

THE UNIVERSITY OF HULL

THE EVOLUTION OF ACCOUNTING IN DEVELOPING COUNTRIES
THE STUDY OF JORDAN

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By

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TO MY WIFE,

FAMILY AND TO ALL OF MY PEOPLE

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ABSTRACT

The main purposes of this study are to ascertain whether Jordan's accounting systems (enterprise, government, social) provide the necessary information for its socio-economic development planning and to suggest means by which to improve accounting in the country.

An attempt is made to describe the Jordanian environment and to determine the possible orientation of accounting in Jordan. It is shown that Jordan is a developing country, which was and still is subject to pressure from foreign powers both politically and economically. This pressure has created a bias towards the U.K./ USA accounting systems. Laws and regulations, accounting education and the accounting profession, are oriented towards the accounting of these two countries.

The study of accounting development in Jordan revealed that public accounting has not reached the stage where it can be recognised as a developed profession. The empirical study revealed that the most important items needed to improve national accounting practices are as follows: (1) an active accounting organisation; (2) accounting principles suitable to the Jordanian environment; (3) official auditing pronouncements; and (4) a code of professional conduct.

The empirical survey revealed the inadequacy and unsuitability of current reporting practices to the needs of the local users of financial reports. It also identified the following as major problems facing accounting profession in Jordan: (1) shortage of qualified accountants; (2) weakness and underdevelopment of the Jordanian accounting curricula; and (3) lack of sufficiently qualified teaching staff.

Several recommendations are made concerning the development of the accounting profession and education so they can meet the challenge of economic development. These recommendations call for improvement in accounting practices, organisation of the profession, coordination of efforts with government, and increase in contacts with accountants in other countries.

ABBREVIATIONS

AAA	American Accounting Association
ACA	Association of Certified Accountants
AEs	Accounting Experts
AEC	Arabian Economic Community
AECC	Accounting Education Change Commission
AFM	Amman Financial Market
AICPA	American Institute of Certified Public Accountants
AID	Agency for International Development
APC	Audit Profession Council
ASCA	Arab Society of Certified Accountants
AWG	Arab Working Group
BAA	British Accounting Associations
BSA	Board of Supreme Audit
CAA	Central Accounting Agency
CAG	Comptroller and Auditor General
CAO	Central Auditing Organisation
CBJ	Central Bank of Jordan
CIPFA	Chartered Institute of Public Finance and Accountancy
COD	Chamber of Deputies
CPAs	Certified Public Accountants
DAP	Development of Accounting Practices
DOB	Department of Budget
DOS	Department of Statistics
EEC	European Economic Community
ESCAA	Egyptian Society of Chartered Accountants and Auditors
FEAS	Faculty of Economics and Administrative Sciences
GAB	Government Auditing Bureau

GAD	General Accounting Department
GAO	General Accounting Office
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GNP	Gross National Product
HKJ	Hashemite Kingdom of Jordan
IAS	Internal Accountants
IAAA	Iraqi Accountants and Auditors Association
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
ICA	International Congress of Accountants
ICAEW	Institute of Chartered Accountants in England and Wales
ICAI	Institute of Chartered Accountants in Ireland
ICAS	Institute of Chartered Accountants of Scotland
ICMA	Institute of Cost and Management Accountants
IFC	International Finance Cooperation
IMF	International Monetary Fund
ISCs	Industrial Shareholding Companies
JACPA	Jordanian Association of Certified Public Accountants
JD	Jordanian Dinar
LAs	Local Authorities
MBA	Master of Business Administration
MESAA	Middle East Society of Associated Accountants
MOF	Ministry Of Finance
NBER	National Bureau of Economic Research
NIA	National Income Accounting
NIAs	National Income Accounts
NID	National Income Division

NOR Number of Responses
PPBS Planning Programming Budgeting System
RCC Revolutionary Command Council
RFC Royal Fiscal Commission
S.A. Saudi Arabia
SAI Supreme Audit Institution
SAS Standardized Accounting System
SAs Statutory Accountants
SEC Securities and Exchange Commission
SSAA Syrian Statutory Accountants Association
U.K. United Kingdom
UAS Uniform Accounting System
UN United Nations
UNESCO United Nations Educational, Scientific and Cultural
Organisation
USA United States of America
ZBB Zero- Base Budgeting

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CHAPTER ONE
INTRODUCTION

This chapter intends to present the importance of the study, research problem, research objectives, the methodology of the research, and layout of the thesis.

1.1 SIGNIFICANCE OF THE STUDY

Accounting literature in respect of developing countries is limited. Except for the work of a few Western accounting writers, such as Enthoven, A., Briston, R. and Samuels, J. little has been written about the real needs of developing countries.

Most of those who have written about accounting in developing countries-apart from those mentioned above-have limited their writing to the accounting profession and enterprise accounting, particularly external financial reporting, and have generally recommended the adoption of the U.K. / USA approach. In the author's view, there has been a general failure to appreciate the specific accounting information needs of developing countries.

In the case of Jordan, a few Ph.D. theses by Jordanian students have dealt with certain accounting problems in that country. El-Issa, Y. (1988) examined the usefulness of corporate financial disclosure to investors in the Amman Financial Market, while Al-Hmoud, T. (1987) studied the application of Efficient Market Hypothesis to the Jordanian stock market. Qtaishat, M. has also written on the Jordanian accounting

practitioners' perceptions of undergraduate accounting programme content (1988).

All of the above writers recommended improvements for accounting in Jordan, but along the lines of the U.K. / USA approach.

Therefore the uniqueness of this study lies in the fact that no previous study has dealt simultaneously with all of the following:

1. The socio- economic, political and regulatory environment of Jordan;
2. Factors such as laws, regulations, education, and the accounting profession, which have influenced the evolution of accounting in Jordan;
3. Enterprise, government, and social accounting.

