## *FINANCE, BANKING, ACCOUNTING AND AUDIT*

# CASE STUDY OF THE ORIGIN AND THE EVOLUTION OF ACCOUNTING SYSTEMS REGARDING TO THE HARMONIZATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN JORDAN AND ROMANIA

**Omar Alhato, Alexandra Botoș**
*University December 1, 1918 of Alba Iulia, Doctoral School, Faculty of Economical Science, Alba Iulia Romania*
omar_alhato@yahoo.com
botos.alexandra@yahoo.com

***Abstract:*** *It is valuable to take note that the majority of financial reporting pundits are in agreement that the financial reporting system of a country depends on several factors that include the legal, economic, and cultural background; The development of tasks performed by accounting is persistently inspired by needs of practice. It is clear of that accounting schemes play an essential role in the market economy, particularly in face of globalization of capital markets, where increasing need for comparable, transparent financial statements for the companies. Rather, it is proposed to present information that is used in making reasoned options amongst alternative uses of limited resources in the conduct of business and economic activities. The present paper discusses the possibilities to improve the accounting policies and procedures in Jordan and other Middle East countries in accordance with commitment of the International Financial Reporting Standards (IFRS). Throughout this study we used a qualitative approach, to outline an overview of the history of financial reporting and its evolution from the origin, to the growth and development of accounting systems by studying a considerable amount of bibliographic material, using different textbooks and journals on accounting theories but also public information presented by the accounting organisations and the government of the two analysed countries. Furthermore, the paper reviewed the achievements made in the convergence of International Financial Reporting Standards (IFRS), in the Middle East countries, in Jordanian context and in the European Union, specifically the case of Romania. International financial reporting standard (IFRS) implementation in Jordan has departed through several transitional phases wile in our previous work we noticed that Romania can be considered a benchmark of high degree convergence to IFRS.*

**Keywords:** *International Financial Reporting Standards (IFRS); Convergence; Procedures; Policies; Financial reporting quality;*

**JEL Classification:** *M 41*

## 1. Introduction

Accounting has emerged from the need of people to know the amount of work they use, the wealth, the results of their work. Accounting is "the earliest of all management-disciplines, accounting is ancient it-self, accounting relates have the vocation to keep a certain number of events with economic consequences”. The beginnings of accounting and its very essence in older times are in some studies confused with the beginning of the economic activity of the first human collectivities. The evolution of the accounting system is envisaged as driven by the political, economic and social conditions within the country. These include in particular a stringent need of attracting foreign investment and by this the requirement to harmonize the accounting practices with the EU Directives and the IAS. Accounting-sources can be drawn to earliest times and are directly associated to the development of numeration and counting (Brown, 2006). With the development of trade and the founding of states, some form of organization and keeping accounts has emerged. One of the initial branded law codes, the code of Hammurabi, established by the Babylonian king Hammurabi (1792-1750 B.C.), revealed at Susa in 1901, surrounds a numeral of trade account observance guidelines. The process of accounting harmonization in Europe can be traced back to the times of Pacioli while his effort “Summa-de-Arithmetica, Geometria, Proportioni et Proportionalità” has extended all over Europe influencing the accounting practices on the entire continent. The first official effort that we found during our research, towards the harmonization of accounting in Europe has been made in 1978 with the implementation of the Fourth Council Directive 78/660/EEC of 25 July 1978 regarding the annual accounts of limited liability companies.

The objective of accounting statements is manly to give data about the financial position and its changes and the performance of an entity, which is valuable to a wide scope of clients in deciding on monetary and speculatory choices. The application of IFRS has the possibility to decrease earnings treatment and get better stock market efficiency. The importance and the role of financial reporting in this context is that it provides input into control instruments. Brüggemann et al. (2013) argued that in IFRS there is a specific focus on the information’s role of financial statements. This is related to the main objective of the IAS regulation for a high degree of transparency and comparability of financial statements to improve the efficient function of capital markets.

In our previous studies (Dănescu and Botoș, 2016) we have reached the conclusion that there are very few states that have similar accounting systems and the ones who do are in principle very close geographically and related in history and/or culture, but in other cases where the geographical area is larger and the culture diverse, the differences found are more fundamental. Another conclusion from the same studies was that the harmonization process is not uniform, with some states opting for a gradual and long-delayed harmonization since the arrival of IFRS, others opting for partial harmonization with the exclusion of certain elements.

