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The Extent of Applying IFRS on Jordanian Industrial Corporations Listed in the Amman Stock Exchange

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Abstract

This study aimed to identify the extent of the Jordanian public shareholding listed on the Amman Stock Exchange industrial companies applying IFRS (8) and to identify the obstacles that prevent it. For the purpose of achieving the objectives of the study were used descriptive analytical method, and a questionnaire was designed and distributed to a sample study of (50) companies listed at Amman Stock Exchange at the end of year 2016. (39) questionnaires has been subjected for statistical analysis. The study has a set of results, one of the most important industrial Jordanian public shareholding companies listed on the Amman Stock Exchange is committed to identifying covered financial reports operating segments according to the foundations of identifying sectors, it is also committed to disclose sufficient information to help users of financial statements to evaluate the nature and financial effects of the activities business and economic environment of the operating segments, the results also showed that there are many obstacles that limit the obligation to implement IFRS (8), which was the most important weakness of the role of associations and accounting bodies in develop the skills and expertise of accountants, as well as the majority of those in charge of the preparation of financial reports do not possess sufficient experience and knowledge in the application of IFRS (8).

Keywords: IFRS - Operating Segments, Amman Stock Exchange, Jordan.

Introduction

Jordan is one of the countries that adopted the implementation of the International Financial Reporting Standards (IFRS) in 2003. Compliance with the International Financial Reporting Standards is of great benefit to the country and to the companies applying these standards in according to cost reduction, the standardization of financial terms and comparative procedures. The process of IFRS compliance may vary from country to country depending on different social and economic factors and other factors. The study problem appears here due to the modernity of the IFRS 8 applications specifically on operating segments and not knowing the extent to which companies comply with this standard. Therefore, this study aims to raise the study problem by answering the following main question:

To what extent are Jordanian Industrial companies obliged to apply International Financial Reporting Standard 8 to their operating segments?

The main objective of this study is to verify the extent of which Jordanian industrial companies are committed to implementing IFRS 8 to their operating sectors, the objectives of the study include the following sub-objectives;

- 1) To identify the extent of the commitment of Jordanian industrial companies in determining the operating sectors included in the financial reports in accordance to the basis of determining sectors.
- 2) To identify the extent to which Jordanian industrial companies are obliged to disclose information that enables financial statements users to evaluate the nature and financial implications of commercial activities and the economic environment of the operating sectors.
- 3) To identify the extent of the commitment of the Jordanian industrial companies to disclose information related to the scope and areas of work in the corporation.
- 4) To identify the obstacles that may object the application of the International Financial Reporting Standards specific to the operating sectors in the Jordanian industrial companies.

The Concept of Operating Segments and Related Work

An operating segment is an entity component that engages in business activities and therefore can generate revenues and expenses. The entity's operational decision maker regularly reviews its operating results in order to decide the basis of resources allocated to the sector and assess its performance for which separate financial information is available. (International Standards Committee, 2010)

The study of Kochanek (1974) is one of the first international studies that aimed at highlighting the impact of the disclosure of the sectorial information on the expected return and stock prices of companies with diversified products in the United States of America in the period of (1966-1969) for a sample of 37 companies subjected to study requirements. The results showed that it is much easier to forecast future revenues when provided with sectorial information, in addition to the volatility of stock prices for companies that disclose less sectorial information in comparison to the companies that do not disclose any sectorial information.

According to the study of Salamon & Dhaliwal (1980), the study aimed at finding the relationship between the size of the company and the level of disclosure of sectorial information. The study also aimed at examining the case of allowing small businesses to have less stringent disclosure requirements than larger companies; though this is inconsistent to implemented investor protection laws. The conducted study was on 51 companies listed on the New York Stock Exchange in 1970. The number of companies that disclosed sectorial information was 26, and 25 companies that do not disclose sectorial information.

The study also found a series of results of most important; Companies with multiple products that disclose the sectorial revenues and sales are larger than the companies that do not disclose. In addition to, the optimal financial disclosure in small companies is less than in larger companies, furthermore meaning that imposing the same level of disclosure requirements on all sized companies will lead to increased costs for the smaller companies. In which leads to the exclusion of these companies from the disclosure of sectorial information in order to protect them from the

disadvantages of larger companies comparison. The theoretical and scientific evidence suggests that voluntary financial disclosure leads to investor's attraction.