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

1.2 STATEMENT OF THE PROBLEM

Extensive research concerning the public accounting profession in Jordan, the object of this study, is not available; thus little is known about the emergent profession's present stage of development. This project proposes to investigate, delineate, and evaluate some

aspects of the public accounting practices in Jordan and focuses primarily on the accounting education and government regulations that influence the profession. The study also will concentrate on reporting disclosure practices in the country in an attempt to evaluate the current method of reporting and its suitability for the needs of different types of users.

Although certain modern accounting techniques and procedures can be easily transferred and adopted in various developing countries without difficulty, the kind of accounting systems to be employed in developing countries would have to be developed in relation to the country's needs, its stage of economic development, and the degree of expertise available in that country.

Accounting information in Jordan should be relevant to the country's economic and social development planning, micro and macro decision-making, and planning and control at both micro and macro levels. The lack of such information could lead to sub-optimal planning and decision-making, as a result of which social and economic development plans in Jordan may be prevented from achieving their objectives.

El-Issa (1984) concluded from his study that the accounting environment needs much improvement, since at present there exists no official accounting body to ensure better guide-lines for financial reporting.

1.3 RESEARCH OBJECTIVES AND QUESTIONS TO BE ANSWERED

The main objective of this study is to examine the evolution of accounting practices in developing countries, with special reference to Jordan. Mainly, the study is of a normative nature which, through the use of data generated by empirical investigation and literature, aims at improving these practices rather than merely describing them.

The selection of Jordan for this purpose was based on several considerations. First, the author has extensive familiarity with and experience of accounting in Jordan. Second, the literature in the area of Jordanian accounting practices available to English-speaking professional accountants, accounting academicians, and businessmen is negligible. For example, Jordan is not included in the study made by Price Waterhouse International of accounting principles and reporting practices in thirty-eight countries. It is not included either, in the study by the American Institute of Certified Public Accountants Committee on International Relations, which covered the accounting practices of twenty-five countries.

Jordan's increasing economic relations with the English-speaking countries provide reasonable 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.

Hence, the objectives of this study can be summarized as:

- 1) To study the status of the accounting profession in Jordan and discuss the major historical events that affected the practice of public accounting there. Early development in the Jordanian accounting practice and an examination of the influences which brought about these early changes may lead us to a better understanding of what is happening in the present and may offer clues to what future trends may be.
- 2) To determine what the accounting practice and education problems are in Jordan, as seen by accounting practitioners, knowledgeable accountants and other experts in the country. Moreover, to determine the importance of each of these problems relative to each other.
- 3) To solicit respondents' opinions regarding accounting practices, and recent developments affecting such practices, and to isolate empirically those key factors affecting the development of accounting practices.
- 4) To identify the needs of the accounting profession as perceived by respondents.
- 5) To ascertain whether Jordan's accounting systems (enterprise, government, social) provide the

necessary information for its socio-economic development planning, and to suggest means by which accounting in the country could be improved.

- 6) To survey Jordanian accounting practitioners' and accounting experts' perceptions of the suggested ways and means to improve present accounting practices.
- 7) Finally, to fill a gap in accounting literature regarding accounting evolution in developing countries.

More specifically, the study seeks to find sound answers to the following research questions:

- 1) What is the current status of the accounting profession in Jordan ?
- 2) What factors have influenced the development of accounting in Jordan ?
- 3) How do accounting practitioners and experts perceive accounting practice and education in Jordan ?
- 4) How do accounting practitioners and experts perceive the needs of the accounting profession in Jordan ?
- 5) Do Jordan's accounting systems provide the information necessary for socio-economic development planning ?
- 6) If not, how can these systems be improved ?

1.4 METHODOLOGY

In order to achieve the above objectives, data about the social environment, including the history of the country, were collected. In addition, data were obtained regarding Jordan's past and present political and economic systems, its economic and natural resources, and its stage of development. Furthermore, information regarding past and current laws and regulations, accounting education, the accounting profession, and outside involvement in the country, was also collected. The researcher gathered data concerning the accounting systems of Jordanian industrial shareholding companies (See Appendix 9.B).

The above data were gathered in part from a review of existing literature in Arabic. However, much of the information on accounting education and the accounting profession was acquired from primary sources, and from the researcher's own experience.

The study involves both theoretical and empirical analysis. The theoretical part begins with a review of the available literature,

Thus, a combination of primary and secondary research has been used to accomplish the objectives of this study.

1.4.1 Primary Research

In order to collect needed data, the following two opinion surveys were conducted:

- (I) A survey of industrial shareholding companies in Jordan (See Chapter Nine). Due to the lack of prior research in this area, the survey was designed to collect data regarding the demographic, attitudinal and behavioural variables which characterise the Jordanian internal accountants working in industrial shareholding companies.

The information collected from this survey was used as input in improving the accounting practices in Jordanian industrial sector.

The collection of data was achieved by:

- i) examining the extent to which the evolution and status of accounting in Jordan may have been influenced by the U.K. / USA accounting system, and the effect of any such bias on the relevance of the system to Jordan's needs;
- ii) analysing, empirically and theoretically, the type of information actually provided by accounting (enterprise, government, social) in Jordan;
- iii) determining, empirically and theoretically, the type of information actually needed in the Jordanian environment;
- iv) suggesting a possible plan for improvement.

(II) A survey of members of the accounting profession in Jordan, accounting educators in Jordanian universities, and governmental accountants (See Chapter Ten). This survey was designed to achieve the following:

- i) collect views regarding factors affecting accounting development in Jordan;
- ii) identify major needs of the accounting profession in Jordan;
- iii) solicit opinions regarding existing accounting principles and auditing standards, the extent of cooperation and professional activities within the profession, and methods of improving accounting practices at the local level.

Since this study is concerned with measuring the attitudes of two groups of accountants, i.e. Internal Accountants and Accounting Experts, towards the evolution of accounting practices in Jordan. Likert type of seven point scale was mainly used.