## 2. Research methodology

To approach the theme of this article, a theoretical and qualitative approach was adopted. The main aim of the research is to study the improvement of accounting policies and procedures in Romania and Middle East countries in particular the case of Jordan, for this the following objectives were framed for the present study:

- To analyse the procedure of convergence of IFRS within the universal accounting scheme;
- To observe the Financial reporting Quality in terms of qualitative characteristics;
- To propose some recommendations for better practices in the convergence of IFRS in Middle East countries specifically Jordan.

This study is based on the secondary information and existing research in the public domain. To reach the objectives of this study, this article espouses a qualitative approach, based on a process of documentation, critical analysis of information and selection and on creating a review of the history of financial reporting and its evolution. We derived the origin, growth and development processes of accounting by studying a considerable amount of bibliographic material. Furthermore, the paper reviewed the achievements made in the convergence of IFRS, in the Middle East countries, in Jordanian context and in the European Union, specifically the case of Romania.

In our previous work (Dănescu and Botoș, 2016) we noticed that Romania can be considered a benchmark of high degree convergence to IFRS. A high degree does not mean the lack of divergences but that the divergences reported can be considered additions that bring a clearer picture of the information in the financial statements and performance, such as the divergence on standard issues of the balance sheet shape. There are also situations in which IFRSs are only partially taken over as in the case of classifying expenses in the income statement. However, other divergences are totally opposite to IFRS, such as those reported in the presentation of current and long-term debt in the balance sheet.

## 3. Financial reporting Quality

There are dynamics affecting the transformation of financial reporting like: the historical development of institutional forms; influences of socio-economic environment; political and governmental influences that have shaped the evolution of capitalist economies; financial markets and accounting practice. With the evolution of capitalism and the development of other factors, financial accounting has adopted different forms that respond to social and digital requirements, political and legal pressures and at the same time are shaped by transformations in the international political economy.  Competing for capital in international markets increases the pressure for international convergence and mitigation of accounting disparities.
The effect of international and national accounting standards and especially the convergence level between the two, should also be taken into account when considering the quality of financial statements. Barth et al. (2008) highlight the importance of IAS standards for better quality financial information (a higher association of accounting results with share prices and returns, in addition to earlier mentioned factors); they contend that there are two motives which may deteriorate the optimistic force of accounting standards. Firstly, they state that IAS could be to some extent of lower quality than national standards for example when standards reduce management discretion resulting in accounting measurements which do not reflect performance and financial position as well as domestic standards. Secondly, Barth et al. note that quality improvements arising from IAS could be offset by the characteristics of financial reporting system other than standards.
The quality of financial statements is affected by many factors among others the incentives of managers and auditors, company characteristics and the quality of accounting standards comprising GAAP, to analyse the content of financial statements in more detail, their significance to the stakeholders should also be considered. When listed companies own one or more subsidiaries, they are required to prepare consolidated financial statements for the group. However, they are also obligated to present a parent company financial statement.

## 4. The quality of financial reporting in terms of the qualitative characteristics

Qualities of accounting data embrace: materiality, understandability and timeliness. Data cannot be functional to a someone who cannot recognize it. Information cannot be helpful to a person who cannot understand the information and, therefore, the purpose of financial reporting cannot be fulfilled without the concept of understandability (Beest and Braam, 2006). Only material information is included in the financial statement. Information is material if its omission will affect or influence the economic decision of the users. Information must be available when users need it.
Accounting information that makes data provided useful to users in making economic decisions must possess the following qualities: relevance, reliability, comparability, understandability, timeliness and neutrality. Relevance and reliability are the prime standard of superior accounting data. Information has the quality of relevance when it is capable of

making a difference in the fiscal choices of users by assisting them to appraise precedent and nearby occasions or confirming or correcting.

