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The Development of Statements of Accounting Concepts and Accounting Standards in Less-Developed Countries "in the Case of Oil Producing Countries"

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Abstract

Within the past few decades, the global financial circumstance has been changed significantly as a result of globalization. These changes can be seen as an extraordinary improvement in accounting reporting as well as accounting standards. This was very helpful in order to prepare a unified financial reporting to support and achieve advantages of financial statement, such as balance sheet, income statement, cash flow statement and so on. Additionally, this emotional improvement within the commerce climate, an expanding the level of instruction, developing worldwide competition, developing economies and the quick improvement of advance technologies have caused the global financial centers to be developed. This paper gives a review of some literature on applying international financial reporting standards (IFRS) in both developed and developing countries. The results could be helpful and fruitful for different users of accounting reports and also for legislators and regulators in order to develop the quality of accounting information. The idea of adopting international financial reporting standards for developing countries such as Iraq, Libya, Tunisia and etc… is significant in terms of unifying the accounting reports. This can be seen as a key for progressing the standard setting because the standard has been practiced by many countries in the world.

Keywords: Applying international financial reporting standards, advantages and disadvantages, oil producing countries, developing countries.

1. Introduction

International Financial Reporting Standards (IFRS) contains a set of accounting techniques and principles. Most of the countries' believed that the new accounting standards have to adopt in order to fill the gaps of traditional accounting methods. IFRS was built to cover this gap and improve the quality of financial statements and coordination (Masoud 2014).

A research done by Masoud (2014) clarified that the committee of international accounting standards was set up in 1973, and firstly it is started with international accounting standards (IAS) that was released in 1975 to improve the quality of accounting reporting. In 2000, the international accounting standards committee (IASC) organization was accepted to change to the international accounting standard board (IASB) (Masoud 2014), and after that in 2001, IASB was agreed to propose international financial reporting standard (IFRS) to take the place of IAS in order to rising comparability of accounting reporting (Masoud 2014). There are many reasons, such as culture, legislative issues and economy that will offer assistance for many countries in order to adopt these measurements (Zehri & Chouaibi 2013). Nations which have impacted by western social values are fortunate to apply the new accounting standards or update the national standards easily (Nobes 1998 cited in Zehri & Chouaibi 2013). To support this, (Chamisa 2000; Hove 1986 cited in Zehri & Chouaibi 2013) explained that it will be obvious and clear for less developed countries specifically for oil producing nations to adopt and approve (IFRS) in the event that they are closer to Anglo-Saxon culture. However, a paper written by (Ampofo & Sellani 2005; World Bookkeeping Summit 2005; Turner 2001; IASB 2006i; IASB 2006a cited in Irvine 2008) illustrated that accepting (IFRS) in less developed countries, particularly in oil creating countries have some issues in accommodative an variety of societies. Hence, they have concluded that many issues can be observed because of culture differences, regulatory and legislative issues and existing administrative frameworks, as they helpful to apply (IFRS) in person organizations and at an organizational level (Irvine 2008).

Moreover, an investigation by Shil et al. (2009) explained that international accounting standards have been improved by dissimilar economic and different countries, legitimate, social environments and culture. As a result, it causes to exist such differing accounting standard and guidelines among the countries. (Shil et al. 2009) and after that it creates some issues for a few countries that need to harmonize national accounting and finacialo accounting standards with the international financial reporting standards (IFRS) (Shil et al. 2009).

2. Literature review

It is broadly true that international financial reporting standards may bring trust and benefits for the nations, but at the same time, globalization may bring disadvantages for less-developed and oil countries (Irvine & Lucas 2006). To support this idea, according to Adhikari & Tondkar (1992) cited in Qatawneh (2013) demonstrated that "accounting reporting and disclosure standards and practices do not develop in a vacuum but reflect the particular environment in which they are developed". Additionally, some financial emergencies and economic crises are caused by international accounting standards and the emergencies have influenced all parts in world including oil producing countries (Nour et al. 2013). In a few cases, they had affected both national and international economics as well (Nour et al.2013). For example, Gulf Arab States (GAS), which are named as an "Eastern Arab countries" geographically, such as United Arab Emiratis (UAE), Kuwait, Saudi Arabia, Bahrain and Iraq have misplaced around 3 trillion dollars within the banks and in monetary markets, they have misplaced billions of dollars as well (Nour et al. 2013).

Moreover, there can be "contradiction and disarray within the forms and methods of the so-called free economy, as prove by national governments particularly Inlet governments, USA, and Europe" (Nour et al. 2013). As a result, it has been evaluated that globalization has conveyed billions of dollars to disruptive companies and institutions and after that it may increase "financial volatility" (Nour et al. 2013).