According to Borg and Gall (1979, P.275)

"Likert scales are probably the most common types of attitude scales constructed."

The limitations of the Likert scale are that numerical values are assigned to each of the seven choices on the scale, while the range between the values is not the same. The limitation to the mean score is that it is affected by the presence of the extreme

values, and it does not completely summarize the features of the data.

The questionnaire of the Internal Accountants and Accounting Experts which include academics, professional and officials, have many similar questions. Copies are shown in the appendices 9.A and 10.A. All list of choices were chosen to be adequate and aid the respondent in expressing choices with *Other Specify* to be included where necessary.

Personal Interviews

In addition, in order to obtain some detailed information regarding some of the issues facing the accounting profession in Jordan, the decision was made to conduct personal interviews with a number of government personnel, members of the accounting profession, and accounting educators in Jordanian universities, whose names and positions are listed in Appendix 10.B.

More specifically, these interviews sought to accomplish the following:

- i) discover views on improving financial reporting and alternative approaches to the development of the accounting profession in Jordan;
- ii) obtain important information that was too confidential to be disclosed in the questionnaire. It was thought that this personal contact would encourage the interviewees to reveal extra

significant information if they were assured of remaining anonymous.

1.4.2 Secondary Research

- i) A review of the accounting literature concerning accounting system in developed countries and the role of accounting in economic development in developing countries was found to be helpful in the construction of a model for the development of the accounting profession in developing countries. Accounting literature also provided a basis for evaluating the Jordanian accounting practices. Accounting practices in the U.K. and USA were used in the process of developing criteria for this purpose.
- ii) A review was made of laws, rules and government publications. Articles and research dealing with the subject of accounting regulations in Jordan were studied and analysed.
- iii) An examination of auditors' reports was conducted to determine the extent to which government's reporting standards are being followed.

1.5 ORGANISATION OF THE STUDY

Throughout this study, the data obtained from the three sources (literature, interviews, and surveys) will be analysed and discussed. Since the surveys will be

the primary source of information, the presentation is designed to afford a comprehensive treatment of their results. The literature and personal interview data will be incorporated throughout and will be identified as such where included.

The research is presented in thirteen chapters. Chapter One deals with the general framework of the study, its objectives and purposes. Chapter Two deals with the evolution of accounting systems in developed countries- mainly in the U.K. and USA, with special reference to enterprise accounting, management accounting, governmental accounting, and social accounting. This chapter emphasises the irrelevance of Western accounting system to developing countries.

Chapter Three emphasises the role of accounting in economic development and the vital need for integration between these two disciplines. It also focuses attention on the advantages and disadvantages of a uniform accounting system.

The fourth chapter provides a brief description of the Jordanian social, political and economic environment. The aim of this chapter is to explain the nature of the Jordanian environment in which accounting and accountants perform their functions. To this end the history of Jordan, its socio- cultural characteristics, and the characteristics of the political system of the country are discussed.

The economic environment is also discussed, with particular reference to the main features of the Jordanian economy, the government role in the economy and the importance of the Amman Financial Market (AFM). In addition, a brief description of the current Jordanian financial and economic crisis is given. The chapter concludes with a discussion of the socio-economic and foreign influences on accounting practices in Jordan.

Chapter Five comprises an evaluation of Jordanian accounting education. The purpose of this chapter is to determine the nature of the accounting manpower. Thus accounting programmes, accounting text books and academic staff are all investigated.

Chapter Six contains a presentation, discussion and evaluation of the development of the accounting profession in Jordan. The chapter also includes a description of the accounting professional organisations in the region and the country. The aims of the chapter are to assess the stage of development of the accounting profession in Jordan and to clarify its relation to the environment.

Chapter Seven describes current financial reporting requirements as specified in the Jordanian Companies Act No. 12 of 1964 and its amendments and other legislations such as AFM regulations.

Chapter Eight concerns Government and National Accounting in Jordan. The purpose of this chapter is to examine the type of information provided by the

government accounting system and national accounting in Jordan.

An attempt is made to evaluate the current accounting practices in terms of their usefulness to a developing country faced with an ambitious task of improving economic conditions and living standards. A survey of all industrial shareholding companies quoted in AFM, and of the opinions of seventy accounting experts across the country, was carried out.

Chapter Nine presents the research methodology used in the survey of internal accountants in Jordanian industrial shareholding companies. In addition, a presentation, analysis, and evaluation of the statistical results of the survey are given. The major factors affecting accounting development in Jordan are identified, and the major needs of the national profession are presented and discussed.

Chapter Ten discusses the research methods used in the survey of academic, professional and governmental accountants in Jordan, and presents an evaluation of the results of such survey. The major problems facing accounting in the country are identified and analysed.

Chapter Eleven presents a comparative analysis of the opinions of the two groups of accountants surveyed, mainly internal accountants and accounting experts, regarding matters raised in the questionnaires.

The regional aspects of accounting are then introduced through an examination of accounting evolution

of some Arab neighbouring countries. Accounting development in Egypt, Saudi Arabia, Iraq and Syria are examined in Chapter Twelve. Useful accounting experiences of other countries are also examined in order to see how these countries have influenced accounting in Jordan.

The study concludes with a brief chapter suggesting possible areas of improvement and development in the accounting system in Jordan.

CHAPTER TWO

EVOLUTION OF ACCOUNTING SYSTEMS IN DEVELOPED COUNTRIES

2.1 INTRODUCTION

Accounting is a product of its environment, and a particular environment is unique to its time and locality. Accounting, as a form of activity and an occupation distinct from other forms of endeavour, emerged in different countries at a different times. In each country, accounting has followed different patterns and is still evolving in response to different stimuli from each environment (Scott, 1970, P.85).

