are important explanatory variables. In addition, manufacturing corporations were found to disclose significantly more information than other types of Japanese corporations. The interaction between industry type and quotation status was also found to be significant.

In a study of 50 non-financial Spanish firms, Wallace et al. (1994) examined the effects of nine variables on the comprehensiveness of disclosure:

(1) size of assets; (2) size of sales; (3) gearing ratio; (4) earnings (defined as the ratio of a firm's total earnings before tax for the reporting year to its total outstanding equity at the beginning of the reporting year); (5) profit (defined as the ratio of earnings before tax to total sales in the reporting year); (6) liquidity ratio; (7) type of industry; (8) the listing status of a company; and (9) the status of a sample firm's auditors.

The results report that the association between the index of comprehensive disclosure and firm size (as represented by asset or sales) on the one hand and listing status on the other were found to be significantly positive in Spain. The results also show that the association between the index of comprehensive disclosure and liquidity was significantly negative.

In short, the empirical research into the relationship between the extent of financial disclosure and company variables shows conflicting results. For example, Buzby (1974a) found that the extent of disclosure was positively associated with the size of the company's assets and was not affected by the listing status; these findings contrast respectively with the finding (a) by Wallace of a weak positive correlation between assets size and the overall disclosure index and (b) by Singhvi and Desai (1971) and Cooke (1989a) that the listing status was a major explanatory variable in accounting for levels of disclosure.

#### **13.2.2.4 Composite analysis of Corporate Annual Reports (CARs): Pre - and Post - adoption of IASs.**

This study attempts a "composite" analysis of Corporate Annual Reports (CARs) in Jordan. A composite analysis implies an investigation of the different identifiable blocks of information (or statements) which are or can be found in CARs to give an overall picture of corporate reporting. Rather than viewing disclosure on an item-by-item basis, it is considered on the basis of the extent of information within different types of financial statements usually found in CARs. Composite analysis would highlight the sharply divergent patterns of quality among the different types of financial statements found in CARs.

Table 13.22 shows the average level of overall disclosure in the annual reports and their different parts for the sample of companies for the years 1988 and 1992.

**Table 13.22:** Composite analysis of disclosure in companies annual reports for the years 1988 and 1992

	1988 (%)	1992 (%)
Overall	67	76.6
Balance sheet	66.9	73.1
Income statement	75.5	85.2
Other financial statements	59.6	97.1
Measurement and valuation methods	53.2	67.1

The disclosure indexes of the years 1988 and 1992 reported on Appendixes 7 and 8 reveal that most of the sampled companies showed a strong improvement in the level of disclosure. Very few companies (3) showed a negative improvement in their level of disclosure, 2 companies are stable in the level of disclosure and very few companies showed gradual improvements.

These overall indexes were disaggregated to reflect different types of disclosure - balance sheet, income statement, other financial statements (such as fund flow) and measurement and valuation methods and accounting policies. Since all sample companies are from the same country and all are quoted on the AFM, disclosure indexes of 1988 can be compared with those of 1992 and if the indexes reveal a general increase over the years, the increase can be attributed to the adoption of IASs in Jordan.

The distributions and rank of 1988 and 1992 disclosure indexes for the different parts of the annual report are summarised in the results shown in Tables 13.23 and 13.24.

**Table 13.23:** Comparison of means of indexes of each disclosure type

	1988			1992		
	Mean	std.	Rank	Mean	std.	Rank
Overall index	.67	.10		.77	.06	
Balance sheet index	.68	.10	2	.73	.07	3
Income statement index	.75	.11	1	.85	.08	2
Other financial statements index	.60	.26	3	.97	.08	1
Measurement and valuation methods index	.53	.18	4	.67	.12	4

There is a general improvement in 1992 disclosure over the 1988 disclosure level in respect of all types of disclosure. However, the relative importance of each type of disclosure changed between 1988 and 1992. Balance sheet index and income statement index were accorded a lower order of importance in 1992 than in 1988 whereas the ranking of Measurement and Valuation Index did not change between 1988 to 1992, while other financial statement index showing tremendous improvement. To test the robustness of the scoring scheme and to convey the relationships between the 1988 and the 1992 scoring schemes the ranks accorded to sample firms on each disclosure type for the two years were compared using Spearman rank correlation.

Table 13.24 shows that indexes of Balance sheet, overall, and measurement and valuation methods of 1988 are significantly different from the 1992 indexes at  $p \leq 0.001$ .

Income statement index of 1988 is significantly different from 1992 discovered at  $p \leq 0.01$ , whereas other financial statements index of 1988 is not significantly different from 1992 index at  $p \leq 0.05$ . Note, however, that 1988 indexes are positively correlated with 1992 indexes.

**Table 13.24: Spearman rank correlation coefficients**

Other financial statements index 1988/1992	0.2492 sig 0.084
Balance sheet index 1988/1992	0.5120 sig 0.000
Overall index 1988/1992	.4839 sig 0.000
Income statement index 1988/1992	.3626 sig .010
Measurement and valuation methods index 1988/1992	.4530 sig 0.001

Table 13.25 presents rank correlation which compares the 1988 disclosure ranks with those of 1992.

**Table 13.25 Comparison of rank correlation of the 1988 disclosure indexes and those of 1992**

	Racc	Raal	Risi	Rmvm	Rbsf	Rbis	Rbll	Rbsi	Rbvm
Raal	.8396**								
Risi	.3841**	.7307**			-.0184	.3626**	.1234	-.0410	.1677
Rmvm	.5057**	.7243**	.5935**		.2917*	.3477*	.3893**	.2052	.4530**
Rofs	.3169**	.6412**	.5042**	.4323**	.2492	.1662	.0837	-.0071	.1328
Rbfs	.2953*	.2235							
Rbis	.3351*	.4525**			.0123				
Rbll	.6087**	.4839**			.3334*	.5542**			
Rbsi	.5120**	.3161*			.2395	.3234*	.9196**		
Rbvm	.5362**	.4913**			.3906**	.4584**	.7729**	.5992**	

**Key**

- Racc Rank balance sheet disclosure index / 1988
- Raal Rank overall disclosure index / 1988
- Risi Rank income statements disclosure index / 1988
- Rmvm Rank measurement and valuation methods disclosure index / 1988
- Rofs Rank other financial statements disclosure index / 1988
- Rbfs Rank other financial statement disclosure index / 1992
- Rbis Rank income statements disclosure index / 1992
- Rbll Rank overall disclosure index / 1992
- Rbsi Rank balance sheet disclosure index / 1992
- Rbvm Rank measurement and valuation methods disclosure index / 1992
- \*  $p \leq 0.01$
- \*\*  $p \leq 0.05$

The results report a significant correlation between rank balance sheet index of 1988 and all rank disclosure indexes of both 1988 and 1992. We compared the rankings of the 1988

disclosure indexes with those of 1992. If accounting and reporting practices of companies are held constant save for the changes arising from the adoption of IASC standards the rankings of disclosure indexes in the two years should be similar. For example, the Ranking of disclosure indexes for 1988 compared to Ranking of disclosure indexes for 1992 revealed a positive significant correlation coefficient of 0.5120 for balance sheet, of 0.4839 for overall index, of 0.4530 for measurement and valuation methods; and 0.3626 for income statements.

### **13.2.2.5 Results of Multiple Regression Analysis and Interpretation**

The results of the multiple regression analysis of relationship between corporate characteristics and disclosure indexes of annual reports and accounts of sample companies are presented in Tables 13.26 and 13.27. The characteristics examined were two size factors (assets, sales), two measures of risk - liquidity ratio (i.e., current assets over current liabilities), and gearing ratio (total debts / total assets - total debts is used instead of long-term debts because there are few instances of the use of long-term debts to finance companies in Jordan), the proportion of equities owned by the government of Jordan and the type of industry. The company characteristics examined for their ability to explain the variation in disclosure indexes were selected because of their popularity in previous research on other countries. Table 13.34 provides a summary of previous studies that have examined these company characteristics. This analysis commenced by examining if there are collinearities between any two variables. The following equation provided the basis of the regression analysis:

$Index_j^* = f(\text{Assets size, Gearing, Type of industry, Liquidity ratio, proportion owned by the government, sales size})$

$Index_j =$  the disclosure for each of sample firm ( $j = 1, \dots, 49$ ) divided by the total variable scores

**Table 13.26** Results of multiple regression analysis / 1988

Equation Number 1    Dependent Variable.. ACCINDEX					
ACCINDEX = Balance sheet index					
Block Number 1. Method: Enter					
ASSET88 GEARIN88 INDUST88 LIQUID88 RATIO88 SALES88					
Variable(s) Entered on Step Number					
1..	SALES88	Size of annual sales			
2..	LIQUID88	Size of liquidity ratio			
3..	RATIO88	Ratio of ownership by government			
4..	INDUST88	Type of company's business			
5..	GEARIN88	Total debits/Total assets			
6..	ASSET88	Asset size			
Multiple R		.32978			
R Square		.10876			
Adjusted R Square		-.01856			
Standard Error		.10063			
Analysis of Variance					
	DF	Sum of Squares	Mean Square		
Regression	6	.05190	.00865		
Residual	42	.42531	.01013		
F =	.85419	Signif F = .5361			
----- Variables in the Equation -----					
Variable	B	SE B	Beta	T	Sig T
ASSET88	2.61674E-10	5.2386E-10	.128219	.500	.6200
GEARIN88	2.67542E-04	.002760	.014313	.097	.9232
INDUST88	-.057836	.032779	-.282530	-1.764	.0849
LIQUID88	.007299	.009528	.113975	.766	.4479
RATIO88	1.65230E-04	6.6202E-04	.043131	.250	.8041
SALES88	-2.25235E-10	5.8145E-10	-.092051	-.387	.7004
(Constant)	.686251	.029905		22.947	.0000



Equation Number 1 Dependent Variable.. ALLINDEX  
 ALLINDEX = Overall index

Block Number 1. Method: Enter

ASSET88 GEARIN88 INDUST88 LIQUID88 RATIO88 SALES88

Multiple R .33751  
 R Square .11392  
 Adjusted R Square -.01267  
 Standard Error .10251

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	6	.05674	.00946
Residual	42	.44136	.01051
F=	.89993		Signif F = .5040

----- Variables in the Equation -----

Variable	B	SE B	Beta	T	Sig T
ASSET88	6.15744E-10	5.3365E-10	.295317	1.154	.2551
GEARIN88	.002458	.002811	.128720	.874	.3869
INDUST88	-.031219	.033391	-.149272	-.935	.3552
LIQUID88	.008697	.009706	.132931	.896	.3753
RATIO88	-1.41709E-04	6.7439E-04	-.036207	-.210	.8346
SALES88	-3.09542E-10	5.9232E-10	-.123826	-.523	.6040
(Constant)	.655361	.030464		21.512	.0000

Equation Number 1 Dependent Variable.. ISINDEX  
 ISINDEX = Income statements index

Block Number 1. Method: Enter

ASSET88 GEARIN88 INDUST88 LIQUID88 RATIO88 SALES88

Multiple R .37109  
 R Square .13771  
 Adjusted R Square .01452  
 Standard Error .11154

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	6	.08345	.01391
Residual	42	.52253	.01244

F= 1.11788 Signif F = .3685

----- Variables in the Equation -----

Variable	B	SE B	Beta	T	Sig T
ASSET88	8.94758E-10	5.8066E-10	.389068	1.541	.1308
GEARIN88	.005526	.003059	.262344	1.806	.0780
INDUST88	.006840	.036332	.029652	.188	.8516
LIQUID88	.003974	.010561	.055064	.376	.7086
RATIO88	5.84938E-05	7.3379E-04	.013550	.080	.9368
SALES88	-4.94611E-10	6.4449E-10	-.179385	-.767	.4471
(Constant)	.715369	.033147		21.581	.0000

Equation Number 1 Dependent Variable.. MVMINDEX

MVMINDEX = Measurement and valuation methods index

Block Number 1. Method: Enter

ASSET88 GEARIN88 INDUST88 LIQUID88 RATIO88 SALES88

Multiple R .29519

R Square .08713

Adjusted R Square -.04327

Standard Error .18519

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	6	.13750	.02292
Residual	42	1.44046	.03430

F = .66817

Signif F = .6757

----- Variables in the Equation -----

Variable	B	SE B	Beta	T	Sig T
ASSET88	1.30132E-09	9.6408E-10	.350657	1.350	.1843
GEARIN88	.004267	.005079	.125533	.840	.4056
INDUST88	.004340	.060324	.011659	.072	.9430
LIQUID88	.012552	.017534	.107787	.716	.4781
RATIO88	-.001330	.001218	-.190854	-1.091	.2814
SALES88	-7.16847E-10	1.0701E-09	-.161112	-.670	.5066
(Constant)	.513107	.055036		9.323	.0000

Equation Number 1 Dependent Variable.. OFSINDEX

OFSINDEX = Other financial statements index

Block Number 1. Method: Enter

ASSET88 GEARIN88 INDUST88 LIQUID88 RATIO88 SALES88

Multiple R .32919

R Square .10837

Adjusted R Square -.01901

Standard Error .26223

Analysis of Variance					
	DF	Sum of Squares	Mean Square		
Regression	6	.35101	.05850		
Residual	42	2.88817	.06877		
F=	.85075	Signif F =	.5386		
----- Variables in the Equation -----					
Variable	B	SE B	Beta	T	Sig T
ASSET88	1.26205E-09	1.3651E-09	.237359	.924	.3605
GEARIN88	.006163	.007192	.126554	.857	.3964
INDUST88	-.004631	.085418	-.008682	-.054	.9570
LIQUID88	.025623	.024828	.153579	1.032	.3080
RATIO88	-8.78907E-04	.001725	-.088060	-.509	.6131
SALES88	3.26573E-10	1.5152E-09	.051229	.216	.8304
(Constant)	.528589	.077930		6.783	.0000

**Table 13.27** Results of multiple regression analysis / 1992

Equation Number 1				Dependent Variable.. ACCINDEX	
ACCINDEX = Balance sheet index					
Block Number 1. Method: Enter					
ASSET92 GEARIN92 INDUST92 LIQUID92 RATIO92 SALES92					
Multiple R	.40392				
R Square	.16315				
Adjusted R Square	.04360				
Standard Error	.06581				
Analysis of Variance					
	DF	Sum of Squares	Mean Square		
Regression	6	.03546	.00591		
Residual	42	.18189	.00433		
F=	1.36472	Signif F =	.2511		
----- Variables in the Equation -----					
Variable	B	SE B	Beta	T	Sig T
ASSET92	-9.70700E-11	3.3524E-10	-.093965	-.290	.7736
GEARIN92	.002124	.031752	.012477	.067	.9470
INDUST92	-.057979	.021667	-.419671	-2.676	.0106
LIQUID92	8.05718E-04	.008336	.016317	.097	.9235
RATIO92	6.36980E-04	4.8038E-04	.246376	1.326	.1920
SALES92	9.85611E-12	3.2425E-10	.009308	.030	.9759
(Constant)	.739384	.027885		26.516	.0000