Also, in Libya, a study by Ball et al. 2003; Daske 2006 and Azzali et al. 2008 cited in Masoud (2014) demonstrated that applying (IFRS) may not give sufficient advancement of the quality of accounting reporting and financial statements. Therefore, "the adoption of IAS/IFRS will be associated with some difficulties and costs may apply more to small companies and local accounting firms through to the stock markets" (Masoud 2014).

Within the UAE, in any case, IFRS could help the country to obtain a strong economy and own objectives, but the country also suffered the numerous challenges and obstacles in terms of insufficient control and regulation, culture and less responsibility (Irvine & Lucas 2006). For example, if further rules are published for workers, perhaps the UAE has a little chance to preserve the current position as restricted to issue the rules of costs of work in other creating and oil nations (Irvine & Lucas 2006).

Finally, money laundering and fraud have risen, since the UAE applied IFRS (Irvine & Lucas 2006), while the government have planned to decrease the level of money laundering and fraud before accepting (IFRS) (Irvine & Lucas 2006). For example, in 2000, the UAE affected from "series of insider trading and market manipulation scandals (that) dented the credibility of the UAE's over-the-counter market" (Times 2005 cited in Irvine & Lucas (2006). As a result, these unnatural circumstances may have polluted recognitions of the UAE (Irvine & Lucas 2006). From the above, international financial reporting standards can have some disadvantages and it may not bring a bright for future every time. Therefore, it should be evaluated, considered and investigated before being adopted.

3. The effect of adopting international financial reporting standards on the quality of financial reporting

3.1. Background and developed international financial reporting standards adoption

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The international financial reporting standards was founded in 1975; when international accounting standards committee (IASC) published in 1973 to check the quality of accounting standards and it is applied nationally and internationally. According to Whittington (2005), applying international financial reporting standards was an idea since 1973 to fill the gaps between accounting history and accounting standards. From 2000, there have been some changes in both international accounting standards committee (IASC) organizational and the international accounting standards (IAS) into the international accounting standards boards (IASB). Later on, the (IASB) proposed to issue the (IFRS) in 2001 and they become mandatory and it is to be adopted by the most national and international stock exchanges except the United State of America which published their own standards, which is called by generally accepted accounting standards "GAAP" (IFRS website, 2010; Kinkela et al., 2010). In 2002, the European Parliament voted that all listed companies in the EU must apply international financial reporting standards and it was started in the year 2005. In 2006, the financial accounting standard board (FASB) and international accounting standards boards (IASB) have published some techniques and tools to improve the quality of financial statements that should be adopted by the international stock markets.

Applying international financial reporting standards in EU gives a good idea to prepare effective financial statements and also to build the higher levels of controlling and governance. Later, Schipper (2007) cliamed that "the adoption of IAS/IFRS for international convergence between FASB and IASB in the EU countries provides a more powerful setting to test the determinants and economic influences of accounting quality due to accounting standards across EU companies are now the same". Thus, it is obvious that with these enhancements and moving towards globalization by integrating international financial markets, all countries tried or will try to adopt a group of standards for international financial reporting.

3.2. What the advantages of adopting international financial reporting standards in developing countries

Accounting analysis have found that it is not simple to accept (IFRS), particularly in developed countries as they have a limited skills in accounting. Indeed if they apply, they may not achieve the "benefits" and "activities" of those measurements in the beginning. From the researcher's viewpoint, investigating the advantages of adopting (IFRS) could be classified into two groups. The first group is related to the analysis and they are focused on the transition and implementation of international financial reporting standards within the scope of local and international accounting techniques (Masoud 2014; Harris et al., 1994; Niskanen et al., 2000; Lantto and Sahlström, 2009; Gaston et al., 2010). These researches generally used descriptive statistics. The second group is designed to investigate the financial reporting under the international financial reporting standards with the reference for applying the international financial reporting standards (Harris et al., 1994).