Accounting developed through many stages, from a period when the stewardship function was most important to a period when the user and predictive function has become dominant (Briston, 1981, P.4). In recent years, accounting thought has come to cover every area of economic activity. Business or enterprise accounting (which encompasses financial accounting, management accounting and auditing), Government accounting and national accounting are separated. The first two, including accounting for non-profit organisations, are often referred to as micro accounting, while national accounting is also referred to as macro, national or economic accounting. Although all three branches work with the same raw economic material, and are to some extent interdependent, they remain as three distinct areas which serve different specific functions.

This chapter deals with the evolution and the current practice of enterprise accounting, government accounting and national income accounting with special

reference to the United Kingdom (U.K.) and United States of America (USA) accounting systems. After analysing the accounting system as a whole, for each of the two developed countries, the relevance or otherwise of the system to developing countries will also be discussed.

2.2 EVOLUTION OF THE ACCOUNTING SYSTEM IN THE U.K.

2.2.1 Enterprise Accounting

A distinction should be made between financial accounting and cost or management accounting. Financial or equity accounting is visualised as being concerned primarily with the provision of financial information to outsiders (e.g., shareholders, creditors, bankers, government, economic analysts) ; management or operational accounting is described as dealing with accounting information for managerial and other micro economic decision-making purposes. Both fields conduct systematic administrative or micro economic activities.

2.2.1.1 Evolution of Financial Accounting

Financial accounting developed slowly over a period of centuries, dating as far back as 3500 BC, when financial transactions took place and some accounting concepts were known in Assyria (now called Iraq). However, it was not till the fourteenth century that strong evidence has been found of the development and integration of the double-entry system, which took place in Italy. According to Most (1982), the first

professional organisation of accountants was established in Venice in 1581. Thereafter, the method spread throughout the world, and in particular, to U.K.

Before the Industrial Revolution, accounting development made slow headway in the U.K. The prevailing practice emphasised the accountability of stewards and agents. A further development in accounting functions at that period may have come about as a result of the joining together of stewards into business partnerships, a situation which necessitated the recording of any transaction affecting the relationship between partners, in a way which was satisfactory to all of them.

However, the Industrial Revolution had a great influence on accounting development in Britain. The extensive growth of firms, their capital requirements and mass production techniques necessitated the development of the accounting function to provide reliable information to users. Accounting functions have increased gradually during the past two hundred years, and in recent years have addressed themselves towards more social needs.

2.2.1.1.1 British Companies Acts.

Prior to 1844, Special Bills had to be passed to launch each company (Williams, 1948, P.106). After 1844, those companies complying with the Act were entitled to incorporation on registration. The 1844 Act required firms to keep books of accounts to present a *full and fair* balance sheet to each ordinary meeting of

shareholders (Edey, 1968, P. 135). In 1855 the Joint Stock Companies Act was passed in which the principle of general limited liability was conceded.

At the beginning of the Twentieth Century the Companies Act of 1900, and the Companies Act of 1907 were passed, with the latter taking the decisive step of requiring the annual filing of audited statements in the form of a balance sheet containing a summary of the company's capital, its liabilities and its assets, giving such particulars as would disclose the general nature of such liabilities and assets, and showing how the value of the fixed assets had been determined. The main provision of the 1929 Companies Act was the abolition of secret reserves.

The 1948 Act, which is regarded as a major reform, followed the *Cohen Report* of 1945. The Act included a requirement of disclosure of the specific form of balance sheet and income statement, in order to give clear and meaningful information to users of the company's accounts. Accounts began to take a more modern form, and the British Company Law requirements created favourable conditions for the services and protection of shareholders and the rest of the society.

The 1948 Act remained the principle act for almost 40 years, but was amended by a series of Acts: the first, in 1967 made the disclosure of turnover mandatory, greatly expanded the information to be provided in the Directors' Report and Notes, and removed the privilege of

non-disclosure for family-owned private companies; another, in 1976 tightened the legal requirements for the maintenance and publication of information, strengthened the power of the auditor, and increased the disclosure of directors' interests; others in 1980 and 1981 implemented the EEC Second and Fourth Directives respectively. The Company Act 1981 introduced for the first time, prescribed formats, with great detail, for the balance sheet and income statement. In 1985, all these acts were consolidated into the Companies Act 1985 (Nobes, 1988, P.67). Finally, in 1989, the EEC Seventh Directive was implemented in an Act concerned with group accounting.

From the above we may conclude that the Companies Acts have influenced accountancy chiefly to protect the interests of shareholders. The underlying philosophy of British Company Law is that the disclosure of all matters will prevent abuse. The shareholders as a whole are protected by the duties of disclosure which are imposed on the company and the directors by the Companies Acts. The accounting system is intended to provide information to investors to show a clear picture of how management has used their money and how much dividend they should get.

The Act does not specify particular accounting practices. British accounting has a very pragmatic business orientation, serving above all the needs of the shareholders, creditors and taxation; its area of

concentration is financial accounting and auditing. However management accounting seems to be coming to the forefront again after many years of relative neglect (Enthoven, 1973a, P.301).

The requirements of the U.K. Act, unlike those of the American and Securities Exchange Commission, apply to all British limited companies, large and small, except those few incorporated by royal charter or special act of parliament. The privatisation policy of the U.K. present government has brought a number of very large public utilities within the net of company law.

2.2.1.1.2 British Professional Bodies

Britain was the first country in the world to develop an accountancy profession as that would now be interpreted. Although the function of audit in relation to systems for controlling and verifying public expenditure is quite ancient, there had been no comparable development of auditing skills for private enterprise prior to the Industrial Revolution. However, this changed rapidly within a century from about 1780 onwards, with the establishment of the present-day professional institutions or their direct antecedents (Nobes, 1985, P.48).

Accounting as a profession has enormous power and responsibilities. In the U.K. there are six major professional accounting bodies which have dominated the evolution of accountancy and accountancy education. They

have issued accounting recommendations and have undertaken much of the accounting research and studies.