As for the study of Baldwin in 1984, this study aimed to test the accuracy of predicting return on equity using sectoral information by estimating the ROE before and after the application of the Product Line Disclosure Act, which was applied in 1971 in the United States of America. The study sample consisted of three companies, some of which revealed the sectoral returns of a diversified product company in 1971, another company of multi-product companies that revealed their sectoral returns voluntarily before the year of 1971, while the third company disclosed the annual total return for year 1971.

One of the main findings of the study was that financial analysts were able to predict better returns by using the sectoral information for diversified companies after applying the disclosure requirements in 1971. Meanwhile the error probability in predicting the return on equity of the three companies decreased due to using the provided sectoral information.

In the year 1993, Mc Kinnon & Dalimunthe conducted a study that aimed at examining the relationship between certain economic variables (the relationship between diversified industries with other unrelated industries, the distribution of ownership, minority interest, size, industry membership and financial advantage) with disclosure of sectoral information. The study was conducted on 65 companies of multiple products listed in the Australian Financial Market for 1985. The study reached a number of results, of the most important: there is a strong correlation with statistical significance between size, minority share, industry membership and level of sectoral disclosure. In addition, there is some correlation between sectoral disclosure and the distribution of ownership, and no correlation between sectoral disclosure and financial advantage, and the relationship of diversification of industries with other unrelated industries.

Moreover, in the year 1998 the study of Al-Rai & Dahmash aimed to investigate the effects of the adoption of international accounting and auditing standards on the accounting profession as a whole in Jordan. The research method used was distributing questionnaires where 17 questionnaires were distributed to auditing offices and 18 questionnaires were distributed to university professors to clarify the benefits and losses of adopting international accounting and auditing standards.

The study found that the adoption of international accounting standards increases the ability of financial analysts to obtain accurate information and the capability to compare information in the financial statements of different companies. Furthermore, it also improves the quality of information declared in the financial statements therefore leading to having greater confidence in the stock market encouraging financial market stability and increases the department's responsibility of its performance. The adoption of international accounting standards increases the quality of financial reporting especially if the local environment is taken into account.

The Botosan & Harreis study conducted in 2000 aimed at testing the determinants of the management version of quarterly sector reports and the impact on information asymmetries and analysts follow up in the United States between 1987 and 1994. A study was conducted on a sample of 107 companies of diversified products, and 65 companies of which issued quarterly sectoral reports during the study period.

The study found that companies that disclosed quarterly sectoral information were suffering from low liquidity and high information asymmetries during the two years prior to the year in

which this information was disclosed in. In addition to companies acquiring work in companies that disclose quarterly sectorial information too. There was no difference between the two study samples in regards to access to the financial market, and the competitive environment and analyst follow up after policy changes. Where at the beginning of the disclosure of quarterly sectorial reports, the companies that changed disclosure policies faced higher interest and follow up of analysts.

In the year of 2008, Carmona and Trombetta's study aimed to identify the reasons for broad acceptance of international accounting standards and international financial reporting standards. The base of the study was the theoretical aspect through analysing content to reach results. A variety of results were reached, of the most important were: the reason behind this broad acceptance of international accounting standards and financial reporting standards is due to the role of these standards in supporting the accounting profession and the harmonization across countries. The reason behind this is because international accounting standards have relied on the principle-based approach to accounting standards. Where standards based on principles enable accountants to rely on both experience, educational backgrounds and training programmes. Furthermore, the development of international standards based on concepts contributes to the process of accounting compatibility, although the full reliance on this basis cannot standardise accounting standards across different countries.

Research Methodology

Study Population

The industrial sector is one of the most important sectors in the Jordanian economy. In order to serve this sector, the Jordanian Chamber of Industry was established to serve as a national body grouping all the Jordanian industrial chambers together. This sector is of great importance. The study population consists of all the industrial public shareholding companies in Jordan listed on the Amman Stock Exchange by the end of 2016. A random sample was selected from the study population. The sample size was 50 industrial public shareholding companies listed on the Amman Stock Exchange. The sampling unit included the financial managers, heads of accounting departments, main accountants and the internal auditors.