Equation Number 1 Dependent Variable.. ALLINDEX

ALLINDEX = Overall index

Block Number 1. Method: Enter

ASSET92 GEARIN92 INDUST92 LIQUID92 RATIO92 SALES92

Multiple R .46975

R Square .22067

Adjusted R Square .10933

Standard Error .05888

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	6	.04122	.00687
Residual	42	.14559	.00347

F = 1.98203

Signif F = .0899

----- Variables in the Equation -----

Variable	B	SE B	Beta	T	Sig T
ASSET92	1.20456E-10	2.9993E-10	.125773	.402	.6900
GEARIN92	.019172	.028407	.121462	.675	.5034
INDUST92	-.055258	.019385	-.431431	-2.851	.0067
LIQUID92	.008626	.007458	.188436	1.157	.2540
RATIO92	3.79466E-04	4.2978E-04	.158316	.883	.3823
SALES92	-8.41089E-11	2.9010E-10	-.085675	-.290	.7733
(Constant)	.750482	.024948		30.082	.0000

Equation Number 1 Dependent Variable.. ISINDEX

ISINDEX = Income statements index

Block Number 1. Method: Enter

ASSET92 GEARIN92 INDUST92 LIQUID92 RATIO92 SALES92

Multiple R .41134

R Square .16920

Adjusted R Square .05052

Standard Error .08174

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	6	.05715	.00953
Residual	42	.28062	.00668

F = 1.42565

Signif F = .2277

----- Variables in the Equation -----

Variable	B	SE B	Beta	T	Sig T
ASSET92	4.30187E-10	4.1639E-10	.334049	1.033	.3075
GEARIN92	.034076	.039438	.160551	.864	.3925
INDUST92	-.039119	.026913	-.227145	-1.454	.1535
LIQUID92	.011712	.010354	.190276	1.131	.2644
RATIO92	4.95197E-04	5.9667E-04	.153647	.830	.4113
SALES92	-2.66283E-10	4.0275E-10	-.201722	-.661	.5121
(Constant)	.808737	.034635		23.350	.0000

Equation Number 1 Dependent Variable.. MVMINDEX

MVMINDEX = Measurement and valuation index

Block Number 1. Method: Enter

ASSET92 GEARIN92 INDUST92 LIQUID92 RATIO92 SALES92

Multiple R	.54149
R Square	.29321
Adjusted R Square	.19224
Standard Error	.10565

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	6	.19447	.03241
Residual	42	.46878	.01116

F = 2.90393                      Signif F = .0185

----- Variables in the Equation -----

Variable	B	SE B	Beta	T	Sig T
ASSET92	3.67298E-10	5.3818E-10	.203536	.682	.4987
GEARIN92	.036341	.050973	.122190	.713	.4798
INDUST92	-.095333	.034784	-.395023	-2.741	.0090
LIQUID92	.029177	.013383	.338255	2.180	.0349
RATIO92	1.17572E-04	7.7119E-04	.026033	.152	.8796
SALES92	-5.68385E-11	5.2055E-10	-.030727	-.109	.9136
(Constant)	.618741	.044766		13.822	.0000

Equation Number 1 Dependent Variable.. OFSINDEX

OFSINDEX = Other financial statements index

Block Number 1. Method: Enter

ASSET92 GEARIN92 INDUST92 LIQUID92 RATIO92 SALES92

Multiple R	.43287
R Square	.18737
Adjusted R Square	.07128
Standard Error	.07869

Analysis of Variance					
	DF	Sum of Squares	Mean Square		
Regression	6	.05996	.00999		
Residual	42	.26004	.00619		
F=	1.61404	Signif F = .1672			
----- Variables in the Equation -----					
Variable	B	SE B	Beta	T	Sig T
ASSET92	5.77929E-10	4.0084E-10	.461064	1.442	.1568
GEARIN92	.087803	.037965	.425020	2.313	.0257
INDUST92	-.018671	.025907	-.111383	-.721	.4751
LIQUID92	.017993	.009967	.300322	1.805	.0782
RATIO92	-.001402	5.7438E-04	-.447033	-2.442	.0189
SALES92	-3.92548E-10	3.8770E-10	-.305517	-1.012	.3171
(Constant)	.917148	.033341		27.508	.0000

Table 13.26 reports that there is no significant association in 1988 between any of each of balance sheet index, income statement index, other financial statements index, measurement and valuation methods index and overall index on one hand and the firms characteristics, namely, assets size, gearing, type of industry, liquidity ratio, proportion owned by the government and size of annual sales on the other hand. This result was expected because there was no recognised frame work for corporate reporting and there was no systematic interest in corporate reporting by investors.

Regarding 1992, it seems that the type of industry determine the extent of disclosure in Jordan. Table 13.27 reports that there is a high significant association between each of balance sheet index and measurement and valuation methods index on one hand and the type of industry at  $p \leq .01$ . This result is consistent with the findings of other contexts, for example, Japan (Cooke, 1992). The results also reveal a high significant association between other financial statements index on one hand and gearing ratio and proportion owned by the government at  $p \leq 0.05$  and  $0.01$  respectively on the other hand. Also, there is a high association between the measurement and valuation methods index and liquidity ratio at  $p \leq 0.05$ . The results for 1992 show that corporate reporting in Jordan is becoming systematic, responding to industry behaviour, gearing ratio and the level of government investment, compared to the circumstance in 1988. In short, the results for 1992 reflects the influence of IASC's standards upon financial reporting in Jordan.

The results for both 1988 and 1992, however, suggest that the regression model has little explanatory power. This may be due to the weakness of the variables introduced into the model as explanators of disclosure variability. It may also be due to the lack of corporate reporting regulation and monitoring system in Jordan in 1988 and the newness of IASs as a basis for preparing annual reports in Jordan.

### 13.2.2.6 Quality of different types of disclosure

The overall disclosure index for the year 1992 revealed a level of disclosure with 14 out of 49 sampled companies scoring 80% or more (the highest being 86%, the lowest score was 62%).

The overall disclosure indexes which emerged for the years 1988 and 1992 are shown in Table 13.28.

**Table 13.28**

	<b>1988</b>	<b>1992</b>
<b>Overall Disclosure Index (%)</b>	<b>Number of companies</b>	<b>Number of companies</b>
Greater $\geq$ 80	3	14
Between 70 and < 80	21	27
Between 60 and < 70	15	8
Between 50 and < 60	6	-
Between 40 and < 50	3	-
Between 30 and < 40	1	-
	49	49

These results suggest a general improvement in the level of disclosure between the two years.

In 1992 no sample company scored below 60 points while 10 did so in 1988. In addition, 11 more companies scored over 80 points in 1992 than did in 1988 while 6 more companies scored between 70 and 80 points in 1992 than did in 1988.

The overall disclosure indexes for 1988 and 1992 were disaggregated into various indexes reflecting different types of disclosure - balance sheet, income statement, other financial statements (such as fund flow), and valuation and measurement methods and accounting policies as shown in Tables 13.29.

**Table 13.29: Disaggregation of overall index**

Indices (%)	Balance sheet		Income statement		Other financial statements		Measurement & valuation methods	
	1988	1992	1988	1992	1988	1992	1988	1992
100%	-	-	3	2	-	43	-	-
≥80 but <100	2	11	14	39	28	5	1	12
≥70 but <80	26	24	17	4	-	-	11	18
≥60 but <70	12	13	13	4	-	1	19	13
≥50 but <60	6	1	1	-	-	-	8	4
≥40 but <50	2	-	1	-	17	-	2	1
≥30 but <40	1	-	-	-	-	-	1	1
≥20 but <30	-	-	-	-	-	-	4	-
≥10 but <20	-	-	-	-	-	-	3	-
<10	-	-	-	-	4	-	-	-
	49	49	49	49	49	49	49	49

The results in Table 13.29 suggest that:

1. The 1988 disclosure in balance sheet, and other financial statements were generally lower than the 1992 disclosure in similar statements.
2. The 1988 disclosures relating to measurement and valuation methods were generally lower than the 1992 disclosures on the same subject.
3. The results of income statement index indicates a general improvement in 1992 compared to 1988;
4. There is a growing interest in the publication of other financial statements such as funds flow statement.

Although the balance sheet and related notes proved to be highly informative in 1988, there is poor disclosure of three significant information items.

1. Proportion of fixed assets pledged.
2. Pension obligations which are not covered by the assets of a pension fund nor a specified method of funding such obligations.
3. Expenses on Research and Development are not clearly classified as expenses.



Regarding 1992, there is poor disclosure of the following information items.

1. Proportion of fixed assets pledged.
2. Method of determining market value of inventories.
3. Translation of foreign currencies.
4. Change in accounting methods and policies.

However, none of the companies in both years (1988 and 1992) disclosed information relating to unexpired useful life of fixed assets as shown in the following section.

The results of mean disclosure indexes of each type of disclosure (as shown in table 13.30) indicate a strong improvement in “other financial statements index” in 1992 over 1988. This improvement may suggest a positive influence of the adoption of IASC’s standards on disclosure behaviour in Jordan. The results also indicate a fall in “income statement index” and “balance sheet index” in 1992 compared to 1988. This fall may suggest that IASC’s standards are lower than normal standards in Jordan.

**Table 13.30** Mean index for each disclosure type

Disclosure index	1988		1992	
	Mean	Std. dev.	Mean	Std. dev.
B/S index	.68	.10	.73	.07
I/S index	.75	.11	.85	.07
OFS index	.60	.26	.97	.08
MVM index	.53	.18	.67	.12
All index	.67	.10	.77	.06

**Key**

- B/S index     Balance index  
 I/S index     Income statement index  
 OFS index     Other financial statement index  
 MVM index    Measurement and valuation methods index  
 All index     Overall index

A comparison of the mean disclosure indexes of 1988 with those of 1992 is shown in Table 13.31. The results indicate that the 1988 indexes are significantly different from the 1992 disclosure indexes. The results also indicate a general improvement in mean disclosure indexes in 1992 compared to 1988.

**Table 13.31** Comparison of significant test of mean disclosure indexes of 1988 with those of 1992

Disclosure index	1988		1992		Significant test	
	Mean	SD.	Mean	SD.	Corr.	sig
B/S index	.6844	.100	.7307	.067	.553	.000
I/S index	.7455	.112	.8513	.084	.409	.004
OFS index	.5959	.260	.9714	.082	.348	.014
MVM index	.5347	.101	.6708	.118	.462	.001
All index	.6690	.102	.7660	.062	.512	.000

**Key**

- B/S index      Balance index
- I/S index      Income statement index
- OFS index      Other financial statement index
- MVM index    Measurement and valuation methods index
- All index      Overall index
- SD.            Standard deviation
- sig.            Significant degree
- Corr.           Correlation coefficient

### 13.2.2.7: Extent of disclosure of information items

The results regarding the extent of disclosure of information items for the years 1988 and 1992 are shown in Tables 13.32 and 13.33.

**Table 13.32:** Comparison of the extent of disclosure of fixed assets for the years 1988 and 1992

Information items	No. of companies disclosing (out of 49)		Degree of disclosure	
	1988	1992	1988	1992
Gross value of fixed assets	49	49	100%	100%
Net value of fixed assets	49	49	100%	100%
Accumulated depreciation	48	49	98%	100%
Desegregation of fixed assets	43	49	87%	100%
Schedule of movements in fixed assets	6	22	12.2%	44.9%
Proportion of fixed assets pledged	13	16	26.5%	32.7%
Unexpired useful life of fixed assets	0	0	0%	0%

**Table 13.33:** Comparison of the extent of disclosure of other financial statements for the years 1988 and 1992

Information items	No. of companies disclosing (out of 49)		Degree of disclosure	
	1988	1992	1988	1992
Sources and application of funds	28	48	57.1%	98%
Changes in working capital	28	48	57.1%	98%
Disclosure of accounting policies as a note to the financial statements	45	49	91.8%	100%

Disclosure of accounting policies as a note in the financial statements is a regular feature of Jordanian annual report. Ninety two and 100 percent disclosed accounting policies in 1988 and 1992 respectively. In addition, 85.7% of the companies in 1988 and 93.9% of the companies in 1992 disclosed notes to financial statements cross-referenced to items in financial statements. There is a tremendous improvement between 1988 and 1992 in the disclosure of sources and application of funds and changes in working capital.

Regarding the reference in the annual accounts to the use of international accounting standards for compiling financial statements, none of the sample companies refers to the use of IASs in 1988, whereas the auditors' reports in the 1992 annual reports and accounts of 44 companies (89.9%) referred to the use of international accounting standards. This is due to the recommendation by JACPA that reporting companies should use IASs in preparing their annual reports. This behaviour indicates that the IASC's standards have had an enormous impact upon financial reporting practices in Jordan.

On the basis of valuing inventories, 73.4% (36) of sample companies in 1988 and 85.7% (42) of sample companies in 1992 used either Lower of Cost or Market value or Cost basis methods.

However, in 1988, only 54.4% of the sample companies disclosed the methods of determining cost of inventories (which were either First in, First out, or Weighted Average), whereas in 1992 65.9% of the sample companies disclosed the methods, which were the same as in 1988. There was poor or no disclosure of the methods of determining the market value of inventories in both years 1988 and 1992. The rates of disclosure were 13% in 1988 and 10.7% in 1992 and the methods used were either Net Realizable Value with or without deducting normal profit margin.

Disclosure of the methods and rates of depreciation was generally good. About 86% of sample companies (1988) and about 96% of sample companies (1992) disclosed the methods and rates of depreciation (predominantly Straight Line method). This, however, was due to the Tax Law which requires companies to use this method.

### **13.3 Summary**

The main purpose of this chapter was to evaluate corporate financial reporting practices in Jordanian enterprises with reference to national and international relevance.

This chapter was in two parts. The first part reported the results of the survey and the interviews on the advantages Jordan could obtain from the conformity of Jordanian enterprises with the IASC's standards, appropriateness of the IASC's standards for Jordan, the impact of the IASC's standards upon corporate financial reporting practices in Jordan, whether the IASC's standards should be modified when applied in Jordan, and the role of the IASC in encouraging Jordan to conform with the IASC's standards.

The results suggest that respondents believe that several advantages would accrue to Jordan if Jordanian enterprises conform with the IASC's standards. There seems to be a general agreement on the appropriateness of the IASC's standards to Jordan. A few IASs were, however, considered inappropriate. Respondents attributed the inappropriateness of these few IASC's standards to lack of relevance to local environmental factors (including laws and regulations).