The largest accounting professional body, in the U.K., is The Institute of Chartered Accountants in England and Wales (ICAEW), which was formed in 1880 from the membership of several accountancy bodies founded from 1870 onwards. The Institute of Chartered Accountants of Scotland (ICAS) was founded in 1854 under the name of The Society of Accountants in Edinburgh; its members were the first to call themselves *Chartered Accountants*. The Association of Certified Accountants (ACA) was founded in 1904 as The London Association of Accountants. The other bodies are the Institute of Cost and Management Accountants (ICMA), The Chartered Institute of Public Finance and Accountancy (CIPFA), and The Institute of Chartered Accountants in Ireland (ICAI).

The British accounting profession enjoys a high degree of public confidence on account of its intellectual and technical abilities and high ethical standards. Jurisdiction has had a major bearing on accounting and auditing, but leaving a great amount of freedom. An interesting feature is the high degree of self-regulation, based on personal responsibility. However, almost all the British accounting institutes are now deeply aware that a well-rounded university education is a prime requisite, and that accounting has to extend its wings to the whole field of information, planning and control (Enthoven, 1973a, P.301).

Accounting as an academic discipline has become established in universities, only within the past thirty years (Nobes, 1985, P.48).

The structure of the profession in Britain reflects historical events, rather than any overall planned coverage of membership and distribution of functions. Nobes argues that, for a country having in all significant respects common company and tax laws, the existence of the six professional bodies creates what could be termed system redundancy, with major effort being required to coordinate their views and resolve conflict, which in a unified structure would perforce occur as part of the internal policy process of the profession.

Many U.K. practitioners surveyed were concerned that accounting education in the U.K. is too narrow. The complaint is that graduates have little understanding of the operation of business outside of the accounting function. Markell argues that to be an adviser to management, an accountant should be able to understand the many aspects of a business organisation (Markell, 1980, P.105). As a part of the management team, the accountant must be familiar with all aspects of business.

2.2.1.2 Evolution of Management Accounting

In the industrial world of today, the accountant is playing an increasingly important part in management. Management accounting may be seen as a coherent set of

concepts and techniques which are used by managers for planning, control and decision-making. Therefore, the management accounting field is considered as a branch of accounting which is designed to assist management, rather than outsiders. The use of accounting data for management purposes, perhaps as a tool of management control, has been noted in some factories in Florence, Italy.

At the beginning of the Industrial Revolution in the eighteenth century, there was an increasing awareness of the need for cost information to be appropriate to the needs of managers, in order to cope with competition and to carry out the firm's objectives. The problems facing the business manager at that period were derived from the increase in the absolute size of the firms and from the necessity of influencing and controlling the diverse activities of employees, customers, investors, and others who constituted the organisation in its environment. This situation led to the evolution of new accounting concepts and techniques to deal with the new complex managerial problems, and as a consequence, these concepts and techniques brought about the development of the management accounting field.

Indeed, the real impetus and development of management accounting came during the twentieth century. The Institute of Cost and Works Accountants was formed in 1919. Its name changed to the Institute of Cost and Management Accountants in 1972, and its journal changed

from *Cost Accounting to Management Accounting* in 1965 (Scapens, 1985, P.9).

Recent writers (Scapens, 1981 & Shillinglaw, 1980) have referred to the great amount of literature and text books published in the 1950's and 1960's to demonstrate various aspects and techniques of management accounting. The emphasis was on the necessity for the application of cost- volume- profit analysis, standard costing, uncertainty, variance analysis, and mathematical and statistical models. From the early 1970's onwards, accounting researchers began to emphasise linear programming techniques, statistical decision theory, cost variance investigation models, cost benefit analysis, social accounting and accounting in non-profit organisations, human aspects of budgets and standards, agency theory, and transfer pricing.

From the above recital, it may appear that management accounting theory has developed considerably within the past three decades. Briston (1981, P.633) argued that generally speaking, until the middle of the nineteenth century, management accounting was very much in its infancy and its subsequent evolution was distorted by the bias towards the provision of information for the annual report, rather than with the view to the needs of managers for decision-making purposes. He added that this bias has dominated the accounting profession right up to the present; it continues to apply nineteenth-century concepts of valuation, income measurement and

stewardship, at a time when the nature and role of companies have been completely transformed.

2.2.2 Government Accounting

Government involvement in national affairs is now normal, not only in developing countries but also in highly developed countries. Government accounting deals with the collection, measurement, processing, communication, control of, and accountability for, all receipts and expenditures and related activities in the public sector (Enthoven, 1975, P.4.A). The distinctive aspects of accounting information, classification, and procedures applicable in government sector transactions make it desirable to treat this as a separate, but interrelated, branch of accounting, although governments make extensive use of the records of entries, techniques, and procedures used in enterprise accounting.

2.2.2.1 Evolution of Government Accounting

The development of the Royal Treasury, or Exchequer, in the U.K. can be traced back to the twelfth century. The yearly charges against the sheriffs and other accounting officers of the Exchequer were entered, and the result of the final audit of their accounts was recorded. During the thirteenth century, the accounting records of the Royal treasury were kept with more attention and care. In the fifteenth century, certain improvements in bookkeeping accounts were manifest, such as the introduction of the *charge and discharge system*

in recording financial transactions, a situation which led to the development of the accounting function during the period.

The rise of professional accountants in the private sector during the nineteenth century had a great influence on the development of government accounting in the U.K. However, despite this long and continuous history, it remains academically, and even professionally, a neglected area. Accounting writers in developed and developing countries have been mostly concerned with financial enterprise accounting, following the Industrial Revolution. Furthermore, the field of public sector finance has been occupied by economists, with the complete absence of accountants (Lang, 1971, P.2).

Nevertheless, today a high degree of accountability exists in the field of Central Government and Local Authorities in order to plan and control government expenditure and revenue.