The number of questionnaires distributed to the companies were (50) with one questionnaire per company, the number of questionnaires returned were (42) and three study samples were excluded due to the lack of validity and completeness of data. Therefore the study sample finally considered and analysed (39) questionnaires.

Statistical Analysis

Descriptive Analysis

To measure the extent to which Jordanian industrial public shareholding companies comply with IFRS 8 **specific to operating segments**, an analysis of the components of the questionnaire to answer the study questions was completed. This was completed by calculating the arithmetic mean and the standard deviation of each axis in order to determine the importance of the paragraphs in the questionnaire and the extent of dispersion of responses from the arithmetic mean.

First: Analysis of the paragraph of the first axis: Identification of Operational Sectors:

Table 1: Results of the test for the arithmetic mean, the standard deviation

No.	Paragraph	Arithmetic Mean	Standard Deviation	Ranking
1	In your company, the segment is disclosed separately if its income is 10% or more of the total consolidated revenue for all operating segments.	3.46	1.144	3
2	In your company, the segment is disclosed separately if the operating segments profit is 10% or more of the combined profit for all segments combined.	3.33	1.132	5
3	In your company, the segment is disclosed separately if the operating segment has a loss of 10% or more of the combined losses for all segments.	3.23	1.245	6
4	In your company, the segment is disclosed separately if the assets of the operating segments are 10% or more of the total assets of all the segments together.	3.41	1.229	4
5	Operating segments included in the financial statements comprise of at least 75% of the company's revenues.	3.72	1.025	1
6	Are sectors that don't meet the separate reporting requirements disclosed separately in a category	3.49	1.023	2
7	If an operating segment is designated as a segment included in the financial reporting for the current period in accordance with the 10% mentioned above, the segments data is restated for a prior period for comparison purposes even if that sector does not meet the reporting criteria at 10%	3.21	1.218	7
General Average		3.4066	0.99545	

The results shown in the previous table show the following: In paragraph 5, the arithmetic mean was (3.72) from the total score of five and was ranked first, where the average response rate for this paragraph is greater than the neutral (3). This indicates that the respondents agree that there is separate disclosure from the sector if the revenue is amounted to 10% or more of total consolidated revenue for all operating segments. In paragraph 6, the arithmetic mean was 3.49 from the total score of five and ranked second, where the average response rate for this paragraph is greater than the neutral (3). This indicates that the respondents agreed that the

sectors do meet the disclosure requirements that if sectors do not meet the separate reporting requirements they are disclosed in a separate category. In paragraph 1, the arithmetic mean was 3.46 from the total score of five and ranked third, where the average response rate for this paragraph is greater than the neutral (3). This indicates that the respondents agree that there is a separate disclosure for the sector is revenue is amounted to 10% or more of the total consolidated revenue for all operating segments. While in paragraph 7 the arithmetic mean is 3.21 from the total score of five and ranked as last, where the average response rate for this paragraph is greater than the neutral (3). This indicates that the respondents agree that is an operational sector is defined as a sector that includes the financial reporting for the current period and is in accordance to the mentioned 10%, the data for this sector is restated for a prior period. This is carried out for comparison purposes even if the sector does not meet the reporting criteria in accordance with 10% in the prior period.

In general, the arithmetic mean of all the segments (the first axis: the definition of operational sectors) is 3.406, where the response rate is greater than the neutral (3), indicating that the respondents agree that the Jordanian joint industrial companies are committed to identifying the operational segments covered by the financial reports on the basis of sector identification.