Respondents generally supported the suggested reasons for expecting IASC standards to have a low impact on corporate reporting. However, the results only suggest that some (not all) of the IASC's standards have low impact. The respondents attributed such low impact to reasons such as Local Income Tax Law and the Companies Act and the lack of enforcement to make Jordanian companies comply with the IASC's standards.

On whether IASC's standards should be modified before being applied in Jordan, respondents strongly supported the suggestion that there is a need to modify some of the IASC's standards. Moreover, the respondents supported the suggested modifications, especially that relating to the 'translation of the IASC's standards into Arabic'. There was clear unanimity on the need for the IASC to encourage Jordanian companies to comply with its standards, by offering assistance on the interpretation of its standards.

The second part reported on the results of an evaluation of the adequacy of corporate reports and accounts in Jordan against the benchmark of IASC's standards. The annual reports and accounts of the years 1988 and 1992 of listed companies were used in the study. A scoring sheet for determining the level of disclosure by each company in each year was developed for this study. The items of information were not weighted to reflect the preferences of users in the construction of the disclosure index. Selected corporate characteristics were examined as explanators of the variation in disclosure indexes. The results of multivariate regression of 1988 revealed that there was no association between any of the six firm's characteristics (namely, assets, gearing, type of industry, liquidity, ratio of government ownership and sales) and any of the four disclosure indexes (namely, balance sheet disclosure index, income statement index, other financial statement index and measurement and valuation methods index). This result suggests corporate reporting has no systematic relationship with any of the independent variables. This is not a surprising, given the absence of local accounting standards and the use by companies of different accounting policies. The results also revealed that in respect of the 1992 disclosure indexes type of industry seems to determine the extent of disclosure. There was a high association between the type of industry and each of balance sheet index and measurement and valuation methods index.

The study also reported a 'composite' analysis of corporate annual reports in Jordan. The comparison between 1988 and 1992 disclosure indexes revealed that most of the sampled companies showed a strong improvement in the level of disclosure. Only three companies revealed a fall in their level of disclosure but the disclosure level of a few others were stable. The results of rank correlations reveal that there is a high correlation coefficients in most of disclosure indexes of both years (1988 and 1992) and this suggests that regardless of IASC's standards reporting companies maintained their relative status in corporate reporting. The results of mean disclosure indexes of each type of disclosure index indicate a strong improvement in "other financial statements index" in 1992 over 1988. Again this improvement may suggest a positive influence of the adoption of IASC's standards on disclosure behaviour in Jordan. The results also indicate a fall in "income statement index"

and “balance sheet index” in 1992 than in 1988. This fall may suggest that IASC’s standards are lower than normal standards in Jordan.

Furthermore, the results highlight the items of information that were poorly disclosed in the annual reports such as proportion of fixed assets pledged, and unexpired useful life of fixed assets.

**Table 13.34:** Summary of studies which have proven each of the explanatory variables in the current study

Explanatory variable	Study	Country of study
Asset size	Belkaoui & Kahl (1978)	Canada
	Cooke (1989a, 1989b)	Sweden
	Cooke (1991, 1992, 1993)	Japan
	Cerf (1961), Singhvi and Desai (1971), Buzby (1975), Imhoff (1992)	US
	McNally et al. (1982)	New Zealand
	Firth (1979)	UK
	Wallace (1987)	Nigeria
	Wallace et al. (1994)	Spain
Sales	Belkaoui & Kahl (1978)	Canada
	Cooke (1989a, 1989b)	Sweden
	Cooke (1991, 1992, 1993)	Japan
	Firth (1979)	UK
	Wallace et al. (1994)	Spain

quidity	Belkaoui & Kahl (1978) Cooke (1989b) Cooke (1993) Wallace et al. (1994) negative association	Canada Sweden Japan Spain
Gearing	Lutfi (1989)	UK (Ph.D. Glasgow University) on <u>unlisted Securities</u> <u>Market and Disclosure of</u> <u>Financial information</u>
Industry	Belkaoui & Kahl (1978) Cooke (1989a, 1989b) Cooke (1991, 1992, 1993)	Canada Sweden Japan
Ratio of government ownership	Not a common feature in the literature. However, it was considered essential to examine this variable in the case of Jordan, since government is a significant investor in profit - seeking enterprises in Jordan including sample companies	



## **PART V - EPILOGUE**

## Chapter Fourteen

### **Summary and conclusions, recommendations, Limitations, and areas of future research**

This chapter is divided into four sections. Section 1 summarises the major findings of the research. Section 2 identifies the recommendations. Section 3 discusses the limitations of the research and Section 4 indicates some areas of future research.

#### **14.1 Summary and conclusions**

Accounting in Jordan, as a developing country, is in its infancy, and much more is needed to develop this profession to the level required to enable it to function effectively and efficiently.

Jordan needs a systematic and carefully planned set of accounting systems which should include the development of national accounting standards to meet the unique needs of the country's accounting and business environments. The variables which respondents suggest should be considered when developing Jordanian accounting standards include: stage of economic development, recommendations from international bodies (such as the IASC and the UN), internal environmental factors (such as cultural, political and social characteristics) and the national laws and regulations (such as Income Tax Law)

The study was conducted with the following aims.

- a) To describe current reporting practices in annual reports and accounts of manufacturing and service companies listed on the AFM.
- b) To provide an understanding of the factors influencing accounting rules and their consequences.
- c) To examine the extent to which the corporate annual reports issued by Jordanian companies conform with international accounting standards.
- d) To examine the need for Jordanian annual reports to conform with IASs and whether there is a need for adapting the IASC's standards to suit the Jordanian environment.

- e) To provide greater understanding of the existing accounting education programmes in academic institutions in Jordan.
- f) To provide greater understanding of the role of accountants and professional accounting bodies.

The study involves three postal surveys as follows.

1. The survey of members of accounting firms, Jordanian Association of Certified Public Accountants (JACPA) and the financial managers or chief accountants of the Jordanian companies listed on the AFM.
2. The survey of academic accountants at academic institutions in Jordan.
3. The survey of governmental agencies in Jordan.

Moreover, to provide an in-depth follow-up to the postal surveys conducted in Jordan, face-to-face interviews were carried out with various individuals at different institutions.

The theoretical and empirical studies, and analysis thereof have revealed the following accounting problems.

1. Poor remuneration scheme. Most professors supplement their income by having their own practices.
2. Inadequate resources. Scarcity of textbooks that meet the educational needs of the students.
3. Poor university infrastructure (such as inadequate computing facilities, and lack of qualified academic staff) resulting in the creation of ineffective class groups. For example, a large number of students in a class may lead to less participation by the students in class discussions.
4. Accounting education has an American bias, with only marginal relevance to the Jordanian environment.
5. Accounting education prepares students for routine accounting work, with no orientation towards creative and analytical work.

- j. Research in general, and that related to Jordanian needs in particular, is very poor in both quantity and quality.
7. The accounting profession is weak and disorganised, its role in improving accounting in Jordan is minimal. Foreign pressures and influences, especially those of British and American multinational business and accounting firms, and that of accounting education, have done more harm than good to the status of the accounting profession, its education and practices in Jordan.
8. Corporate reporting practices are currently (since 1990) based on IASC's standards. There are no local corporate reporting regulations except that which requires reporting companies to follow generally accepted accounting principles. The adoption of IASC's standards by JACPA, as a basis for preparing corporate annual reports is said to serve this purpose. As such, IASC's standards are considered in Jordan as embodying the generally accepted accounting principles.
9. There is a need to remove the impediments to the improvement of Jordanian accounting and corporate reporting profile. The extant Companies Act is one such impediment because it has not kept abreast of the rapid development in the Jordanian economy. Another impediment is the lack of a local mechanism for setting accounting standards and for adapting IASC's standards to local environment.

## **14.2 Recommendations**

### **14.2.1 Recommendations for improving the accounting profession in Jordan.**

To make the local accounting profession effective in fulfilling its professional duties, the following recommendations are proposed.

- A. Contribution by the government: Government can improve the status of accounting profession in Jordan by:
1. providing financial support to accounting profession;
  2. providing effective accounting legislation;
  3. establishing a licensing authority;

4. establishing a broad-based national committee to advance accounting education;
  5. establishing a broad-based national committee to advance accounting practices;
  6. establishing a governmental agency responsible for advancing accounting practices.
- B. Contribution by academic institutions: Jordanian academic institutions can improve the status of the accounting profession in Jordan by:
1. introducing effective academic training for accounting personnel;
  2. introducing effective professional training for accounting personnel;
  3. conducting seminars and training courses for government employees;
  4. providing recommendations and advice for developing and advancing accounting concepts;
  5. establishing a research base for local purposes.

#### **14.2.2 Recommendations for the improvement of accounting practices in Jordan**

Essential to the improvement of accounting practices in Jordan are

1. an active self-regulated accounting profession.
2. the development of accounting standards suitable to the local environment.
3. the creation of an auditing standards board.
4. greater support of the government.
5. the development of a code of professional conduct.
6. collaboration with international professional accounting organisations.
7. the development and maintenance of effective accounting education systems.
8. the establishment of accounting development centres.
9. the development of a post-graduate training scheme for accountants.

### **4.2.3 Recommendations regarding the ways and means for improving accounting educational systems in Jordan.**

The following ways and means for improving accounting educational systems in Jordan are suggested:

Academic institutions should:

1. Develop a research base; case studies; present seminars and research papers on teaching process.
2. Use up-to-date accounting curriculum; textbooks; journals; references; teaching materials and so on.
3. Develop new and more effective teaching approaches; through up-dating academic schemes and syllabi and using local environment and experience in teaching.
4. Benefit from the experience of developed countries where it is appropriate.
5. Establish research centres in the universities to deal with accounting issues.
6. Up-date accounting professors by encouraging them to participate in research programmes, and national and international conferences.
7. Encourage a greater co-operation between academics and practitioners. For example, academics can take an active part in professional activities (by joining, say, the JACPA) and practitioners can participate in developing accounting curriculum and can be employed as adjoint university lecturers on an hourly basis.
8. Improve the teaching process by establishing an on-the-job training scheme, increasing class discussions, using student teams system, and reducing the number of students in classes.
9. Adopt high grade admission policy by increasing the pre-entry standards of students wishing to read or study accountancy at the university and introduce an entry examination as a prerequisite for the students to enter accounting departments in the universities.
10. Encourage local authors to produce textbooks and translations into Arabic.
11. Teach international accounting and auditing standards at university level.

12. Bridge the gap between theory and practice by concentrating upon the practical aspects of the accounting profession and allowing students to train at auditing firms.
13. Establish and update laws and regulations for accounting profession and practices in Jordan.
14. Reduce the content of university requirement courses, and increase the content of accounting department requirement courses so as to maximise the accounting input to the accounting degree programme.
15. Ask accounting students at universities and community colleges to join internship with government departments and accounting firms, to work for a period of not less than one semester in order to provide them with training. This may help in evaluating teaching processes as well as professors through the knowledge the students acquire.
16. Improve remuneration and motivation systems for professors (e.g., increase their salaries and reduce their teaching loads).

### **14.3 Limitations of the study**

As a part of this study, postal questionnaires and face-to-face interviews were used to elicit the views and opinions of respondents on the issues of interest to this research. The study, therefore, has several limitations.

Firstly, there are limitations inherent in opinions research (Buckley, 1976, p.144):

1. Opinions are non-factual and hence this type of research can never come to grips with reality, i.e., with what is actually happening.
2. Systematic biases in the way in which people respond to questions, such as perceptual biases that can arise (1) from making judgements on whether statements are strong or weak; whether IASs are suitable or unsuitable, appropriate or inappropriate, have great or little impact and from (2) the order in which the questions are asked.
3. Systematic biases associated with the administration of the survey instruments, including sampling errors, the role of the interviewer and the reactions of the interviewees.

**Secondly**, lack of relevant and useful information on the accounting profession, accounting education and practices in Jordan. Even when information is available, the relevant data is often written in Arabic and must be translated into English. The translation from Arabic into English is a very time consuming process and the prospect of mistranslation and mis-interpretation adds to the pressure and difficulty.

**Thirdly**, the financial laws in Jordan require reporting firms to prepare financial statements according to generally accepted accounting principles. The generally accepted accounting principles are not defined in Jordanian law. The Jordanian Association of Certified Public Accountants (JACPA) adopted the IASC's standards in 1989 to be effective from 1990. For the purpose of this study, the IASs are considered as generally accepted accounting principles. However, this is a subjective judgement and the results may not be completely accurate.

**Fourthly**, the profile of corporate reporting in Jordan that is described is based on a few Jordanian companies that are listed on AFM and on the reporting in 1988 and 1992. It seems clear that one cannot generalise from this small sample to the entire Jordanian society. Again, there are problems of using cross-sectional analysis (e.g. 1988 and 1992) to describe an evolving practice. Jordanian financial reporting is evolving at a fast rate and one would need a replication of this study in the future to provide a basis for relying on the results reported in this thesis.

**Finally**, this study is essentially about current practices and how it is perceived by a few respondents drawn from accounting and auditing practitioners, government officials and accounting academics. It is, therefore, in the mould of positive theory of accounting. Not much use is made of the sociological and epistemological perspectives. Using these perspectives, it is possible to argue that the IASs should not be adopted in Jordan at all, but the empirical evidence from this study suggests otherwise. It is also possible to argue that corporate reporting in Jordan need to extend to a point where it would embrace reporting on corporate social responsibilities - such as environmental pollution and employee benefits. However, these are outside the scope of the current study.



#### **14.4 Areas for future research**

The improvement process in local accounting and reporting practices will require further research studies dealing with several urgent matters.

1. There is the problem of measuring the impact of social pressure on the work of local auditors and their independence. Such research is very much needed and could have some significant implications for the local accounting profession.
2. The study of the impact of international auditing standards on financial reporting practices in Jordan, would complement the study reported here.
3. Knowledge of the relationship between accounting and economic development would enable policymakers to link accounting rules to their country's level of economic development. Although this study has suggested that IASs are probably inappropriate to the current environment of Jordan, there is no framework for arriving systematically at this decision. There is, therefore, a need for a study of the impact of accounting on economic development in Jordan.
4. Although not addressed in this thesis, many of the annual reports and accounts were not published until six months after the year end. A study of the impact of timeliness of annual reports and accounts upon corporate reporting practices and economic decisions in Jordan, seems appropriate.

**Appendix 1**  
**Questionnaire**

Middlesex University - Middlesex Business School - United Kingdom

and

Yarmouk University - Jordan

A Doctoral Research Questionnaire on the Status of Financial Reporting, Accounting  
Education and Profession in Jordan

**By: Hussein A Khasharmeh**

Ph.D. Student at the Middlesex University - UK

and lecturer at Department of Accounting - Yarmouk University - Jordan

**To the potential respondent**

I am currently conducting doctoral research on Corporate Reporting Practices in Jordan at the Middlesex Business School - Middlesex University, United Kingdom.