## 5. International Accounting standards in the Middle East countries specifically Jordan

The Arab countries were affected by the global economic mobility and the developments in which accounting practices were witnessed similar to the rest of the world, but this effect was in varying degrees due to the nature of the economic entities and to the disparities in the economic and social environment (Guerreiro et al., 2008). The detailed development of the accounting environment and the compatibility of the standards applied with international financial reporting standards are detailed in all Arab countries.
The adoption of international financial reporting standard (IFRS) by Middle East countries that seemed different from each country depending on the regulatory structure and development environment. However, as shown from the analysis presented in Table (1) below for the selected Middle East countries (Jordan, Iraq, Palestine, Saudi Arabia, UAE, Qatar) have implemented IFRS in the preparation of the financial statements of listed companies (IFRS, 2020); While Egypt the IFRS Standards are not required for domestic public companies. In addition, IFRS Standards are required for listings by foreign companies

**Table (1)**

| Country | IFRS Standards are required for domestic public companies | IFRS Standards are required or permitted for listings by foreign companies |
|---|---|---|
| Jordan | YES | YES |
| Egypt | NO | YES |
| Iraq | YES | YES |
| PALESTINE | YES | YES |
| SaudiArabia | YES | NO |
| UAE | YES | YES |
| QATAR | YES | NO |

**Source: IFRS org. https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/; accessed on 20 /03/2020.**

for the following countries (Jordan, Egypt, Iraq, Palestine, and UAE), While not required in Qatar and Saudi Arabia.

International financial reporting standard (IFRS) implementation in Jordan has departed through several transitional phases. It started with a decision Nr. 45 on March 1989, by the Association of Jordanian Certified Auditors to follow International Accounting Standards (IFRS). In the second phase Jordan It issued the securities law Nr. 23 for 1997 to restructure capital market. According to this law, it formed the securities commission, Amman Bourse, and Securities Depository Centre as three independent institutions (instead of one institution, Amman stock Exchange since 1978) (Zandah, 2006). Based on articles 9 and 53 of securities law Nr. 23, the securities commission issued instruction Nr. 1 for 1998 entitled "Disclosure instruction and accounting and auditing standards and qualifications of auditors of organizations subject to commission's control. In this instruction the commission required, from listed companies, the adoption of IFRS on the condition it does not contradict local laws and required companies to disclose the impact of IFRS on Financial Statements. The third phase was the issuance of corporate law Nr.40 for 2002 which required the use

of IFRS (article 195 of the law). Followed by the temporary law Nr.73 of 2003 entitled “Regulating the legal accounting profession" which did not name which accounting standards should be used. The period from 2003 until now may be called the governmental organization of the accounting profession.
In 2004 the Jordan Securities Commission updated its disclosure instruction Nr.1 of 1998 adding to its several important disclosure items in the annual reports as follows: 1. Description of all important risks the company subject to. 2. Any contracts signed with the chairman or any management board member or the CEO or any employee of the company or their relatives with any subsidiary or affiliate company 3. An acknowledgement by the chairman of the board, the CEO and finance director that accounting information in the company’s reports are true, accurate, and complete 4. The credit rating of the company and any change in it 5. The purchase of treasury stock and the disposal of it 6. Stipulating a period not to exceed one week for filing with the commission a detailed report on any substantial corporate matter with a copy of the public disclosure made.