Second: Analysis of the paragraphs for the second axis: Disclosure of operational sectors

The results showed the below table show the following: In paragraph 1, the arithmetic mean was 3.77 from the total of five and ranked first. The average response rate to this paragraph was greater than the neutral (3); this indicates that the respondents agree that the company discloses the types of products and services for each operational sector. In paragraph 7, the arithmetic mean was 3.64 from the total of five and ranked second. The average response rate to this paragraph was greater than the neutral (3); this indicates that the respondents agree that the company discloses descriptive information about the entities segments covered in the financial reports. Finally, In paragraphs 3 and 6, the arithmetic mean was 3.54 and these paragraphs were ranked fourth. The response rate was greater than the neutral of (3); indicating that the respondents agree that the companies disclose information on the assets and liabilities for each segment and set up reconciliations of the total assets and liabilities for the operating segments with the total assets and liabilities of the company as a whole. While in paragraph 12, the arithmetic mean was 2.87 from the total of five and ranked last. The average response rate to the paragraph was less than the neutral (3); indicating that the respondents agree that the companies do not disclose the expenses or income taxes for each operating segments included in the financial reports.

No.	Paragraph	Arithmetic Mean	Standard Deviation	Ranking
1	The company discloses the types of products and services related to each operating segment	3.77	1.111	1
2	The company discloses information related to the revenues and expenses of each operating segment	3.38	1.161	7
3	The company discloses information related to the assets and liabilities of each operating segment	3.54	1.072	4
4	The company reconciles the revenues of the segment included in the financial statements with the total income of the company as a whole	3.44	1.165	6
5	The company reconciles the total operating profit and loss of the operating segments in the financial statements with the company's total profits and losses	3.59	1.229	3
6	The company prepares a reconciliation of the total assets and liabilities of the operating segments with the total assets and liabilities of the company as a whole	3.54	1.189	4
7	The company discloses descriptive information about the entity's segments covered in the financial statements	3.64	1.135	2
8	The company discloses revenues from external customers for each operating segment included in the financial statements	3.31	1.104	8
9	The company discloses the operating income of each operating segment included in the financial statements	3.49	1.073	5
10	The company discloses the interest income and expense for each operating segment included in the financial statements	3.28	1.123	9
11	The company discloses depreciation and amortisation for each operating segment included in the financial statements	3.10	1.273	10
12	The company discloses the expenses or income tax of each operating segment included in the financial statements	2.87	1.196	11
General Average		3.4124	0.94609	

Table 2: Results of the test for the arithmetic mean, standard deviation

In general, the arithmetic mean for the majority of the paragraphs of the second axis: the disclosure of the operating sectors is 3.41, which is greater than the neutral level of (3). Furthermore, indicating that the sample respondents agree that the Jordanian industrial public shareholding companies are committed to disclosing the information that enables users of financial reports on assessing the nature and the financial implications of business activities and economics environment of the operational sectors.

Third: Analysis of the paragraphs of the third axis: Disclosure on the scope and areas of work for the company

Table 3: Results of the test for the arithmetic mean, standard deviation

No.	Paragraph	Arithmetic mean	Standard deviation	Ranking
1	The company discloses revenues from external customers for each product or service or range of similar products services	3.64	0.959	3
2	The company discloses revenues from external customers arising from the entity's headquarters	3.64	1.063	3
3	The company discloses revenues from external customers arising from all other branches from which the company derives its revenues from	3.56	0.968	5
4	The company discloses the information related to its reliance on the (principle client) if its revenues derived from equals 10% or more of the entity's revenue	3.59	1.163	4
5	The company discloses the total amount of revenue generated from operations done with the principle client	3.85	0.961	1
6	The entity discloses the identity of the segment/s of which such principle clients belong to	3.69	1.004	2
General Average		3.6624	0.85881	

The results shown in the above table show the following: In paragraph 5, the arithmetic mean was 3.85 from the total five and ranked first. The average response rate for this paragraph was greater than the neutral level (3); indicating that the respondents agree that the company discloses the total amount of revenue resulting from work with a principle client. In paragraph 2, the arithmetic mean was 3.69 from the total of five and ranked second. The average response rate for this paragraph was greater than the neutral level (3); indicating that the respondents agree that the company discloses the identity of the segment in which the main clients belong to. In paragraph 3, the arithmetic was 3.56 from the total of five and ranked last. The average response rate to this paragraph was greater than the neutral level (3); indicating that the

respondents agree that the company discloses revenues from external clients from all other branches from the company derives its revenues.