Your opinion is important as a preliminary step towards the assessment of the status of the profession and the use of International Accounting Standards (IASs) in Jordan.

Your responses to the questions in the questionnaire will be treated as confidential and anonymous and will be reported only in the form of statistical analyses that do not reveal your own personal views.

I will be extremely grateful if you could spare the time to complete the enclosed questionnaire as soon as possible and return it to me in the postage-stamped and addressed envelope provided.

Your participation in this study is highly appreciated, and your response is crucial to the analysis and results.

Please accept my thanks for your anticipated cooperation.

Hussein Ali Khasharmeh  
Accounting Department  
Faculty of Economics & Administration Science  
Yarmouk University  
Irbid - Jordan

**Directions**

1. The questionnaire is divided into three main parts:

Part one consists of questions seeking your opinion on the accounting profession in Jordan.

Part two elicits information about the use and application of International Accounting Standards (IASs), their impact on Jordan and how they are used in Jordan.

Part three requests information about the person completing this questionnaire.

2. Please note that most of the questions are designed to be answered on a scale as follows:

Strongly disagree      Disagree      No view      Agree      Strongly agree

( or Indifferent)

Please tick the box which most closely represents your answer.

3. Yes or No style questions are used as well as open-ended questions in order to express your opinion in more detail.

4. After completing the questionnaire, please use the enclosed stamped and addressed envelope to mail the questionnaire back to my address.

**Thank you for your cooperation**

**Part one. Background:**

1. Please indicate the extent to which you agree or disagree that the accounting profession in Jordan is considered to be active in terms of:

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. Identifying the problems facing auditing firms in Jordan.					
b. Providing solutions to the problems facing auditing firms in Jordan.					
c. Developing a Code of Ethics.					
d. Developing accounting standards that are suitable to Jordan's environment.					
e. Developing auditing standards.					
f. Others (please specify)					
_____					
_____					
_____					

2. Should the government increase its efforts to improve the state of accounting in Jordan?

Yes

No

If Yes, please go to question 3.

If No, please go to question 4.

3. Please indicate the extent to which you agree or disagree with each of the underlisted methods as a means by which the government could improve the accounting profession:

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. provide financial support to the accounting profession.					
b. provide effective accounting legislation.					
c. Establish a licensing authority for setting standards for admission into accounting practice.					
d. Establish a broad-based national committee (including accountants and non-accountants) to advance accounting education.					
e. Establish a broad-based committee (including accountants and non accountants) to advance accounting practices.					
f. Establish a governmental agency responsible for advancing accounting practices.					
g. Others (please specify)					
_____					
_____					
_____					

4. Do you think that an independent professional authority would improve the practice of accounting in Jordan?

Yes

No

In either case, please indicate why do you feel this way?

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5. Please indicate the extent to which you agree or disagree that the following items are essential to the improvement of accounting practices in Jordan?

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. An active self-regulated ( <i>i.e.</i> with government control) accounting profession.					
b. Accounting standards that are suitable to the local environment.					
c. Auditing standards board.					
d. Greater support of the government.					
e. Code of professional conduct.					
f. Collaboration with or membership of international organisations [such as International Accounting Standards Committee (IASC)].					
g. Effective accounting education system.					
h. The support of the auditing firms.					
i. Establishment of accounting development centres in major universities.					
j. Post-graduate training of accountants.					
k. Others ( please specify)					
_____					
_____					
_____					

6. From your experience, do you think that academic institutions can play an important role in improving the accounting profession in terms of providing:

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. Effective academic training for accounting personnel.					
b. Effective professional training for accounting personnel.					
c. Seminars and training courses to government employees.					
d. Recommendations and advice for developing and advancing accounting concepts.					
e. Appraisal of accounting in the school curriculum, particularly at community college and secondary school level.					
f. Research base for local purposes.					
g. Others (please specify)					
_____					
_____					
_____					

7. From your experience, do you believe that accounting graduates from Jordanian universities are inadequately prepared for the demands of workplaces on their knowledge?

Yes

No  If No, please continue from question No.9.

8. Please indicate the extent to which you agree or disagree with each of the following as one of the major reasons for the problem identified in question 7.

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. Poor remuneration scheme. Most professors supplement their income by having their own practice.					
b. Inadequate resources. Scarcity of textbooks that meet educational needs of the students.					
c. Poor university infrastructure means that most professors have heavy teaching loads.					
d. Poor university infrastructure resulting in the creation of ineffective class groups . For example, a large number of students in class may lead to less participation by students in class discussions.					
e. Inadequate computer facilities and other support equipment and resources.					
f. Others (please specify)					
_____					
_____					
_____					

9. The establishment of Accounting Development Centres sponsored by the government is essential to the improvement of accounting education in Jordan in terms of:

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. Formalising the institutional development of accounting.					
b. Fostering research.					
c. Facilitating the writing and production of local text materials.					
d. Devising a scheme for professional training and qualification for different levels and skills.					
e. Upgrading the quality of teaching and curricula.					
f. Others (please specify)					
_____					
_____					
_____					

10. Do you think that the accounting educational programmes adopted by Jordanian universities satisfy the local needs of the accounting profession.

Yes  No

If Yes, please go to question No.13.

11. From your experience, please state whether you agree or disagree that the following factor(s) influence(s) teaching at local academic institutions:

	Strongly Disagree	Disagree	No view	Agree	Strongly Agree
a. Accounting procedures and principles derived from the practices of developed countries (particularly the UK and USA) are the basis of instruction. As such, accounting education and training in Jordan are oriented towards the wrong environment.					
b. Instructors' university of graduation (local, US, UK).					
c. Most accounting textbooks used by Jordanian universities are based on the business environment of developed countries (particularly UK and USA) without adaptation.					
d. Most teaching methods are based on lectures that do not allow the opportunity to participate, research, analyse,.....					
e. Others (please specify)					
_____					
_____					
_____					



12. Based on the preceding question, please indicate possible means and procedures which can lead to ways of improving accounting educational systems in Jordan?

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13. Do you think that there is a need for developing national accounting standards in Jordan?

Yes

No

If No, please state your reason(s)

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14. Do you think that when developing national accounting standards the following items should be taken into consideration?

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. Stage of economic development.					
b. The needs of accounting information users.					
c. Recommendations from international bodies [such as International Accounting Standards Committee and the United Nations (UN)].					
d. Internal environmental factors (such as cultural, political and social characteristics).					
e. Others (please specify)					
_____					
_____					
_____					

15. Each of the following should take part in the setting of national accounting standards in Jordan?

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. Jordanian Association of Certified Public Accountants (JACPA).					
b. Government agencies (such as Ministry of Finance, Amman Financial Market, Audit Bureau...).					
c. Academics in universities.					
d. Social, religious and legal advisors.					
e. Auditing Firms.					
f. Suggested Accounting Standards Authority created from members of the above mentioned bodies.					
g. Others (please specify)					
_____					
_____					
_____					

16. Please indicate the organisation that you consider should play the leading role in setting national accounting standards:

- a. Jordanian Association of Certified Public Accountants (JACPA)
- b. Government agencies (such as Ministry of Finance, Amman Financial Market, Audit Bureau ....)
- c. Academics in universities
- d. Social, religious and legal advisors
- e. Auditing Firms
- f. Others (please specify)

17. If a body is to be set up to assume the responsibility of setting national accounting standards should it be independent from governmental influence?

Yes

No

Unsure

(No view)

If your answer is No, please indicate why so?

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**Part two : IASC**

1. Have you heard of the International Accounting Standard Committee (IASC)?

Yes  No

If your answer is No , please go to Part Three.

2. Do you know what the IASC does?

Yes  No

If Yes, please describe that function in a few words. \_\_\_\_\_

\_\_\_\_\_

3. Please indicate the extent of your agreement with the following possible advantages to Jordan that could result from the requirement that financial reporting by Jordanian enterprises conform with the IASs:

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. Saves time and effort in developing national standards					
b. Reduce the set-up and production costs of accounting standards.					
c. Facilitates the growth of foreign direct investments in Jordan.					
d. Facilitates the growth of domestic investment.					
e. Enhances comparability of financial statements.					
f. Others (please specify)					
_____					
_____					
_____					

4. Do you think that it is possible for the IASC to achieve international accounting harmonization (*i.e.*, to reduce the diversity of accounting standards and practices among countries)?.

Yes  No

If your answer is No , please do not answer question 5 , but state briefly your reasons.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

5. If your answer in question (4) above is Yes, then indicate the extent to which you agree or disagree with each of the following as a possible means to achieve such harmonisation:

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. By the co-operation and support of national standard-setting bodies from industrialised economies.					
b. By the support of international organisations such as the World Bank.					
c. By the support of international accounting / auditing firms.					
d. By the support of international investors.					
e. By the support of multinational firms.					
f. By the support of developing countries.					
g. Others (please specify)					
_____					
_____					
_____					

6. If you think that harmonization is desirable, with rate on a scale of 1 (most improbable) to 5 (most probable), score each of the following as the one that could attain such a goal.

	1	2	3	4	5
a. United Nations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. International Federation of Accountants	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. International Accounting Standards Committee (IASC)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. A body comprising securities organisation/authorities from different countries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. An international body comprising national standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. A body comprising national accounting standards from Arab countries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7. Suppose there is to be a regional harmonization of accounting and reporting standards, please rate each of the following bodies on a scale of 1 to 5 as the most suitable to set accounting standards for corporate reporting in your region.

	1 Least suitable	2	3	4	5 Most suitable
a. Organization of Arab League.					
b. A financial accounting standards council for Arab countries.					
c. Regional bodies such as Arab Society of Certified Accountants.					
d. Supportative bodies including various associations of professional accountants.					
e. Others (please specify)					
_____					
_____					
_____					

8. To what extent do you agree that IASC's standards are appropriate for Jordan ? Please rate your opinion on a scale of 1 to 5 below:

	1 Most In- appropriate	2 Less Appropriate	3 Appropriate	4 More Appropriate	5 Most Appropriate
IAS 1 - Disclosure of accounting policies.					
IAS 2 - Valuation of inventories.					
IAS 3 - Consolidated financial statements.					
IAS 4 - Depreciation accounting.					
IAS 5 - Information to be disclosed in financial statements.					
IAS 7 - Cash flow statements.					
IAS 8 - Unusual and prior period items and changes in accounting policies.					
IAS 9 - Accounting for research and development activities.					
IAS 10 - Contingencies and events occurring after the balance sheet date.					
IAS 11 - Accounting for construction contracts.					
IAS 12 - Accounting for taxes on income.					
IAS 13 - Presentation of current assets and current liabilities.					
IAS 14 - Reporting financial information by segment.					
IAS 15 - Information reflecting the effects of changing prices.					
IAS 16 - Accounting for property, plant and equipment.					
IAS 17 - Accounting for leases.					
IAS 18 - Revenues recognition.					
IAS 19 - Accounting for retirements benefits.					
IAS 20 - Accounting for government grants.					
IAS 21 - Accounting for the effects of changes in foreign exchange rates.					
IAS 22 - Accounting for business combinations.					
IAS 23 - Capitalisation of borrowing cost.					
IAS 24 - Related party disclosure.					

IAS 25 - Accounting for investments.					
IAS 26 - Accounting and reporting by retirement benefit plans.					
IAS 27 - Consolidated financial statements.					
IAS 28 - Accounting for investments in associates.					
IAS 29 - Financial reporting in hyper inflationary economies.					
IAS 30 - Disclosures in financial statements of banks.					
IAS 31 - Financial reporting of interests in joint ventures.					

If your answer to any item is most inappropriate , please state your reasons briefly

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9. To what extent do you agree that the IASC's standards have an impact upon domestic financial reporting practices in Jordan?

	1 No impact	2 Little impact	3 Average impact	4 Great impact	5 Very great impact
IAS 1 - Disclosure of accounting policies.					
IAS 2 - Valuation of inventories.					
IAS 3 - Consolidated financial statements.					
IAS 4 - Depreciation accounting.					
IAS 5 - Information to be disclosed in financial statements.					
IAS 7 - Cash flow Statements.					
IAS 8 - Unusual and prior period items and changes in accounting policies.					
IAS 9 - Accounting for research and development activities.					
IAS 10 - Contingencies and events occurring after the balance sheet date.					
IAS 11 - Accounting for construction contracts.					
IAS 12 - Accounting for taxes on income.					
IAS 13 - Presentation of current assets and current liabilities.					
IAS 14 - Reporting financial information by segment.					
IAS 15 - Information reflecting the effects of changing prices.					
IAS 16 - Accounting for property, plant and equipment.					
IAS 17 - Accounting for leases.					
IAS 18 - Revenues recognition.					
IAS 19 - Accounting for retirements benefits.					

IAS 20 - Accounting for government grants.					
IAS 21 - Accounting for the effects of changes in foreign exchange rates.					
IAS 22 - Accounting for business combinations.					
IAS 23 - Capitalisation of borrowing cost.					
IAS 24 - Related party disclosure					
IAS 25 - Accounting for investments.					
IAS 26 - Accounting and reporting by retirement benefit plans.					
IAS 27 - Consolidated financial statements.					
IAS 28 - Accounting for investments in associates.					
IAS 29 - Financial reporting in hyper inflationary economies.					
IAS 30 - Disclosures in financial statements of banks.					
IAS 31 - Financial reporting of interests in joint ventures.					

If your answer to any item is little or no impact, please state your reasons briefly

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10. If your answer to any item in question 9 above rated IASC's impact as average or better, then rank each of the following reasons for such impact:

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. Historical ties (colonial influence).					
b. Pressures from international lenders such as World Bank.					
c. Pressures from international accounting firms.					
d. Pressures from powerful or multinational corporations.					
e. External political pressures.					
f. Internal political pressures.					
g. Others (please specify)					
_____					
_____					
_____					

11. Are you aware of any attempt to adapt IASC's standards to suit Jordan's environment?

Yes  No

If your answer is Yes, please indicate the IASC's standards that have been adapted.

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12. Do you think that there is a need to modify the IASC's standards when applied in Jordan?

Yes

No

If your answer is No, please do not answer question 13 below, but state your reasons briefly.