2.2.2.2 Accounting in Central Government

According to Barrett (1981, P.25), the Central Government includes parliament, government departments, and the administration of extra-developmental funds financed from government funds and it has a legislative power for macro economic control over local government revenue and expenditure. The basic form of Central Government accounting is the straightforward cash appropriation account used under Treasury directions by

all government departments. Public expenditure control is one of the principal elements of the government's economic strategy.

The principal acts of parliament which set down the audit requirements of Central Government are the Exchequer and Audit Departments Acts of 1866 and 1921, and the National Audit Act of 1983. Section 1 of the 1921 act requires that every appropriation account (of government) shall be examined by the Comptroller and Auditor General on behalf of the House of Commons.

Before the 1983 Act, it had been suggested that these statutory audits were supplemented by what are called: (a) Value for Money Audit- an examination of economy and efficiency, to bring to light examples of wasteful, extravagant or unrewarding expenditure, failure to maximise receipts or financial arrangements detrimental to the exchequer, and weaknesses leading to them; (b) Effectiveness Audit- an examination to assess whether programmes or projects undertaken to meet established policy goals or objectives have met those aims. Part II of the 1983 Act has included specific provision for these audits, calling them economy, efficiency and effectiveness examinations.

The government budget, in which government accounting is reflected, sets forth the financial programme for the year. Ideally, it should be an integral part of a country's economic plan. Budgeting is increasingly becoming a decision-making process and an

exercise in planning to ensure the effective allocation and application of resources to economic needs and objectives.

2.2.2.3 Accounting in Local Authorities

Local Authorities (LAs), in the U.K., are defined as those local bodies which have the power to raise funds by certain forms of local taxation and are obligated to make annual expenditure. The Central Government has legislative power to control the LAs' returns of income and expenditure (HMSO, 1968, P.306).

LAs in the U.K. have always been required to produce accounts, submit them to audit and public inspection, and to publish an *abstract of accounts*. Prior to 1980, although each authority had flexibility about its format, there was a significant level of uniformity arising from the professional advice of the Chartered Institute of Public Finance and Accounting, to which nearly all LA Treasurers belonged. However, the volume of detail contained in these abstracts was usually enormous, including both objective analysis of expenditure and within that, a subjective analysis. Inevitably these documents had a very small circulation.

In 1981, the Annual Report Code of practice was approved with three main requirements; (i) the report should compare the net spending for each service with the original estimate of spending for the year; (ii) to service statistics should be published, and comparisons with other LAs shown; and (iii) the annual report must

contain narrative information to explain and amplify the accounts and to provide a review of the year.

The external audit of LAs was substantially changed by the Local Government Finance Act 1982. Section II established a body known as the Audit Commission for LAs in England and Wales. The main task of the commission is to appoint the external auditors of LAs. Before the 1982 Act, the responsibility for appointing the external auditor rested with the LA itself. A unique feature of local government auditing (which had been in existence long before the (1982 Act) is the power given to the public to inspect the accounts and all supporting documents, and to make copies. Further, local government electors are given the opportunity to question the auditor of their LA; the elector can also make objections to the accounts (Section 17, 1982 Act.).

A distinguishing aspect of audit in local government is that there is a statutory requirement for each authority to have an internal audit department (Accounts and Audit Regulations, 1974, Para.6). Even before this requirement, many authorities had internal auditors.

The last two developments were intended to improve the quality of the formal accounting information for the code (CIPFA, 1987, P.2), which recommends that:

"Statement of Accounts should be included within the annual report."

The Accounting Code of Practice was developed in response to an initiative of Central Government to

regulate LA accounting formats much more closely. Nowadays, the Capital Accounting Steering Group is developing a new form of accounting for capital assets which will replace the traditional debt charge method.

2.2.3 National Income Accounting

National Income Accounting (NIA) is also known as social accounting, economic accounting, macro accounting, or national (regional) accounting. It is concerned with the application of accounting methodology to macro economic analysis. NIA therefore deals with the aggregate formulation of capital accounts, production accounts, government accounts, household accounts, and rest of the world accounts. In the widest sense, it has been defined as the branch of accounting which is concerned with a measurement of the money value of goods and services becoming available to the nation from economic activities (HMSO, 1968, P.1).

NIA is, indeed, very similar to enterprise accounting. The former shows the economic activities for the nation as a whole, while the latter shows the economic activities of the enterprise. The concept of NIA was first formulated in the seventeenth century by Sir William Petty in England (Studenski, 1958, P.11). The development of NIA since then has advanced to the point of formulating a meaningful concept of national accounts based on reliable statistical techniques.

In 1907 the first official attempt to estimate the domestic product for the NIA was undertaken in Britain by a number of economists (Stone and Stone, 1961, P.153). However, the important evolution of the function of NIA emerged after World War I. In 1940 J. M. Keynes and his followers sought to use NIA as a tool for forecasting and programming future national production.

In general, three kinds of accounts are included within the framework of the NIA in the U.K.: (i) Production account, which records the transactions involved in the production and supply of goods and services; (ii) Consumption account for recording current income and expenditure; (iii) Capital account for recording the use of savings. Estimates for the stocks of physical assets other than land at current replacement cost for each sector of the economy and the book values of stocks of materials are published in the *Blue Book*. Estimates of U.K. external assets and liabilities are published in the annual U.K. balance of payments; estimates on holding of financial assets in certain sectors are published in financial statistics. Input-output statistics are published at irregular intervals. However, U.K. macro accounting has not yet been extended to provide the national and sector balance sheets which are needed to convert the NIA into a comprehensive accounting system. The main obstacle to an industrial companies sector balance sheet at present is the lack of comprehensive data. The only sector balance sheet

published by the Bank of England is the balance sheet for the investment trust companies sector. Needless to say, this is not a complete balance sheet, in that physical assets, for example, are omitted.