4. Background of the Oil producing nations

Some of the oil producing countries can be considered as a rich country and they are starting to shift to the market-based economy. They are attempting to move rapidly to gain economic growth (Masoud, 2013). For example, United Arab Emiratis had planned with the plentiful oil reserves, central economic model, and enjoyed the value of GNI per capita of 16,800 in 2009, and being stood at 54th in the worldwide according to the World Bank statistics. This illustrated the income level of GDP growth rate at 2.1% in 2009, which could classified as a "developing countries" (World Bank, 2013). The underground resources, particularly natural gas and oil have been boomed to such an extent. During 1990s for example, Qatar, Libya and Bahrain are moved to a market-based economy system which "transformed it from being centrally planned as the public sector grew under the umbrella of socialist transformation and bureaucratic procedures controlled by laws and resolutions issued during the early 1970s and late 1980s". Prior to this, firms were controlled differently, not monitored usually, not supervised and owned by government institutions. However, this movement will skip the important barriers of accounting profession throughout those countries. The professional accounting system in oil producing nations are still in its infancy and "its main emphasis is on

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preparing external financial reports and external auditing which is mainly imposed by the laws" (Kilani, 1988;).

From 2005 until now, many oil producing countries were advanced the political relationship between the governments of the western countries and themselves, particularly the US, UK and others. This circumstance comes due to political and financial isolation of a few nations such as, Libya. Since 2000s the relations with the western and emerged countries have been slowly normalized. Thus, many international investors and companies have turned to invest their moneys in Libya, Dubai and Iraq as well.

5. International financial reporting standards and its development in oil producing countries

From 1911 until now some countries started with the evolution of national accounting standards at some meaningful level and they tried to move from traditional to classical accounting system those countries are Italian and British (Kilani, 1988). For instance, the Income Tax Law (ITL) of 1973 which was required all firms to prepare and finalize their yearly report, containing an income statement and a balance sheet and the Commercial Code (CC), that had presented in 1953. (Hung and Subramanyam, 2007) explained that international financial reporting standards are not dependent for tax reporting purposes. Thus, it is clear that with issuing new rules regulation framework of good-quality of accounting information have to restructure by those countries in order to harmonize national accounting with international accounting standards.

6. Key Accounting Differences between accounting systems from oil countries, GAAP and IAS/IFRS adoption

Because of globalizing forces, many emerging and developing countries including oil manufacturers have applied the international accounting standards. IFRS adoption in the Europe is an exceptional instance of accounting standardization among the international corporations by having different conceptual frameworks, guidelines and regulations. Empirical findings of many researches have demonstrated that the satisfactory of executing IFRS is significant for the country's economic and this depends on the enforcement mechanisms and institutional factors. As a result, this may be far from the uniform application of IFRS throuout the Europe countries. This can be seen as a key issue of widespread acceptance of international financial reporting standards. For many countries are too early to adopt and apply this standard and shifting towards the process of accounting globalization, whereas others are still hesitated or reserved of applying it. For instance, a research has done by Ramanna and Sletten (2010) illustrated that countries with incapable administration, less control due to corruption, opportunity of low cost of applying national standards are more willing to accept (IFRS) framework. However, it may be very difficult for them to search out that the "foreign trade investment" can impact on the investor's decision and this is not compatible with the global economy. Hope et al. (2006) also assumed that applying IFRS are a mechanism through which countries have better access to improve the investor decisions and to protect the domestic capital markets as well as more accessible to international investors. In Jordan, Al-Akra et al. (2009) have suggested the impact of governance, cultural, political, legal factors and economic on exploring the accounting techniques and practices. They concluded their paper that the political, cultural and economic reasons are the significant elements to this advancement. However, Gray (2001) showed that "cultural differences" rely on the Hofstede's model are the essential factor of such distinction among the accounting standards.

Furthermore, Radebaugh et al. (2006) claimed that the differences between nations are concerned by the results that are necessary in these countries. As a result, the diversity is not between emerging and developed economics, but is also among the countries that apply a same culture. Finally, Nobes (1998) investigated that institutional and economic variation are the main cause for the differences between the accounting standards.

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7. The impact of adopting international financial reporting standards on the oil producing countries

There is no obvious writing on investigating the impacts of the adopting international financial reporting standards on the improvement of accounting information and financial reporting in the oil producing nations. The key scopes of these effects are clear, and they are related to the accounting numbers, book value of equity, fair value accounting practices transparency, earnings improvements in financial ratios and accounting quality.

As IFRS adoption added in European, the regulatory bodies are not only shifted the national accounting law, but it has additionally created an impact on the general worldwide convergence of financial reporting (Daske, 2006). Azzali et al. (2008) find out that applying IFRSs could not gain the preferred enhancement of the high-quality of accounting records. In Czech Republic, Sucher and Jindrichovska (2004) illustrated that the problems of imposing IFRS application is the key issues that rise up through shifting to IFRS reporting. They also found that the Czech accounting system is very close to IFRS application in some attitude for instance, the valuation at fair value, which is necessary to move from national accounting system to international accounting standards. They follow this structure in order to keep the separation between tax and financial reporting that is the extraordinary targets of the two-reporting system which met the clarifications why the Czech accounting systems are from IFRS.