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13. If your answer to question 12 is Yes, should the adaptation apply to:

a. All IASC's standards

b. Some IASC's standards

14. Adaptation can take several forms . Please indicate the extent to which you agree or disagree with each of the following modifications:

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. To harmonize IASs with Islamic principles.					
b. To disallow some provisions of IASs that are not in consonance with the traditions.					
c. To include certain practices that the IASC has disallowed but which are conducive to good practice in Jordan.					
d. To translate IASs into Arabic.					
e. To exempt some companies from the need to comply with IASs.					
f. Others (please specify)					
_____					
_____					
_____					



15. It has been said that the IASC can play an important role in encouraging Jordan to conform with IASC's standards. Please rate each of the following possible means that the IASC could use:

	Strongly disagree	Disagree	No view	Agree	Strongly agree
a. To undertake research studies into the state of accounting and accounting problems in the Middle East and Jordan.					
b. To develop a system of providing experts to assist accounting standards-setting bodies.					
c. To introduce programmes which will help to train people in Jordan to set their own standards.					
d. To provide financial assistance to support accounting research.					
e. To provide consultancy services.					
f. To allow for greater participation in the process of setting IASs.					
g. Others (please specify)					
_____					
_____					
_____					

### **Part three : Personal Information**

1. Name of organisation:

2. Date form completed

3. Person completing questionnaire

a. Occupation :

b. Gender :

c. Age :

d. Qualification :

i. Secondary school

ii. A baccalaureate degree (two years after secondary school)

iii. Bachelor degree majoring in .....

iv. Master degree majoring in.....

v. Doctoral degree majoring in .....

vi. Others (please specify)

e. The country from which your most recent degree was obtained is

i. Jordan

ii. Another Arab country

iii. UK or USA

iv. Others (please specify)

f. Professional experience in accounting function

i. Less than 5 years

ii. From 5 to 10 years

iii. Greater than 10 years

g. Are you a member of professional accounting association?

Yes

No

h. If your answer in (g) above is Yes, then what is the name of the professional accounting association?

## Appendix 2

### Rationale for Questions in the Questionnaire

#### Part one: background

This part is developed to seek the opinions of the respondents on the accounting profile of Jordan.

#### Rationale for Questions

Q.1. If the profession is active in the development of accounting, people most close to accounting practices should be in a position to evaluate such an active role. This question is designed to elicit the perceptions of people, close to accounting, on the role of the accounting profession in Jordan.

Q.2. This is a judgemental question and the answer would suggest the extent of agreement with the proposition that current practices are inadequate and in need of improvement.

Q.3. It is assumed that Jordanians believe that government should contribute to the improvement of accounting. Respondents' opinions on the methods of improving the accounting profession may be one way of offering advice to government. The 'voice' of the people may be the 'voice' of the government. Hence, this question is designed to elicit the degree of respondents' agreement with each of the methods enumerated.

#### Data Analysis Procedure

Description statistics - e.g percentages, median and inferential statistics - eg.  $\chi^2$  and other non-parametric procedures.

Descriptive Statistics e.g., frequencies, mean, cross-tabulation on the basis of types of respondents.

The same statistical procedures used in question 1 above.

Q.4. This question intends to elicit respondents' opinions on whether a professional accounting authority independent of government can improve accounting practices, and if not, to establish the reasons behind this belief.

The same statistical procedures used in question 2 above.

Q.5. It is assumed that improvements in the accounting profession in Jordan can be achieved through many institutional mechanisms. Hence, this question is designed to highlight the mechanism(s) that may help in improving accounting practices.

The same statistical procedures used in question 1 above.

In summary, questions 1-5, have been designed to provide the answer to the following research question.

What is the current status of the accounting profession in Jordan, and can this status be improved?

Q.6. It is assumed that the role of academic institutions in developing accounting in Jordan is likely to be considered important by the respondents. Hence, this question is designed to indicate the major contributions that respondents think academic institutions are likely to make in this area.

The same statistical procedures used in question 1 above.

In summary, this question has been designed to provide the answer to the following research question.

How do accounting practitioners, experts and governmental agencies perceive the role of academic institutions in the development of the accounting profession in Jordan?

Q.7. This question is designed to solicit the opinions of the respondents regarding the capabilities of local universities' graduates in accounting. Indirectly, the question intends to determine people's evaluation of the quality of accounting education in universities.

The same statistical procedures used in question 2 above.

- Q.8. It is assumed that the weaknesses of universities' graduates in accounting in Jordan are likely to be known by respondents who can speculate on possible causes. Hence, this question is designed to highlight the major causes of such weaknesses.
- The same statistical procedures used in question 1 above.
- Q.9. It is assumed that the establishment of Accounting Development Centres (ADCs) sponsored by the government in Jordan is essential to the improvement of accounting education. Hence, this question is designed to indicate the respondents' degree of potential agreement with the benefits suggested to ensue from the establishment of ADCs and the major contributions of such centres.
- The same statistical procedures used in question 1 above.
- Q.10. This question intends to find out whether educational programmes adopted by Jordanian universities are responding to the needs of the local accounting profession.
- The same statistical procedures used in question 2 above.
- Q.11. It is assumed that if accounting educational programmes adopted by Jordanian universities do not respond to local needs, they are foreign. Hence, this question is designed to highlight the major foreign factors that influence teaching at local academic institutions.
- The same statistical procedures used in question 1 above.
- Q.12. This question is designed to solicit ideas on the processes and procedures which may lead to improving accounting education in Jordan.
- The same statistical procedures used in question 2 above.

In summary, questions 7-12 have been designed to provide the answer to the following research question.

What are the major strengths and weaknesses of the existing accounting education systems at university level as perceived by practitioners, experts and governmental agencies in Jordan, and how can they be improved if they are deficient?

Q.13. This question is designed to establish whether a continual appraisal of accounting standards in Jordan is necessary.

The same statistical procedures used in question 2 above.

Q.14. It is assumed that the development of national accounting standards contingent on many factors. Hence, this question is designed to indicate the major factors that should be considered when developing national accounting standards.

The same statistical procedures used in question 2 above.

In summary, questions 13-14 have been designed to provide the answer to the following research question.

How do accounting practitioners, experts and governmental agencies in Jordan perceive the need for the national accounting standards?

Q.15. It is believed that the responsibility for setting national accounting standards varies from one country to another. Hence, this question is designed to solicit the respondents' opinions regarding the authority who should assume this responsibility.

The same statistical procedures used in question 1 above.

Q.16. It is believed that one organisation should play the leading role in setting national accounting standards in Jordan. Hence, this question is designed to solicit the respondents' opinions regarding the organisation who should assume this role.

The same statistical procedures used in question 2 above.

Q.17. This question is designed to indicate the extent of authority and independence delegated to the body which should assume the responsibility for setting national accounting standards.

The same statistical procedures used in question 2 above.

In summary, questions 15-17 have been designed to provide the answer to the following research question.

How should the membership of the authority to be charged with setting national accounting standards be constituted as based on the opinions of practitioners, experts and governmental agencies?

## Part two: IASC

This part is developed to elicit respondents' opinions about International Accounting Standards Committee's (IASC's) standards, its impact on Jordan and how it is used by Jordanian companies.

- |  |  |
|--|--|
| Q's.1 and 2. These questions are designed to establish the degree of awareness of the respondents about the IASC and its mechanism.  | Descriptive statistics e.g., frequencies and cross tabulation on the basis of types of respondents.                            |
| Q.3. It is assumed that respondents may be in a position to assess whether harmonisation of accounting and reporting standards in Jordan with those of the IASC is likely to provide Jordan with many advantages. Hence, this question is designed to indicate major advantages that may result from such harmonisation. | Descriptive statistics e.g., percentages, median and inferential statistics-e.g. $\chi^2$ and other non-parametric procedures. |
| Q.4. This question is designed to establish whether the respondents believe that such harmonisation is attainable.   | The same statistical procedures as in question 1 above.  |
| Q.5. It is assumed that such harmonisation is attainable. Hence, this question is designed to indicate the possible means by which to achieve such harmonisation.  | The same statistical procedures as in question 4 above.  |
| Q.6. This question is designed to solicit the opinions of the respondents regarding whether the IASC is the ideal body to attain accounting harmonisation, internationally.  | The same statistical procedures as in question 1 above.  |

Q.7. If the IASC is considered not ideal, it is assumed that respondents would have an opinion on alternative mechanisms for pursuing the international harmonisation of accounting. Hence, this question is designed to solicit the respondents' opinions regarding the best body to set up international accounting and reporting standards.

The same statistical procedures as in question 4 above.

In summary, questions 1-7 are designed to provide the answer to the following research question.

*How do accounting practitioners, experts and governmental agencies in Jordan perceive the possibility of achieving international harmonisation of accounting and financial reporting and by which means?*

Q.8. This question is designed to solicit the respondents' opinions regarding the applicability of the IASC's standards in Jordan.

The same statistical procedures as in question 1 above.

Q.9. This question is designed to discover the extent of the IASC's impact upon domestic financial reporting practices in Jordan. And if the IASC has no impact, then what are the reasons behind this belief?

The same statistical procedures as in question 1 above.

Q.10. It is assumed respondents who believe that the IASC's standards have great or very great impact upon domestic financial reporting practices in Jordan know the reasons for the influence of the IASC's standards. Hence, this question is designed to highlight the reasons behind this impact.

The same statistical procedures as in question 4 above.



- |  |  |
|--|--|
| <p>Q.11. This question is designed to indicate any attempt to adapt the IASC's standards to suit Jordan's environment. And if the answer is 'yes', then to indicate which of the IASC's standards have been adapted.</p>                   | <p>The same statistical procedures as in question 1 above.</p> |
| <p>Q.12. This question is designed to establish whether modifications to the IASC's standards are needed when applied within the context of Jordanian accounting practices . And if there is no need for such modifications, why not ?</p> | <p>The same statistical procedures as in question 1 above.</p> |
| <p>Q.13. It is assumed that respondents know how IASC standards should be modified when applied in Jordan. Hence, this question is designed to find out what these major modifications are.</p>  | <p>The same statistical procedures as in question 4 above.</p> |
| <p>Q.14. It is assumed that adaptation of the IASC's standards to suit Jordan's environment takes several forms. Hence, this question is designed to indicate the possible forms of modifications.</p>                                     | <p>The same statistical procedures as in question 4 above.</p> |
| <p>Q.15. Respondents are more likely to know what assistance Jordan needs from the IASC in order to make it conform to IASC's standards. Hence, this question is designed to indicate the possible means the IASC may use.</p>             | <p>The same statistical procedures as in question 4 above.</p> |

In summary, questions 9-15 of Part Two have been designed to provide the answer to the following research question.

What is the impact of the IASC's standards upon domestic accounting practices in Jordan as seen by the practitioners, experts and governmental agencies?

### **Part Three: Biographical data**

This section on the biographical data of respondents is self explanatory. It would enable me to structure responses to parts 1 and 2 on the bases of occupation, gender, age, education, and the professional experience of the respondents.

In addition, an examination of the annual reports of major national industrial companies in Jordan will be made in order to provide the answer to the following research question.  
How adequate are the reporting practices of national companies in Jordan with reference to the IASC's standards?

### Appendix 3

#### List of individuals interviewed

No.	Name of individuals	Organisation and position
1	Dr. Waleed Al-Nassan	Assistant professor at the Arab Institute for Banking Studies
2	Dr. Munir Lutfy	Accounting professor at Jordan University
3	Dr. Mahmoud Qaqish	Accounting professor at Yarmouk University
4	Mohammad Khalid	Auditing department/Amman Financial Market
5	Khalil Nasser	Head of supervision department - Amman Financial Market
6	Abed-Al-Kareem Qudah	Assistant to head of department - Amman Income Tax Department
7	Dhafer Al-Eghzawi	Head of section - Amman Income Tax Department
8	Ibrahim Al-Duery	Chairman of central control and planning - Audit Bureau
9	Ms Jamila Asi	Chairman of control of economic and financial section - Audit Bureau
10	Sulieman Nemrey	Head of accounts - Chamber of Commerce
11	Abed Al-Hafeed Ajluni	Financial manager - Development and Employment fund
12	Adel Lello	Supervisor of auditing accounts - Central Bank of Jordan
13	Farook Kilani	Financial manager - Amman-Cairo Bank
14	Marwan Madani	Financial manager - Chemical Company
15	Randa Qunsol	Partner - Auditing firm
16	Samir Jaghoob	Partner - Auditing firm
17	Dr. George Agha	Partner - Auditing firm
18	Khalid Yaseen	auditor - Auditing firm
19	Yousif Hijazeen	Partner - Auditing firm

## Appendix 4

Descriptive and analytical statistics of responses

Item No.		Mean scores				Significant tests P ≤ 0.05 Paired tests Total Dyads 3 No. of NS out of		
		Entire sample	Group 1	Group 2	Group 3	Entire sample	2 dyads with Group 1	1 dyad without Group 1
1	Problems facing auditing firms in Jordan.	0.576	0.597	0.429	0.652	NS	2	1
2	Solutions of auditing problems in Jordan.	0.568	0.551	0.518	0.643	NS	2	1
3	Developing a code of ethics.	0.576	0.609	0.339	0.700	NS	2	1
4	Developing accounting standards.	0.494	0.547	0.304	0.543	NS	2	1
5	Developing auditing standards.	0.439	0.466	0.214	0.609	NS	2	1
6	Provision of financial support by the government in Jordan.	0.878	0.797	0.739	1.150	NS	2	0
7	Provision of effective accounting legislation.	1.389	1.459	1.304	1.311	NS	2	1
8	Establishing licensing authority for setting admission standards.	1.145	1.148	1.130	1.150	NS	2	1
9	Establishing a broad-based national committee to advance accounting education.	0.904	1.000	0.978	0.656	NS	1	1
10	Establishing a broad-based national committee to advance accounting practices.	0.996	1.000	1.196	0.833	NS	1	0
11	Establishing a governmental agency responsible for advancing accounting practices.	0.711	0.479	0.761	1.131	S	1	0
12	An active self-regulated accounting profession.	0.904	0.804	0.857	1.149	NS	1	1
13	Accounting standards suitable to local environment.	1.118	1.101	1.125	1.147	NS	2	1
14	Auditing standards board.	1.210	1.209	1.143	1.269	NS	2	1
15	Greater support by the government.	1.077	1.029	1.037	1.209	NS	2	1
16	Code of professional conduct.	1.315	1.366	1.204	1.303	NS	2	1
17	Collaboration with or membership of the IASC.	1.385	1.362	1.473	1.358	NS	2	1
18	Effective accounting education system.	1.510	1.493	1.600	1.471	NS	2	1
19	The support of auditing firms.	1.195	1.209	1.291	1.090	NS	2	1
20	Establishment of accounting development centres.	1.328	1.338	1.250	1.373	NS	2	1
21	Post-graduate training accountants.	1.437	1.424	1.370	1.515	NS	2	1
22	Effective academic training for accounting personnel.	1.185	1.158	1.161	1.257	NS	2	1
23	Effective professional training for accounting personnel.	1.204	1.144	1.161	1.357	SS	1	0