The lack of detail in the U.K. National Income Accounts could significantly reduce the analytical value of the national accounts. However, further improvement in data construction and collection might provide the necessary information.

2.3 EVOLUTION OF THE ACCOUNTING SYSTEM IN THE USA

2.3.1 Financial Accounting and Auditing

The legal framework of company financial reporting in the USA has developed along quite different lines from that in the U.K. Although each state has its own Corporation Act, these have never included any accounting regulations, and consequently, until the early 1930s, financial reporting of companies in general was almost completely unregulated. Before passing of the securities Act 1933 and the Securities Exchange Act 1934, *Liberalism* was predominant in the USA (Nobes, 1988, P.68).

The financial accounting and auditing profession in the USA, guided by the influential American Institute of Certified Public Accountants (AICPA), is well organised with standards of education and performance, and a code of conduct which are strictly adhered to. This is felt necessary for a prestigious and high standing profession.

Enthoven (1973a, P.298) argued that Financial accounting (in USA) has been heavily influenced since the 1930s by the legislative of the Securities and Exchange Commission regulations and the AICPA's *generally accepted accounting principles*; the accounting, reporting and disclosure rules and practices, and related auditing standards are exemplary. Auditing is done in accordance with carefully appraised work standards.

2.3.1.1 The Securities and Exchange Commission

Though the USA Federal Securities Acts were modelled after the U.K. Companies Acts (which predated them by almost a century), they are administered quite differently. In 1934, the USA congress created the Securities and Exchange Commission (SEC) as a result of the Senate investigations following the stock market crash of 1929. These investigations revealed the need for laws regulating the stock-trading environment in order to protect the public from the many abuses and illegal acts existing at that time. Therefore, during the 1930s and in the year 1940, Congress passed a series of laws designed to guard the public with respect to securities traded in a national securities exchange. The SEC was established by the Congress as an independent regulatory agency to administer these laws and perform a quasi-judicial function in conjunction with its administrative function.

The SEC, through its administration of the securities laws, has forced USA business firms to reveal their financial affairs in far more detail than was previously the custom. The outcome, which seemed a surprise to the business community in general, seems to be that firms usually found they did not suffer from revealing this information. In this regard, Scott (1968, P.60) argued that:

"national economic development probably has benefited greatly because of the effects of this disclosure on capital markets. Also, the very existence of the SEC seems to be influential in motivating CPAs (Certified Public Accountants) to attempt diligently to clarify accounting principles and narrow the choice between alternative principles."

In addition to gaining an appreciation of the frequency and length of USA financial reporting pronouncements, one must be aware that the policies of the SEC impose a reporting obligation on the corporations subject to its jurisdiction - of which there are some 11,000 - which allows much less flexibility than do the policies of the securities commission in any other country (Zeff, 1989, P.161). Other companies have no compulsory audit or published financial reporting requirements.

However, major USA companies are audited not only because of the SEC and stock exchange requirements, but also because in many instances these companies realise the value of an independent and critical appraisal of their information systems. Additionally, companies

capitalise from the public and, of equal importance, consider Certified Public Accountant's attestations to improve corporate images in the eyes of the public, shareholders, and government.

2.3.1.2 American Professional Accounting Bodies

The profession of public accounting was unknown in the USA until significant amounts of British capital entered American industry in the last half of the nineteenth century. British auditors were sent to provide assurance that the capital was well employed and the results of operations were properly reported, and by the late 1800's several British audit firms had established branch offices in the USA (Scott, 1970, P.113).

The first federal legislation significantly to affect American auditors and other accountants was the Internal Revenue Act of 1913, which has since proved to have been one of the important events in the USA accounting history. Since 1913 the increasing complexity of income tax legislation has been instrumental in creating an enormous demand for accounting services in the USA.

Five major professional accounting associations exist in the USA. These are: (1) the American Institute of Certified Public Accountants; (2) the National Association of Public Accountants; (3) the Financial Executive Institute; (4) the American Accounting Association; and (5) the Federal Government Accountants

Association. The AICPA, established in 1887 as the American Institute of Accountants, is the largest and by far the most influential of these bodies. It became the American Institute of Public Accountants in 1957. Membership is granted to all individuals qualified as CPAs within each state.

The AICPA prepared some documents in 1917 in an attempt to guide the profession for the first time on how an audit should be conducted. The document which was published by the Federal Reserve Board was revised and reissued in 1929, and again in 1936 to encompass some of the new developments in auditing during that period. These documents recognised the income statement as a valuable source of information to investors and helped it gain recognition as a primary financial statement. The AICPA has, also, developed a set of *generally accepted auditing standards* which are recognised throughout the business environment as the standard of the profession.

2.3.2 Evolution of Management Accounting

Since the retailer and merchant were prime users of account records in the late seventeenth and early eighteenth century, one might also wonder about the early American industrialists' use of account data in ventures and barter. In fact, information about early American industrial cost-accounting practices is sparse. Although cost accounting came into evidence only after 1800 and developed during the American industrial

revolution, industrial bookkeeping practice and techniques were of earlier origin.

During the 1850s, many writers began to consider accounts related to factory and production costs. John Fleming's *Bookkeeping by Double Entry*, published in Pittsburgh in 1854, included several changes to reflect cost accounting considerations.

The evolution of accounting in the USA shows a pattern of continually-expanding functions of accountants, especially since World War II. Elementary factory accounting in the USA evolved to sophisticated cost accounting and has now merged with other streams of accounting development to form managerial accounting. Although certainly there have always been ingredients of the managerial philosophy in accounting, managerial accounting as a concept has emerged essentially since world war II and has had a product effect on internal reporting and planning in USA firms (Scott, 1968, P.58).

Managerial accounting may be described as the internal accounting function which emphasises collection and reporting of accounting and statistical information in a manner useful to management for establishing policies, developing plans, and controlling operations. It began to emerge as distinct from cost accounting in the USA as the rationalisation of business activity proceeded. Without any clearly discernible turning point, managers began to expect more managerial

information from internal accounting than that which was gleaned from careful control of production costs.