## 6. International Accounting standards in Romania

The case of general accounting standards in the EU also shows that once the Decision to adopt IASB standards has been made, the implementation of these standards Into EU regulation is pressured by the multi-point governance character of the EU and the assignment of standard setting to an independent private international organization.
Powerful national and transnational economic actors managed to force the Commission to leave aside several debatable necessities of an (I.A.S.B) standard (IAS 39) in arrange for the latter to be applicable in the EU by January 2005. This “Europeanization” of IASB standards might run the risk of undermining the (continental European) member states’ ultimate goal of restoring the global competitiveness of their capital markets (Patrick Leblond, 2005).
In the case of accounting standards, it means that investors should favour supranational rules that are in closes as potential to the public statutes with which they are mainly familiar. This is because investors want to minimize the cost of learning the new, common standards. As for companies, those whose shares or bonds are listed in only one country should also favour financial reporting standards that are as close as possible to the national ones they are most familiar with.
Development of accounting in Romania can be traced to the influence of two larger and interrelated historical forces, the first force, is Romania dependency on other great power and the consistent presence of external shocks, in middle ages the territories that later became Romania contended first with the kingdom of Hungary and later with the ottoman empire, second forces, and Austrian empire and the Austro-Hungarian empire also exercised hegemony over Romania, it was not until the treaty of San Stefano (Hentea,2007), signed in 1878 after the defeat the Ottoman Empire in the russo-turkish. The era of Romanian autonomy was not long-lasted; after the second world war, Romanian was occupied by the Soviet Union, which propped up the communist regime of Nicolae Ceausescu. Regarding the evolution of accounting and of the Romanian accounting system, The Stage of "Socialist Realism" (1947-1989), a stage characterized by: ‘operating’ in the absence of the real and effective price mechanisms. The purpose of the scheme was to document direct consequences of the actions of the state enterprises in monetary terms but deriving from the pre-determined prices. As costs were managed and arranged evidences created by the scheme shortage and fiscal substance. Obsessed by the communist beliefs, it was proposed to distribute accounting data impracticable for guiding economic performance. In result, accounting was counterbalanced. Accounting proofs were much extra imperative than financial declarations. The Romanian accounting-scheme with its

German and French origins was overlay by a version of the Soviet based system. The Chart of Accounts were issued for different economic sectors (industry, agriculture, services) by the Ministry of Finance, mutually with especially fine described positions of regulations concerning the listing and dealing of data, and financial reporting.

After the 1989 revolution (MATIS, 2004). In 1991 were subjected Accounting rule no. 82 and the guidelines for the realization of accounting regulation GO 704 by which was introduced of market driven accounting principles. In this period Romania has started the beginning of transition to the market economy. The conversion procedures, from the consolidated economy to the market-based economy symbolize locate of compound modifications of which the input issue involves privatization, labour market reform. Renovation procedures require to be sustained with precise determines, comprising the growth of suitable institutional framework, education of the accounting professionals, legal enforcement. (MARIUS, 2013). In 1994 a system of accounting, based on the French system and incorporating a revised "chart of accounts" was introduced. The Romanian accounting system is codified and rules driven, being based to a large extent on the French model, with a chart of accounts consisting of some 100 obligatory accounts, each with its account name and number defined by law. For each new activity (see the case of leasing, merger, and provisions) the Ministry of Public Finances issued a methodological guideline, with accounts, accounts correspondence and registration flows, obligatory to follow. In 1999 the Romanian Accounting Standards were modified, with the beginning of Ministry of Finance Order no. 403 (1999) regarding the introduction of a national GAAP harmonized with the EU 4th accounting directive and the International Accounting Standards. The latest Romanian (GAAP) has been realistic initial through the financial reports for the year 1999. In 2001, the Ministry of Finance Order no. 403 (1999) was supplanted by the categorize number 94 of the Ministry of Public Finance (2001) considering the realization of accounting-harmonized by the E.U fourth accounting dictate and the International Accounting Standards. The new order stated that a number of 72 enterprises traded on Bucharest Stock exchange market, 20 national enterprises and 105 listed on the secondary stock market RASDAQ were supposed to use the international accounting standards for their financial reports for the year 2000. In 2006 the entities whose shares were listed on a regulated market and were preparing consolidated financial statements were required to use IFRSs for their financial reports from 2007 onward as stipulated in Romanian Ministry of Public Finance order no. 1121 (2006). Public interest entities are still allowed to use IFRSs for their individual and consolidated financial reports as an option for additional disclosure purposes (their legal requirements were to prepare financial reports according to RAS/ EU 4th directive). The Order no. 881 of the Romanian Ministry of Public Finance (2012) introduces the requirement for the entities whose shares are traded on a regulated market to prepare their individual financial statements according to the IFRS Financial institutions are also required to prepare their financial statements according to IFRSs. These entities are no longer required to prepare financial reports according to RAS and are compulsory to keep on applying I.F.R.S yet later than their shares are no longer operated on a regulated market.

The Ministry of Public Finance issued - Order 1286/2012, for the approval of the accounting rules accommodating with the International-Financial-Reporting-Standards, related to the enterprises whose securities are listed on a regulated market, NICOLAE BOBIŢAN et al. (2012).