24	Seminars and training courses for government employees.	1.192	1.137	1.054	1.414	S	1	0
25	Recommendations and advice for developing accounting concepts.	1.170	1.065	1.321	1.257	S	0	1
26	Appraisal of accounting in the school curriculum.	1.060	1.000	1.268	1.014	SS	1	0
27	Research base for local purposes.	0.989	0.920	1.179	0.971	NS	1	1
28	Poor remuneration scheme.	0.328	0.316	0.345	0.344	NS	2	1
29	Inadequate resources (scarcity of textbooks).	0.482	0.579	0.467	0.273	NS	2	1
30	Poor university infrastructure (most professors have heavy teaching loads).	0.333	0.360	0.700	-0.061	S	0	0
31	Poor university infrastructure (large number of students in the classes).	0.705	0.711	0.933	0.485	NS	2	0
32	Inadequate computer facilities.	0.906	0.947	0.767	0.938	NS	2	1
33	Formalising the institutional development of accounting.	0.835	0.799	0.722	1.000	NS	2	0
34	Fostering research.	1.027	1.022	0.943	1.104	NS	2	1
35	Facilitating the writing and production of local text materials.	0.977	0.957	1.094	0.925	NS	2	0
36	Devising a scheme for professional training and qualification.	1.112	1.086	1.148	1.134	NS	2	1
37	Upgrading the quality of teaching and curricula.	1.121	1.167	1.056	1.077	NS	2	1
38	Accounting procedures and principles derived from the practices of developed countries are the basis of instruction.	0.561	0.389	0.731	0.880	SS	1	1
39	Instructor's university of graduation (local, US, UK).	0.588	0.714	0.320	0.500	NS	2	1
40	Most accounting text books used by Jordanian universities are based on the business environment of developed countries.	0.707	0.569	0.885	0.920	NS	2	1
41	Teaching methods are based on lectures.	1.248	1.239	1.115	1.417	NS	2	1
42	Stage of economic development.	1.107	1.131	1.036	1.114	NS	2	1
43	Accounting information users.	1.242	1.311	1.255	1.100	SS	1	1
44	Recommendations from international bodies.	1.172	1.250	1.145	1.043	NS	1	1
45	Internal environmental factors.	1.000	0.970	1.145	0.944	NS	2	1
46	Jordanian Association of Certified Public Accountants (JACPA).	1.468	1.609	1.250	1.362	S	0	1
47	Governmental agencies.	1.167	1.130	1.125	1.275	NS	2	1
48	Academics in universities.	1.323	1.254	1.429	1.377	NS	2	1
49	Social, religious and legal advisors.	0.626	0.543	0.732	0.706	NS	2	1
50	Auditing firms.	1.371	1.404	1.278	1.377	NS	2	1
51	Members from all above bodies.	1.237	1.163	1.302	1.333	NS	2	1
52	Saving time and effort.	1.035	1.233	0.619	0.875	S	0	1

53	Reducing set-up and production costs.	0.946	1.099	0.500	0.950	S	1	0
54	Facilitating the growth of direct foreign investments in Jordan.	0.930	1.050	0.452	1.079	S	1	0
55	Facilitating the growth of domestic investment.	0.678	0.725	0.405	0.825	NS	1	0
56	Enhancing comparability of financial statements.	1.295	1.336	1.244	1.225	NS	2	1
57	The co-operation and support of national standards setting bodies.	1.136	1.159	0.968	1.211	NS	2	0
58	The support of international organisations such as World Bank.	0.848	0.796	0.935	0.923	NS	2	1
59	The support of international accounting/auditing firms.	1.279	1.333	1.355	1.075	NS	2	1
60	The support of international investors.	0.791	0.785	0.839	0.769	NS	2	1
61	The support of multinational firms.	0.800	0.792	0.933	0.718	NS	2	1
62	The support of developing countries.	0.835	0.729	1.000	1.000	S	0	1
63	United Nations.	2.956	2.818	3.186	3.122	NS	1	1
64	International Federation of Accountants.	3.985	4.041	3.860	3.950	NS	2	1
65	IASC	4.379	4.471	4.023	4.488	S	1	0
66	A body comprising securities organisation/authorities from different countries.	3.214	3.067	3.163	3.737	S	1	0
67	International bodies comprising national standards.	3.102	3.000	3.068	3.439	NS	1	1
68	A body comprising national accounting standards from Arab countries.	3.585	3.500	3.568	3.854	NS	1	1
69	Organisation of Arab league.	3.330	3.261	3.068	3.825	S	1	0
70	A financial accounting standards council from Arab countries.	4.162	4.102	4.091	4.405	NS	2	1
71	Regional bodies such as Arab Society of Certified Accountants.	3.845	3.792	3.818	4.024	NS	2	1
72	Supportive bodies including various associations of professional accountants.	3.644	3.697	3.409	3.738	NS	2	1
73	Historical ties (colonial influence).	0.243	0.135	0.415	0.378	S	0	0
74	Pressures from international lenders such as World Bank.	0.707	0.696	0.833	0.595	S	1	0
75	Pressures from international accounting firms.	0.649	0.611	0.878	0.514	S	0	1
76	Pressures from multinational corporations.	0.516	0.554	0.575	0.333	S	1	1
77	External political pressures.	0.079	0.018	0.075	0.278	S	1	0
78	Internal political pressures.	0.108	0.028	0.048	0.405	S***	1	0
79	Harmonise IASs with Islamic principles.	0.582	0.571	0.525	0.676	S***	1	0

80	Disallow some provisions of IASs that are not in consonance with the traditions.	0.446	0.387	0.675	0.389	S***	0	1
81	Include certain practices that the IASC has disallowed but which are conducive to good practice in Jordan.	0.789	0.798	0.846	0.694	S***	1	0
82	To translate IASs into Arabic.	1.119	1.145	1.079	1.083	S***	1	0
83	Exempt some companies from the need to comply with IASs.	-0.321	-0.504	-0.125	-0.056	S***	0	0
84	Undertake research studies into the state of accounting problems in the Middle East.	1.220	1.183	1.250	1.293	S***	1	0
85	Develop a system of providing experts to assist accounting standards-setting bodies.	1.107	1.100	1.159	1.073	S***	1	1
86	Introduce programmes which will help to train people in Jordan to set their own standards.	1.063	0.975	1.091	1.293	S***	1	0
87	Provide financial assistance to support accounting research.	1.286	1.267	1.341	1.282	S***	1	0
88	Provide consultancy services.	1.215	1.217	1.273	1.146	S***	1	0
89	Allow for greater participation in the process of setting IASs.	1.146	1.183	1.023	1.171	S***	1	0
90	Disclosure of accounting policies.	3.780	3.959	3.409	3.650	S***	0	1
91	Valuation of inventories.	3.760	3.868	3.558	3.650	NS	2	1
92	Consolidation of financial statements.	3.624	3.810	3.250	3.475	S	0	1
93	Depreciation accounting.	3.791	3.917	3.614	3.610	SS	1	1
94	Information to be disclosed in financial statements.	3.902	3.975	3.818	3.775	NS	2	1
95	Statement of changes in financial position.	3.766	3.775	3.795	3.707	NS	2	1
96	Unusual and prior period items and changes in accounting policies.	3.649	3.744	3.465	3.561	NS	2	1
97	Accounting for research and development activities.	3.415	3.455	3.318	3.400	NS	2	1
98	Contingencies and events occurring after the balance sheet date.	3.673	3.802	3.386	3.600	S	1	1
99	Accounting for construction contracts.	3.552	3.625	3.409	3.487	NS	2	1
100	Accounting for taxes on income.	3.127	3.083	3.116	3.268	NS	2	1
101	Presentation of current assets and current liabilities.	3.878	3.967	3.750	3.756	NS	2	1
102	Reporting financial information by segments.	3.520	3.504	3.523	3.561	NS	2	1
103	Information reflecting the effects of changing prices.	3.146	3.133	3.091	3.244	NS	2	1
104	Accounting for property, plant and equipment.	3.736	3.754	3.636	3.795	NS	2	1
105	Accounting for leases.	3.191	3.092	3.182	3.488	NS	1	1
106	Revenue recognition.	3.717	3.800	3.325	3.683	NS	2	1

107	Accounting for retirement benefits.	2.910	2.744	3.070	3.225	S	0	1
108	Accounting for government grants.	3.084	3.000	3.000	3.415	NS	1	0
109	Accounting for the effects of changes in foreign exchange rates.	3.414	3.400	3.395	3.475	NS	2	1
110	Accounting for business combination.	3.302	3.233	3.409	3.390	NS	2	1
111	Capitalisation of borrowing costs.	3.299	3.342	3.302	3.299	NS	2	1
112	Related party disclosure.	3.289	3.347	3.182	3.231	NS	2	1
113	Accounting for investments.	3.676	3.750	3.581	3.561	NS	2	1
114	Accounting and reporting by retirement benefit plan.	3.020	3.822	3.364	3.220	S	0	1
115	Consolidated financial statements.	3.495	3.556	3.545	3.268	NS	2	1
116	Accounting for investments in associates.	3.337	3.347	3.318	3.325	NS	2	1
117	Financial reporting in hyper inflationary economies.	2.899	2.754	3.295	2.875	S	1	1
118	Disclosure in financial statements of banks.	3.728	3.731	3.810	3.634	NS	2	1
119	Financial reporting of interests in joint ventures.	3.198	3.154	3.136	3.390	NS	2	1
120	Disclosure of accounting policies.	3.634	3.842	3.136	3.561	S***	1	0
121	Valuation of inventories.	3.673	3.800	3.432	3.561	SS	1	1
122	Consolidated financial statements.	3.402	3.550	3.159	3.225	SS	0	1
123	Depreciation accounting.	3.596	3.758	3.341	3.385	S	0	1
124	Information to be disclosed in financial statements.	3.626	3.739	3.364	3.575	NS	1	1
125	Statement of changes in financial position.	3.515	3.555	3.477	3.439	NS	2	1
126	Unusual and prior period items and changes in accounting policies.	3.300	3.383	3.024	3.341	NS	1	1
127	Accounting for research and development activities.	3.054	3.092	2.955	3.049	NS	2	1
128	Contingencies and events occurring after the balance sheet date.	3.387	3.567	3.023	3.250	S	1	1
129	Accounting for construction contracts.	3.309	3.467	3.136	3.025	S	1	1
130	Accounting for taxes on income.	2.966	2.908	3.048	3.049	NS	2	1
131	Presentation of current assets and current liabilities.	3.755	3.867	3.591	3.600	NS	1	1
132	Reporting financial information by segment.	3.156	3.108	3.205	3.244	NS	2	1
133	Information reflecting the effects of changing prices.	2.734	2.667	2.814	2.850	NS	2	1
134	Accounting for property, plant and equipment.	3.559	3.658	3.341	3.500	NS	2	1
135	Accounting for leases.	2.937	2.967	2.886	2.902	NS	2	1
136	Revenue recognition.	3.480	3.608	3.318	3.275	NS	1	1



137	Accounting for retirement benefits.	2.897	2.950	2.932	2.700	NS	2	1
138	Accounting for government grants.	2.886	2.917	2.721	2.974	NS	2	1
139	Accounting for the effects of changes in foreign exchange rates.	3.181	3.233	2.841	3.400	S	2	0
140	Accounting for business combinations.	3.069	3.142	2.886	3.051	NS	2	1
141	Capitalisation of borrowing costs.	3.005	3.075	2.864	2.949	NS	2	1
142	Related party disclosure.	3.069	3.142	2.841	3.103	NS	2	1
143	Accounting for investments.	3.320	3.445	3.045	3.250	NS	1	1
144	Accounting and reporting by retirement benefit plans.	2.817	2.758	2.907	2.897	NS	2	1
145	Consolidated financial statements.	3.204	3.333	2.854	3.175	SS	1	1
146	Accounting for investments in associates.	3.206	3.250	3.045	3.250	NS	2	1
147	Financial reporting in hyper inflationary economies.	2.542	2.487	2.636	2.600	NS	2	1
148	Disclosure in financial statements of banks.	3.436	3.467	3.455	3.325	NS	2	1
149	Financial reporting of interests in joint ventures.	2.945	2.957	2.977	2.875	NS	2	1

**Key:**

NS	No significant difference discovered at $P > 0.10$
SS	Significant difference discovered at $P \leq 0.10$
S	Significant difference discovered at $P \leq 0.05$ .
S***	Highly significant difference discovered at $P \leq 0.01$ .
Dyad	A paired group of users whose mean scores are subject to test of significance.
Group 1	Accounting firms and corporations.
Group 2	Academics.
Group 3	Government agencies.

**Appendix 5**  
Signifiant test /  $P \leq 0.05$

Item No.		G1 + G2	G1 + G3	G2 + G3	Pooled data
1	Problems facing auditing firms in Jordan.	NS	NS	NS	NS
2	Solutions of auditing problems in Jordan.	NS	NS	NS	NS
3	Developing a code of ethics.	NS	NS	NS	NS
4	Developing accounting standards.	NS	NS	NS	NS
5	Developing auditing standards.	NS	NS	NS	NS
6	Provision of financial support by the government in Jordan.	NS	NS	SS	NS
7	Provision effective accounting legislation.	NS	NS	NS	NS
8	Establishing licensing authority for setting admission standards.	NS	NS	NS	NS
9	Establishing a broad-based national committee to advance accounting education.	NS	SS	NS	NS
10	Establishing a broad-based national committee to advance accounting practices.	SS	NS	S	NS
11	Establish a governmental agency responsible for advancing accounting practices.	NS	S	SS	S
12	An active self-regulated accounting profession.	NS	S	NS	NS
13	Accounting standards suitable to local environment.	NS	NS	NS	NS
14	Auditing standards board.	NS	NS	NS	NS
15	Greater support by the government.	NS	NS	NS	NS
16	Code of professional conduct.	NS	NS	NS	NS
17	Collaboration with or membership of the IASC.	NS	NS	NS	NS
18	Effective accounting education system.	NS	NS	NS	NS
19	The support of auditing firms.	NS	NS	NS	NS
20	Establishment of accounting development centres.	NS	NS	NS	NS
21	Post- graduate training accountants.	NS	NS	NS	NS
22	Effective academic training for accounting personnel.	NS	NS	NS	NS
23	Effective professional training for accounting personnel.	NS	S	SS	SS
24	Seminars and training courses for government employees.	NS	S	S	S
25	Recommendations and advice for developing accounting concepts.	S	SS	NS	S
26	Appraisal of accounting in the school curriculum.	S	NS	S	SS
27	Research base for local purposes.	S	NS	NS	NS
28	Poor remuneration scheme.	NS	NS	NS	NS
29	Inadequate resources (scarcity of textbooks).	NS	NS	NS	NS
30	Poor university infrastructure (most professors have heavy teaching loads).	S	S	S	S
31	Poor university infrastructure (large number of students in the classes).	NS	NS	SS	NS
32	Inadequate computer facilities.	NS	NS	NS	NS
33	Formalising the institutional development of accounting.	NS	NS	SS	NS
34	Fostering research.	NS	NS	NS	NS
35	Facilitating the writing and production of local text materials.	NS	NS	SS	NS
36	Devising a scheme for professional training and qualification.	NS	NS	NS	NS
37	Upgrading the quality of teaching and curricula.	NS	NS	NS	NS