8. Instructions for changes

A number of the oil producing countries is a developed economics. They also have a completely unique culture. The rapid trends and modifications in those countries is depend on increasing integration with the worldwide economic system, which causes them to an extraordinary excellent site for the research of the essential factors of the responsiveness of accounting systems towards the international accounting environment. Consequently, this is a great opportunity to undertake research on applying IFRS in Middle East firms within the context that defined formerly. As a result, it is clear that if these countries are flowing to apply IFRS in as early as possible and can be attract big interest from investors, practitioners, companies, academics and regulators nationally and internationally. During the past eight years the application of international financial reporting standards has grown as the new accounting framework. Jordan, Saudi Arabia, Libya, Tunisia and Egypt are in the list of less developed economics, they have similar reports whilst striving to gain the stabilization of their economies. They found that they are able to guard themselves and incapable of incomes sufficient foreign exchange to protect their currencies and they are successful. Thus, many of these countries started to rework their situations from socialist, country-owned entities to marketplace-based totally economies (Frances and Garnsey, 1996). From this perspective, approving IFRS can be favorable for accountants, managers and decision makers as well. Therefore, this study proposes that the satisfactory of regulatory (rules and regulation) and the level of disclosure and financial reporting will be improved based on adopting IFRS. However, it may be impressed by the level of language and education for the different users and shortage of understanding of IFRS adoption.

The significant challenges that will face these nations is may be (language, knowledge, skills, weak rules and regulation, timing, ineffective controls and governance) pursued by an evaluation of the results of effective framework for adopting IFRS standards by country characteristic disclose to fundamentals object (Frances and Garnsey, 1996). Hence, it is obvious that that even if these countries adopted IAS/IFRS, this aim may be still arguable.

9. The significant barrier and limitations to adopt IAS/IFRS in oil nations

From the findings the below points are introduced as the important limitations and challenges:

1. The difficulty of domination and prediction of uncertain situation, because of the difficulty of many guidelines and policies without feasibility research being carried out.

2. Relying on some particular system of governmental policies and laws, domestic economies usually differ in terms of their legal structures. They may depend upon both a code-law system or common-law or shareholder, or they may have careful rules and ligislation, which includes antitrust laws and unfair trade.

3. Taxation: accepting IFRS may create some issues. How do taxation rules and regulations present the analysis of tax liabilities increasing from on convergence from generally accepted accounting principles (GAAP) to international financial reporting standards (IFRS) adoption? in which this is not usually taken care of, it may be duplicate.

4. Nature of enterprise complexity: country wide economies can range in phrases in their industrial and technological know-how, which can create dissimilarity in both commercial enterprise output and commercial enterprise desires.

5. The weak point of financial reporting and suitable auditing standards inside the deficiency of country's accounting structures.

6. The weak point of public attention frameworks of the function of funding, investment and the position of the stock market within the complete financial system.

7. Lack of development and efficiency of technical skills, and insufficient knowledge of the professional and compatible accountants in order to be understandable to adopt a key feature of the new applicable IFRS models.

8. The short and prolonged-term investments opportunities for firms are prevented.

10. Conclusion

The critical issues in accepting (IFRS) in these nations are well explained in this paper. With respect to those issues, the value of applying (IFRS) within the setting of making decisions, from the findings it appears that there is an arrangement that the quality of accounting information and financial reporting are based on the (IFRS) and they can be seen as useful framework. They also may be very beneficial for decision makers. Applying international financial reporting standards with the particular references to oil manufacturers, the study proposes that, increasing the level of comparability supports transparency, reliable, more accurate as well as the validity of financial and accounting information.

Hence, the great economics and accounting information which includes the advantage of strong financial reporting and disclosure may be advanced eventually. This change from national accounting standards to follow international accounting standards is not an easy task at all as some might think. Many countries have accepted and applied IFRS and they obtained many benefits as a result of it, while others obtained nothing due to lack of professional accountants and bad preparation to apply these standards. In many countries, still there is a huge difference between National accounting standards and international accounting standards. Hence, this modification comes at a time while the IFRS themselves are going by the most important changes to show the problems that identified by the different users.

This can cover the weakness of accounting information that was previously not illustrated by national accounting standards. However, the practice of harmonizing IFRS in oil producing nations will face significant issues containing language barrier, lack of technical skills, timing, inadequate knowledge and training of accounting professional in these nations and also the difficulties to develop it existing high-quality accounting systems between disclosure reports and regulatory framework and to manage with training of social developments, economic and effective accounting standards as well.

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