In the case of financial reporting, there may be sustained efforts to apply IFRS, but the level of convergence is different, depending on the jurisdiction, due to certain economic, social and administrative elements that may accelerate or slow down the convergence process. In Romania as well as in other European countries such as the Czech Republic and Poland, the harmonization of national standards to IFRS has been largely achieved with exceptions which, in our opinion, are meant to protect certain interests of the national entities of these states (Dănescu and Botoș, 2016).

## 5. Conclusions

The International Financial Reporting Standards IAS/IFRS rely on a principles-based system to set accounting standards. This structure, in revolve, offers suppleness to leave potential the universal receiving of the standards. Mandating the use of IFRS, even if they require superior accounting practices and expanded disclosures, may not make corporate reporting more comparable or more informative. In Jordan and Romania, most economic entities are small and medium-sized enterprises. Yet, in together states, the (IAS/IFRS) request is compulsory the particular those enterprises that are listed in the stock market. The objective of this paper is to examine the improve of accounting policies and procedures in Romania and Middle East countries in particular in case of Jordan. However, as it was mentioned in this paper for the financial reporting Quality and affecting the transformation of that ambiguous the historical development of institutional forms and influences of socio-economic.

Therefore, the results of this study are of interest to the current discussion on the mandatory of IFRS adoption. However, the results can be extended to other emerging countries as the Jordan accounting system is similar to the systems in Middle East countries, as well as other countries applying globalization of accounting standards measurement, recognition and presentation rules for financial reporting.

## 6. Acknowledgements

Special acknowledgements go to conf. univ. dr. Dan Topor for proposing that the two authors work together on this topic.

### References

1. Barth, M. E., L, W. R. and Lang, Mark H. (2008)" International accounting standards and accounting quality", JAR, vol. 46, no. 3, p.467-498.
2. Beest, F. V., Braam, G (2006). Convergence-through-divergence: An analysis of relationship between qualitative characteristics of the conceptual frameworks of F.A.S.B and IASB Nice working paper 06-102.
3. Brüggemann, U., Hitz, J.-M., and Sellhorn, T. (2013). Intended and unintended consequences of mandatory IFRS adoption: A review of extant evidence and suggestions forf uture research. European Accounting Review, 22(1), 1–37.
4. Brown, R. (2006) A History of Accounting and Accountants, Cosimo, Inc.
5. Tatiana Dănescu, Alexandra Botoş (2016) Research on the International Accounting Harmonization Process, Annals of the University of Craiova, Economic Sciences Series, Vol 1/44
6. Guerreiro, M. S., Rodrigues, L. L., & Craig, R. (2008), the preparedness-of-companies-to-adopt-International-Financial-Reporting-Standards: Portugueseevidence. In Accounting Forum (Vol. 32, No. 1, pp. 75-88). Elsevier.
7. Hentea, Calin. (2007) Brief Romanian Military History (Scarecrow Press)
8.IFRS https://www.ifrs.org/usearoundtheworld/use-of-ifrs-standards-by-jurisdiction/; accessed on 20 /03/2020.
9. Marius Deac, (2013) "Romanian-Accounting -A Tale Of Two Standards " , Annals of theUniversity of Petroşani, Economics, 13(1), 2013, 89-98.
10. Matis, D., Tiron Tudor A., Mutiu A., (2004) The Convergence process of reporting financial statements – the milestone in developing international reporting. Istvan University
11. Nicolae Bobiţan, Diana Dumitrescu, Carmen Luiza Costuleanu (2012) ; The Legalframework On The Application Of (I.F.R.S) In Romania. West University of TimiŞoara, Romania, LUCRĂRI ŞTIINŢIFICE, SERIA I, VOL.XVI.

12. Patrick Leblond (2005) The International Dimension Of The Harmonization Of Accounting Standards In The Eu, Paper for delivery at the EUSA Ninth Biennial International Conference March 31-April 2, 2005, Austin, Texas.
13. Zandah, A. (2006). The Impact of Implementing Disclosure Instructions Released by the (Jordanian) Securities Commission on the Usefulness of Accounting Information to the Investors: An Empirical Study on the Industrial Companies Listed at Amman Stock Exchange" Unpublished Ph.D. Dissertation at the Arab Academy of Banking and Financial Sciences (Amman-Jordan).