38	Accounting procedures and principles derived from the practices of developed countries are the basis of instruction.	NS	NS	NS	SS
39	Instructor's university of graduation (local, US, UK).	NS	NS	NS	NS
40	Most accounting text books used by Jordanian universities are based on the business environment of developed countries.	NS	NS	NS	NS
41	Teaching methods are based on lectures.	NS	NS	NS	NS
42	Stage of economic development.	NS	NS	NS	NS
43	Accounting information users.	NS	S	NS	SS
44	Recommendations from international bodies.	NS	SS	NS	NS
45	Internal environmental factors.	NS	NS	NS	NS
46	Jordanian Association of Certified Public Accountants (JACPA).	S	S	NS	S
47	Governmental agencies.	NS	NS	NS	NS
48	Academics in universities.	NS	NS	NS	NS
49	Social, religious and legal advisors.	NS	NS	NS	NS
50	Auditing firms.	NS	NS	NS	NS
51	Members from all above bodies.	NS	NS	NS	NS
52	Saving time and effort.	S	SS	NS	S
53	Reducing set-up and production costs.	S	NS	SS	S
54	Facilitating the growth of direct foreign investments in Jordan.	S	NS	S	S
55	Facilitating the growth of domestic investment.	SS	NS	SS	NS
56	Enhancing comparability of financial statements.	NS	NS	NS	NS
57	The co-operation and support of national standards setting bodies.	NS	NS	SS	NS
58	The support of international organisations such as World Bank.	NS	NS	NS	NS
59	The support of international accounting/auditing firms.	NS	NS	NS	NS
60	The support of international investors.	NS	NS	NS	NS
61	The support of multinational firms.	NS	NS	NS	NS
62	The support of developing countries.	SS	S	NS	S
63	United Nations.	SS	NS	NS	NS
64	International Federation of Accountants.	NS	NS	NS	NS
65	IASC	S	NS	S	S
66	A body comprising securities organisation/authorities from different countries.	NS	S	S	S
67	International bodies comprising national standards.	NS	S	NS	NS
68	A body comprising national accounting standards from Arab countries.	NS	S	NS	NS
69	Organisation of Arab League.	NS	S	S	S
70	A financial accounting standards council from Arab countries.	NS	NS	NS	NS
71	Regional bodies such as Arab Society of Certified Accountants.	NS	NS	NS	NS
72	Supportive bodies including various associations of professional accountants.	NS	NS	NS	NS
73	Historical ties (colonial influence).	SS	S***	S	S
74	Pressures from international lenders such as World Bank.	NS	S	SS	S
75	Pressures from international accounting firms.	SS	S***	NS	S
76	Pressures from multinational corporations.	NS	S	NS	S
77	External political pressures.	NS	S***	S	S
78	Internal political pressures.	NS	S***	S	S***
79	Harmonise IASs with Islamic principles.	NS	S***	S	S***

80	Disallow some provisions of IASs that are not in consonance with the traditions.	S	S***	NS	S***
81	Include certain practices that the IASC has disallowed but which are conducive to good practice in Jordan.	NS	SS	S***	S***
82	To translate IASs into Arabic.	NS	S***	S	S***
83	Exempt some companies from the need to comply with IASs.	S	S***	S	S***
84	Undertake research studies into the state of accounting problems in the Middle East.	NS	S***	S	S***
85	Develop a system of providing experts to assist accounting standards-setting bodies.	NS	S***	NS	S***
86	Introduce programmes which will help to train people in Jordan to set their own standards.	NS	S***	S	S***
87	Provide financial assistance to support accounting research.	NS	S***	S	S***
88	Provide consultancy services.	NS	S***	SS	S***
89	Allow for greater participation in the process of setting IASs.	NS	S***	S	S***
90	Disclosure of accounting policies.	S***	SS	NS	S***
91	Valuation of inventories.	NS	NS	NS	NS
92	Consolidation of financial statements.	S***	SS	NS	S
93	Depreciation accounting.	NS	SS	NS	SS
94	Information to be disclosed in financial statements.	NS	NS	NS	NS
95	Statement of changes in financial position.	NS	NS	NS	NS
96	Unusual and prior period items and changes in accounting policies.	NS	NS	NS	NS
97	Accounting for research and development activities.	NS	NS	NS	NS
98	Contingencies and events occurring after the balance sheet date.	S	NS	NS	S
99	Accounting for construction contracts.	NS	NS	NS	NS
100	Accounting for taxes on income.	NS	NS	NS	NS
101	Presentation of current assets and current liabilities.	NS	NS	NS	NS
102	Reporting financial information by segments.	NS	NS	NS	NS
103	Information reflecting the effects of changing prices.	NS	NS	NS	NS
104	Accounting for property, plant and equipment.	NS	NS	NS	NS
105	Accounting for leases.	NS	S	NS	NS
106	Revenue recognition.	NS	NS	NS	NS
107	Accounting for retirement benefits.	SS	S	NS	S
108	Accounting for government grants.	NS	S	SS	NS
109	Accounting for the effects of changes in foreign exchange rates.	NS	NS	NS	NS
110	Accounting for business combination.	NS	NS	NS	NS
111	Capitalisation of borrowing costs.	NS	NS	NS	NS
112	Related party disclosure.	NS	NS	NS	NS
113	Accounting for investments.	NS	NS	NS	NS
114	Accounting and reporting by retirement benefit plan.	S	SS	NS	S
115	Consolidated financial statements.	NS	NS	NS	NS
116	Accounting for investments in associates.	NS	NS	NS	NS
117	Financial reporting in hyper inflationary economies.	S	NS	NS	S
118	Disclosure in financial statements of banks.	NS	NS	NS	NS
119	Financial reporting of interests in joint ventures.	NS	NS	NS	NS
120	Disclosure of accounting policies.	S***	NS	SS	S***
121	Valuation of inventories.	SS	NS	NS	SS
122	Consolidated financial statements.	SS	SS	NS	SS
123	Depreciation accounting.	S	S	NS	S
124	Information to be disclosed in financial statements.	S	NS	NS	NS
125	Statement of changes in financial position.	NS	NS	NS	NS

126	Unusual and prior period items and changes in accounting policies.	SS	NS	NS	NS
127	Accounting for research and development activities.	NS	NS	NS	NS
128	Contingencies and events occurring after the balance sheet date.	S	NS	NS	S
129	Accounting for construction contracts.	NS	SS	NS	S
130	Accounting for taxes on income.	NS	NS	NS	NS
131	Presentation of current assets and current liabilities.	NS	SS	NS	NS
132	Reporting financial information by segment.	NS	NS	NS	NS
133	Information reflecting the effects of changing prices.	NS	NS	NS	NS
134	Accounting for property, plant and equipment.	NS	NS	NS	NS
135	Accounting for leases.	NS	NS	NS	NS
136	Revenue recognition.	NS	SS	NS	NS
137	Accounting for retirement benefits.	NS	NS	NS	NS
138	Accounting for government grants.	NS	NS	NS	NS
139	Accounting for the effects of changes in foreign exchange rates.	NS	NS	S	S
140	Accounting for business combinations.	NS	NS	NS	NS
141	Capitalisation of borrowing costs.	NS	NS	NS	NS
142	Related party disclosure.	NS	NS	NS	NS
143	Accounting for investments.	S	NS	NS	NS
144	Accounting and reporting by retirement benefit plans.	NS	NS	NS	NS
145	Consolidated financial statements.	S	NS	NS	SS
146	Accounting for investments in associates.	NS	NS	NS	NS
147	Financial reporting in hyper inflationary economies.	NS	NS	NS	NS
148	Disclosure in financial statements of banks.	NS	NS	NS	NS
149	Financial reporting of interests in joint ventures.	NS	NS	NS	NS

**Key:**

- G 1 Accounting firms and corporations user-group.
- G 2 Academics user-group.
- G 3 Governmental agencies user-group.
- NS No significant difference discovered at  $P > 0.10$
- SS Significant difference discovered at  $P \leq 0.10$
- S Significant difference discovered at  $P \leq 0.05$ .
- S\*\*\* Highly significant difference discovered at  $P \leq 0.01$ .

**Appendix 6**  
 Doctoral Research  
 On Disclosure of Accounting Information  
 In Developing Countries:  
 A Case-Study of Jordan  
 For the year .....

**Company Characteristics**

- 01. Identification Number \_\_\_\_\_
- 02. Name of Company \_\_\_\_\_
- 03. Asset Size JD \_\_\_\_\_
- 04. Size of liquidity ratio \_\_\_\_\_
- 05. Size of annual sales JD \_\_\_\_\_
- 06. Ratio of ownership by government \_\_\_\_\_
- 07. Debit / Total assets \_\_\_\_\_
- 08. Type of company's business: i = Industrial companies  
 ii = Services companies \_\_\_\_\_

## Information items in financial statements

### \. Balance Sheet

1. Fixed Assets 1 = Yes; 0 = No; 9 = Not valid
- i. Gross value of fixed assets \_\_\_\_\_
  - ii. Net value of fixed assets \_\_\_\_\_
  - iii. Accumulated depreciation on fixed assets \_\_\_\_\_
  - iv. Desegregation into property, plant and equipment \_\_\_\_\_
  - v. Schedule of movement in fixed assets \_\_\_\_\_
  - vi. Proportion of fixed assets pledged \_\_\_\_\_
  - vii. Unexpired useful life of fixed assets \_\_\_\_\_
02. Long-term investments 1 = Yes; 0 = No; 9 = Not valid
- i. Investments in subsidiaries and associates \_\_\_\_\_
  - ii. List of subsidiaries and associates \_\_\_\_\_
  - iii. Percentage of holdings in associates and affiliates \_\_\_\_\_
03. Current Assets 1 = Yes; 0 = No; 9 = Not valid
- i. Total Current assets \_\_\_\_\_
  - ii. Inventory
    - a. Total value \_\_\_\_\_
    - b. Breakdown (raw materials) \_\_\_\_\_
    - c. Cost/market value \_\_\_\_\_
  - iii. Debtors
    - a. Trade \_\_\_\_\_
    - b. Secured/unsecured debts \_\_\_\_\_
    - c. Ageing schedule \_\_\_\_\_
    - d. Allowance for doubtful debts \_\_\_\_\_

iv. Bank balances	a. Total	_____	
	b. Deposit/current details	_____	
v. Cash Balances		_____	
04. Current Liabilities 1 = Yes; 0 = No; 9 = Not valid			
	i. Total	_____	
	ii. Component breakdown	_____	
	iii. Extent to which liabilities are secured	_____	_____
05. Long-term debt 1 = Yes; 0 = No; 9 = Not valid			
	i. Amount outstanding	_____	
	ii. Component breakdown	_____	
	iii. Principal terms of indebtedness	_____	
	iv. Maturity and debt repayment schedule	_____	_____
06. Share ownership 1 = Yes; 0 = No; 9 = Not valid			
	i. No. and amount of authorised share capital	_____	
	ii. Component breakdown of authorised capital	_____	
	iii. Equity		
	a. No. and amount of ordinary shares issued	_____	
	b. Breakdown into paid and unpaid portions	_____	
	c. Percentage of equity owned by management	_____	
	d. Minority interests in equity	_____	_____
	iv. Reserve accounts		
	a. Amount	_____	
	b. Breakdown into distributable and non-distributable categories	_____	
	c. Breakdown of non-distributable into statutory and non-statutory classes	_____	_____



07. Contingent Liabilities 1 = Yes; 0 = No; 9= Not Valid

- i. Amount \_\_\_\_\_
- ii. Break down by nature \_\_\_\_\_

08. Pension Liabilities 1 = Yes; 0 = No; 9 = Not valid

- i. Amount of past pension fund liabilities \_\_\_\_\_
- ii. Method of funding such liabilities \_\_\_\_\_

**B. Income statement** 1 = Yes; 0 = No; 9 = Not valid

01. Sales/revenue

- i. Amount \_\_\_\_\_
- ii. Sources \_\_\_\_\_

02. Cost of goods sold

- i. Amount \_\_\_\_\_
- i. Sources \_\_\_\_\_

03. Operating income before extra-ordinary items \_\_\_\_\_

04. Other investment income \_\_\_\_\_

05. Gains from foreign currencies translation/conversion \_\_\_\_\_

06. Extra-ordinary gains and losses \_\_\_\_\_

07. Operating expenses for the year

- i. Amount \_\_\_\_\_
- ii. Breakdown \_\_\_\_\_
- iii Expenses on research and development \_\_\_\_\_
- iv. Expenses on advertising and publicity \_\_\_\_\_
- v. Depreciation expense \_\_\_\_\_
- vi. Corporate tax \_\_\_\_\_
- vii. Allowance for doubtful debts in the year \_\_\_\_\_

**C. Other financial statements** 1=Yes; 0=No; 9=Not valid

01. Statement of changes in financial position

- i. Sources and application of funds \_\_\_\_\_
- ii. Changes in working capital components \_\_\_\_\_

02. Disclosure of accounting policies 1, 2 or 3 = Yes

- i. In one place as leader to financial statements
- ii. As a note to the financial statements
- iii. No summary presented \_\_\_\_\_

03. Notes to financial statements 1, 2, 3 or 4 = Yes

- i. Cross-referenced to items in financial statements
- ii. General reference at foot of financial statements as well as cross-referenced to items
- iii. General reference only \_\_\_\_\_

04. Reference to international accounting standards 1, 2 or 3=Yes

- i. In summary of accounting policies
- ii. In note other than in accounting policies summary
- iii. Outside financial statement (e.g., in management or auditor's reports) \_\_\_\_\_

**D. Measurement and valuation methods** 1=Yes; 0=No; 9=Not valid

01. Revenue recognition \_\_\_\_\_

02. Basis of valuation of inventories 1, 2, 3 or 4 = Yes

- i. Lower of cost or market
- ii. Cost
- iii. Market
- iv. Other valuation basis \_\_\_\_\_

03. Method of determining cost of inventories 1, 2.....or 7= Yes

- i. First-in, first-out
- ii. Last-in, first-out
- iii. Average cost
- iv. Retail method
- v. Specific method
- vi. Standard cost
- vii. Base stock

\_\_\_\_\_

04. Method of determining market value of inventories 1, 2 ... or 5 = Yes

- i Net realisable value
- ii. Replacement cost
- iii. Net realisable value less normal profit margin
- iv. Estimated net realisable value
- v. Lower of replacement cost and net realisable value

\_\_\_\_\_

05. Disclosure methods and rates of depreciation 1, 2 or 3 = Yes

- i. Methods and rates disclosed
- ii. Methods only disclosed
- iii. Rates only disclosed

\_\_\_\_\_

06. Types of depreciation methods used 1, 2,..or 6 =Yes

- i. Straight line method
- ii. Reducing balance
- iii. Unit of production
- iv. Straight line and reducing balance
- v. Straight line, reducing balance, and unit production
- vi. Other methods