In general, the arithmetic mean for all three points for the third axis: Disclosure of the scope and areas of work for the company was 3.66. This is greater than the neutral level (3) indicating that the respondents agree that the Jordanian industrial public shareholding companies are committed to disclose information in regards to the scope and areas of work in the corporation.

Hypothesis Test Result:

Testing the First Hypothesis: The Jordanian industrial public shareholding companies are not obliged to identify the operating sectors covered by the financial reports according to the fundamentals of determining the sectors

The T-test was used for each sample and the results in table 4, which shows the views of the study sample members in the first axis of 'determining the operational sectors'. The mean of all the paragraphs is 3.40 with a (T) value of 2.551 and level of significance of 0.015 that is less than 0.05. This means we reject the hypothesis that states that Jordanian industrial public shareholding companies are not obliged to identify the operational sectors included in the financial reports according to the basis of the sector definition.

Moreover, Jordanian industrial public shareholding companies are obliged to identifying the operational sectors covered by the financial reports according to the basis of sector identification

Paragraph	Test Value = 3			
	T Value	Level of Significance	Difference between mean and default value	Arithmetic Mean
First Axis: Determining Operating Sectors	2.551	0.015	0.40659	3.40

Table 4: Results for T-test for the first hypothesis

Testing the Second Hypothesis: The Jordanian industrial public shareholding companies are not obliged to disclose information that enables users of the financial statements to assess the nature and financial implications of the commercial activities and economic environment of the operational sectors.

The T-test was used for each sample and the results in table 5, which shows the views of the study sample members in the second axis of 'disclosing the operational sectors'. The mean of all the paragraphs is 3.412 with a (T) value of 2.722 and level of significance of 0.010 that is less than 0.05. This means we reject the hypothesis that states that Jordanian industrial public shareholding companies are not obliged to disclose information that enables users of the financial statements to assess the nature and financial implications of the commercial activities and economic environment of the operational sectors.

Moreover, Jordanian industrial public shareholding companies are obliged to disclose information that enables users of the financial statements to assess the nature and financial implications of the commercial activities and economic environment of the operational sectors.

Table 5: Results for T-test for the second hypothesis

Paragraph	Test Value = 3			
	T Value	Level of Significance	Difference between mean and default value	Arithmetic Mean
Second Axis: Disclosure of Operating Sectors	2.722	0.010	0.41239	3.412

Testing the Third Hypothesis: The Jordanian industrial public shareholding companies are not obliged to disclose information related to the scope and areas of work in the establishment.

The T-test was used for each sample and the results in table 6, which shows the views of the study sample members in the third axis of 'disclosing the scope and areas of work of the company'. The mean of all the paragraphs is 3.662 with a (T) value of 4.817 and level of significance of 0.000 that is less than 0.05. This means we reject the hypothesis that states that Jordanian industrial public shareholding companies are not obliged to disclose information related to the scope and areas of work in the establishment.

Moreover, Jordanian industrial public shareholding companies are obliged to disclose information related to the scope and areas of work in the establishment.

Table 6: Results for T-test for the third hypothesis

Paragraph	Test Value = 3			
	T Value	Level of Significance	Difference between mean and default value	Arithmetic Mean
Third Axis: Disclosure of the scope and areas of work for the establishment	4.817	0.000	0.66239	0.3662

Discussion of Study Results

In light of the analysis of the study data and testing of hypothesis, the following results were obtained: 1) Jordanian industrial public shareholding companies are obliged to identifying the operational sectors covered by the financial reports according to the basis of sector identification. 2) Jordanian industrial public shareholding companies are obliged to disclose information that enables users of the financial statements to assess the nature and financial implications of the commercial activities and economic environment of the operational sectors. This is consistent with the findings of the study of Botosan & Harreis (2000), which found that companies that disclosed quarterly sector information were suffering from low liquidity and high information asymmetries during the two years prior to the year in which this information was disclosed. Finally, industrial public shareholding companies are committed to disclosing information related to the scope and areas of work of the establishment. In light of the results of the study, the researcher furthermore recommends that industrial companies participating in the Amman Stock Exchange should increase the awareness and importance of the subject of

efficiency of the staff across financial departments in terms of professional qualification especially in the field of knowledge of international accounting standards and changes.

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