\_\_\_\_\_

07. Research and development costs 1, 2 or 3 = Yes
- i. Expenses as incurred
  - ii. Deferral
  - iii. Both expenses as incurred and deferral \_\_\_\_\_
08. Advertising and publicity 1, 2 or 3 = Yes
- i. Expensed as incurred
  - ii. Deferral
  - iii. Both expensed as incurred and deferral methods \_\_\_\_\_
09. Translation of foreign currencies 1, 2 ..or 6 yes
- i. Current and non-current method
  - ii. Temporal method
  - iii. Monetary/non-monetary method
  - iv. Closing rate method
  - v. Different methods for different operations
  - vi. Other methods \_\_\_\_\_
0. Change in accounting methods and policies 1, 2, 3 or 4 = Yes
- i Not retroactively applied
  - ii Retroactively applied
  - iii Both retroactive and non-retroactive methods
  - iv Cumulative effect on income statement \_\_\_\_\_

## Appendix 7 / 1988

### Disclosure indexes

No.	Company name	Overall		B/S		I/S		OFS		MVM	
		Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
1	Jordan Wood Industries/JWICO.	0.37	1	0.37	1	0.47	1	0.4	13	0.2	5.5
2	Arab International Hotels.	0.46	2	0.53	5	0.67	11	0	2.5	0.1	2
3	Irbid District Electricity Co.	0.46	3	0.51	4	0.73	26.5	0	2.5	0.1	2
4	Jordan Tourism and SPA Complex.	0.48	4	0.46	2	0.64	8	0.4	13	0.4	9.5
5	National Cable and Wire Manu.	0.5	5	0.58	8	0.67	11	0	2.5	0.2	5.5
6	Jordan Electric Power.	0.52	6	0.46	3	0.6	5	0.8	35.5	0.5	14
7	The Jordan Worsted Miles.	0.52	7	0.65	12	0.6	5	0	2.5	0.2	5.5
8	Jordan Industries and Match/JIMCO.	0.56	8	0.66	13.5	0.67	11	0.4	13	0.1	2
9	Jordan Diary.	0.57	9	0.68	17.5	0.6	5	0.4	13	0.2	5.5
10	General Investment.	0.58	10	0.54	6	0.57	2	0.8	35.5	0.6	28
11	Jordan Gulf Real Estate Investment.	0.61	11	0.56	7	0.75	30	0.8	35.5	0.5	14
12	Jordan Himeh Mineral.	0.62	12	0.68	20	0.73	26.5	0.4	13	0.3	8
13	Jordan Press Foundation/Al-Ra'i.	0.63	13	0.71	23	0.6	5	0.4	13	0.5	14
14	INMA Investment , and Financial Advances.	0.64	14	0.59	9	0.8	36	0.4	13	0.7	42
15	The Arab Pharmaceutical Manufacturing Co..	0.65	15	0.66	15.5	0.73	26.5	0.8	35.5	0.4	9.5
16	National Portfolio Securities.	0.66	16.5	0.71	29	0.69	14.5	0.4	13	0.6	28
17	Vehicles Owners Federation.	0.66	16.5	0.71	23	0.69	14.5	0.4	13	0.57	18
18	United Middle East & Commodore Hotels.	0.67	18	0.65	11	0.71	19.5	0.8	35.5	0.6	28
19	Jordan Tobacco & Cigarettes.	0.67	19	0.7	21	0.67	11	0.8	35.5	0.5	14
20	Arab Centre for Pharmaceutical & Chemicals.	0.68	20	0.76	36.5	0.6	5	0.4	13	0.6	28
21	Raffia Industries.	0.68	21	0.71	31	0.73	26.5	0.4	13	0.6	28
22	Woollen Industries.	0.68	22	0.74	34	0.71	19.5	0.4	13	0.6	28
23	Real Estate Investment / AKARCO.	0.69	23	0.68	19	0.8	36	0.4	13	0.71	47.5
24	Jordan International Trading Centre.	0.69	24	0.63	10	0.87	43	0.8	35.5	0.6	28

25	Jordan Co. T.V., Radio Cinema.	0.69	25	0.66	13.5	0.87	43	0.8	35.5	0.5	14
26	National Steel Industry.	0.7	26	0.71	23	0.71	19.5	0.8	35.5	0.6	28
27	Livestock & Poultry.	0.7	27	0.76	36.5	0.71	19.5	0.4	13	0.6	28
28	Jordan Marketing Company.	0.7	29	0.71	26.5	0.73	26.5	0.8	35.5	0.6	28
29	Jordan Tanning.	0.7	29	0.66	15.5	0.8	36	0.8	35.5	0.7	42
30	Dar Al-Dawa Development & Inv.	0.7	29	0.78	42	0.67	11	0.4	13	0.6	28
31	Intermediate Petro- Chemical Industries.	0.72	31.5	0.76	39.5	0.71	19.5	0.8	35.5	0.5	14
32	Jordan Rockwool Industries.	0.72	31.5	0.79	44.5	0.71	19.5	0.4	13	0.6	28
33	Jordan Petroleum Refinery.	0.72	34	0.71	26.5	0.8	36	0.8	35.5	0.6	28
34	Jordan Ceramic Industry.	0.72	34	0.71	26.5	0.73	26.5	0.8	35.5	0.7	42
35	Jordan Spinning and Weaving.	0.72	34	0.71	26.5	0.87	43	0.4	13	0.7	42
36	Jordan Glass Industries.	0.73	36	0.76	36.5	0.71	19.5	0.8	35.5	0.6	28
37	Public Mining.	0.73	37	0.68	17.5	0.87	43	0.8	35.5	0.7	42
38	Jordan Phosphate Mines.	0.73	38	0.73	33	0.8	36	0.8	35.5	0.6	28
39	Jordan Pipes Manufacturing.	0.74	39	0.71	31	0.8	36	0.8	35.5	0.7	42
40	Dar Al-Sha'ab Press, Printing & Publishing.	0.76	40.5	0.78	42	0.71	19.5	0.8	35.5	0.7	42
41	Arab Potash.	0.76	40.5	0.78	42	0.79	32	0.8	35.5	0.6	28
42	Jordan Kuwait for Agriculture & Food.	0.76	42	0.79	44.5	0.77	31	0.8	35.5	0.6	28
43	Jordan Chemical Industries.	0.76	43	0.71	31	0.93	46	0.8	35.5	0.7	42
44	Jordan Press/Ad- Dustour.	0.77	44	0.79	46	0.87	43	0.8	35.5	0.5	14
45	Jordan Paper and Cardboard Factories.	0.78	45	0.82	48	0.8	36	0.8	35.5	0.6	28
46	Aladdin Industries.	0.79	46	0.76	36.5	1	48	0.8	35.5	0.6	28
47	Arab Aluminium.	0.81	47	0.76	39.5	1	48	0.8	35.5	0.7	42
48	Jordan National Shipping Lines.	0.81	48	0.82	49	0.85	40	0.8	35.5	0.71	47.5
49	Jordan Cement Factories.	0.84	49	0.8	47	1	48	0.8	35.5	0.8	49

**Key:**

- B/S Balance sheet.  
I/S Income Statement  
OFS Other Financial Statements  
MVM Measurement and Valuation Methods

## Appendix 8/ 1992

### Disclosure indexes

No.	Company name	Overall		B/S		I/S		OFS		MVM	
		Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
1	Jordan Gulf Real Estate Investment.	0.62	1	0.61	2	0.67	2.5	1	28	0.4	2
2	Jordan Wood Industries/JWICO.	0.63	2	0.63	4	0.67	2.5	0.8	4	0.5	4.5
3	Jordan Himeh Mineral.	0.65	3	0.66	9.5	0.67	2.5	0.8	4	0.5	4.5
4	Jordan Marketing Corporation.	0.66	4	0.65	6	0.67	2.5	1	28	0.5	4.5
5	Jordan District Electricity Co. Ltd.	0.66	5.5	0.68	13.5	0.8	12.5	0.8	4	0.3	1
6	Jordan Electric Power.	0.66	5.5	0.59	1	0.8	12.5	1	28	0.6	13
7	INMA Investment & Financial Advances.	0.69	7	0.65	6	0.85	19	1	28	0.5	4.5
8	Real Estate Investment / ACARCO.	0.69	8	0.61	3	0.85	19	1	28	0.6	13
9	General Investment.	0.72	9	0.68	12	0.8	12.5	1	28	0.6	13
10	Aladdin Industries.	0.72	10	0.65	6	0.93	42.5	0.8	4	0.6	13
11	Jordan Tobacco & Cigarettes.	0.73	11	0.73	21.5	0.73	6	1	28	0.6	13
12	Jordan Glass Industries.	0.74	12	0.71	18	0.71	5	1	28	0.8	42.5
13	Vehicles Owners Federation.	0.75	13	0.71	16.5	0.77	7	1	28	0.71	37
14	The United Middle East & Commodore Hotels.	0.75	14	0.71	16.5	0.86	22	1	28	0.6	13
15	National Cable & Wire Manufacturing.	0.75	15.5	0.65	8	0.93	42.5	1	28	0.7	28
16	Jordan Co. for T.V, Radio and Cinema.	0.75	15.5	0.66	9.5	0.93	36.5	1	28	0.7	28
17	Jordan Tanning.	0.75	17	0.66	11	0.93	42.5	1	28	0.7	28
18	Arab International Hotels.	0.74	18	0.74	28.5	0.93	42.5	0.6	1	0.6	13
19	Intermediate Petro-Chemical industries.	0.76	19	0.73	21.5	0.86	22	1	28	0.6	13
20	Jordan Tourism & SPA Complex.	0.76	20	0.74	31	0.83	17	1	28	0.6	13
21	Arab Aluminium Industry/Aral.	0.76	21	0.68	13.5	0.93	42.5	1	28	0.7	28
22	The Arab Pharmaceutical Manufacturing Co..	0.76	21.5	0.73	25	0.87	28.5	1	28	0.6	13
23	The Jordan Worsted Miles.	0.76	23.5	0.73	21.5	0.87	28.5	1	28	0.6	13
24	Jordan Diary.	0.76	23.5	0.73	21.5	0.8	12.5	1	28	0.7	28

25	Jordan Press/Ad-Dustour.	0.77	25	0.74	27	0.87	28.5	1	28	0.6	13
26	Jordan Kuwait for Agriculture & Food.	0.77	26	0.71	19	0.92	34.5	1	28	0.7	28
27	Jordan International Trading Centre.	0.78	27.5	0.76	32.5	0.8	12.5	1	28	0.7	28
28	Jordan Spinning and Weaving.	0.78	27.5	0.7	15	0.87	28.5	1	28	0.8	42.5
29	Jordan Chemical Industries.	0.78	29	0.74	28.5	0.87	28.5	1	28	0.7	28
30	Jordan Portfolio Securities.	0.78	30	0.74	30	0.85	19	1	28	0.7	28
31	Woollen Industries.	0.78	31	0.76	34.5	0.8	12.5	1	28	0.7	28
32	Livestock and Poultry.	0.79	32	0.8	40.5	0.79	8	1	28	0.6	13
33	Jordan Phosphate Mines.	0.79	33.5	0.73	25	0.93	42.5	1	28	0.7	28
34	Jordan Petroleum Refinery.	0.79	33.5	0.73	25	0.87	28.5	1	28	0.8	42.5
35	The Public Mining.	0.79	35	0.76	32.5	0.93	42.5	0.8	4	0.7	28
36	Dar Al-Dawa Development & Investment.	0.8	36	0.78	36	0.8	12.5	1	28	0.8	42.5
37	National Steel Industry.	0.81	37.5	0.82	44.5	0.8	12.5	1	28	0.7	28
38	The Jordan Pipes Manufacturing.	0.81	37.5	0.76	34.5	0.87	28.5	1	28	0.8	42.5
39	Jordan Paper Cardboard Factories.	0.82	39	0.82	43	0.87	28.5	1	28	0.7	28
40	Raffia Industries.	0.83	40	0.8	40.5	0.87	28.5	1	28	0.8	42.5
41	Jordan Industries & Match/JIMCO.	0.83	41	0.84	48	0.86	22	1	28	0.7	28
42	Dar Al-Sha'ab Press, Printing and Publishing.	0.84	42	0.78	37	1	48.5	1	28	0.7	28
43	Jordan Rockwool Industries.	0.84	43	0.84	49	0.87	28.5	1	28	0.7	28
44	Jordan Press Foundation/Al-Ra'i.	0.84	44	0.79	38	0.93	42.5	1	28	0.8	42.5
45	Arab Potash.	0.86	45	0.8	40.5	0.93	36.5	1	28	0.9	49
46	Jordan Cement Factories.	0.86	47	0.8	40.5	1	48.5	1	28	0.8	42.5
47	Jordan Ceramic Industries.	0.86	47	0.83	46.5	0.93	42.5	1	28	0.8	42.5
48	Jordan Centre for Pharmaceutical & Chemicals.	0.86	47	0.83	46.5	0.93	42.5	1	28	0.8	42.5
49	Jordan National Shipping Lines.	0.86	49	0.82	44.5	0.92	34.5	1	28	0.86	48

**Key:**

B/S Balance sheet.

I/S Income Statement

OFS Other Financial Statements

MVM Measurement and Valuation Methods



## Appendix 9

### List of companies and type of industry

Serial Number	Name of company	Type of industry
1	Arab International Hotels	<b>Services Company</b>
2	Dar Al-Sha'ab Press, Printing and Distributing	=
3	Inma Investment and Financial Advances	=
4	Irbid District Electricity	=
5	Jordan Co. for T.V., Radio and Cinema Prod.	=
7	Jordan Gulf Real Estate Investment	=
8	Jordan Himeh Mineral	=
10	Jordan International Trading Centre	=
12	Jordan National Shipping Lines	=
15	National Portfolio Securities	=
16	Real Estate Investment / AKARCO	=
18	Vehicles Owners Federation	=
19	Aladdin Industries	<b>Industrial company</b>
21	Arab Centre for Pharm. and Chemicals	=
23	Intermediate Petro-Chemical Industries	=
27	Jordan Ceramic Industries	=
28	Jordan Chemical Industries	=
31	Jordan Industries and Match/ JIMCO	=
32	Jordan Kuwait Co. for Agr. and Food Prod.	=
33	Jordan Paper and Cardboard Factories	=
36	Jordan Phosphate Mines	=
38	Jordan Tobacco and Cigarettes	=
40	Livestock and Poultry	=
41	National Cable and Wire Manufacturing	=
42	National Steel Industry	=
43	Rafia Industries	=
44	The Arab Pharmaceutical Manuf.	=
45	The Arab Potash	=
46	The Jordan Pipes Manufacturing	=
47	The Jordan Worsted Mills	=
48	The Public Mining	=
49	Woollen Industries	=

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