Cost and managerial accounting in the USA has evolved to the point where USA internal accounting systems and reporting are typically the most sophisticated in the world. Spurred by the respectable National Association of Accountants, the American Accounting Association (AAA) and other institutes, they have been influenced by the vast need for sound accounting information for industrialisation and mass production.

The main objective of the National Association of Accountants is the enhancement of knowledge in the field of financial and managerial accounting. It publishes *Management Accounting* to encourage research in the field of management accounting and promote a better understanding of the nature, purposes and use of accounting in today's business practices.

2.3.2 Government Accounting

2.3.2.1 Evolution of Federal Government Accounting

Perhaps the earliest records of governmental accounts in the USA, can be traced to the explorers who pioneered the American passage, when an early explorer, Henry Hudson, found it part of his duty to provide a rendering of accounts on the third voyage of his ship which reached the lower bay of New York on 3rd September 1609 (Previts & Merino, 1979, P.13).

Over the years, the accounting profession has worked closely with the federal government in solving some of the most complex problems of federal financial management, helping to put into place reforms that have influenced the way the federal government manages its fiscal affairs.

In 1789 one of the first things the Congress did, after the states had ratified the constitution, was to pass the Treasury Act. Alexander Hamilton became the first Secretary of the Treasury. The key features of Hamilton's approach were detailed controls by the Treasury Department and an elaborate system of checks and balances designed to make the theft or misuse of funds impossible without massive collusion.

From 1921 to World War II, Hamilton's approach of highly centralised accounting and detailed auditing continued. Until this time the accounting profession had only sporadic involvement with the federal government. With the revelations that flowed from investigations of the crash of 1929, both the public and the profession began to recognise the shortcoming of commercial accounting practices. This led to the establishment of the SEC and provided an early substantive connection between the federal government and the accounting profession.

It was in the 1930s that CPAs first began participating in the federal government in a significant way. However, by the late 1930s the state of the art of

accounting in the federal sector lagged significantly behind the rapid changes in the sizes and types of government activities and the advancements made in the commercial sector. Federal sector accounting and auditing was preoccupied with activities such as detailed voucher examinations and other detailed verifications.

In order to improve accounting in government, the congress set up the first Hoover commission in 1947, while the second commission was created after six years. Both commissions made recommendations on accounting and budgeting, some of which were included in 1956 legislation, for example the use of cost-based budgeting; the maintenance of accounts on the accrual basis to show resources, liabilities and costs of operations of each agency; and the requirement for monetary property accounting records as an integral part of each agency's accounting system.

The 1960 and 1970s were periods of growth in the federal government. This brought on a great expansion of government activities and federal expenditures, particularly in the domestic area. This expansion, combined with the cost of escalation in the Vietnam War and a continuing trend toward decentralising the responsibility for carrying out the programmes, resulted in an unwieldy government structure that complicated the question of accountability and resulted in a surge of confusion over the costs of managing the federal government.

The shortcomings of the present federal financial management systems are numerous and well documented. Some of the key problems are as follows: (i) Lack of cost information. Although federal government financial reports provide a flood of data, there is little information about the real resources used to carry out programmes and projects. (ii) The highly decentralised structure currently in use was designed to meet the needs of World War II. This decentralised structure and its obsolete computer systems, taken together, cannot provide the information needed by managers and policy officials.

While many of the traditional government accounting practices persist and continue to be susceptible to manipulation and abuse, the recently established Governmental Accounting Standards Boards is the best hope for overcoming these problems.

2.3.2.2 The Role of the General Accounting Office

The USA General Accounting Office (GAO), the largest state audit body in the Western world, was created by the Congress in 1921, after approving the Budget and Accounting Act, to serve the national public auditing agency. Among other responsibilities, the GAO investigate the manner in which government agencies discharge their financial responsibilities with regard to public funds allocated or otherwise made available to them by Congress and make recommendations for economy and efficiency in public spending. The GAO has issued a

specialised set of management auditing standards, known as Standards for Audit of Government Programs, Activities and Functions, to guide independent auditors who are performing audits of government related activities. *Accountability* investigation by the GAO has gained favourable acknowledgement as providing useful *watch-dog* information to congress and society. The Government Corporation Control Act Of 1945 required financial transactions of government corporations to be audited by the GAO. As a result, the GAO established a Corporation Audits Division and staffed it with professional accountants experienced in public practice. This marked a significant change in the relationship between the GAO and the public accounting profession.

The effect of these changes on the GAO was astonishing. In less than 10 years (i) the primary focus had changed from checking the accuracy and legality of individual transactions to establishing principles and reviewing accounting systems and management effectiveness. and (ii) staff had dropped from nearly 15,000 to around 5000, while professional accountants increased from a few to almost 1500.

Since the early 1970s the GAO has stressed the importance of independent reviews of efficiency and effectiveness- the *programme results review*. A 1972 GAO publication entitled *Standards for Audit of Government Organisations* (called the *yellow book*) acknowledged an expanded audit role within the public sector. The yellow

book was updated in 1981 and in 1987. It is required to be followed, by law, by most cabinet-level federal audit organisations and by CPAs who audit federal assistance programmes. The standards, which provide for expanded scope auditing in government, help ensure full accountability and assist government officials and employees in carrying out their responsibilities.

In 1976, and each year thereafter, the GAO and other interested parties from the private and public sectors have assisted the Department of Treasury in the development of prototype consolidated financial statements of the federal government.

Two other agencies also contribute to the function of financial management and control. The Fiscal Service of the Treasury provides facilities for the receipt and payment of public moneys and is also responsible for preparing the consolidated accounts of the federal government. The Office of Management and the Budget is responsible for the supervision, control and administration of the budget and financial programme of the Government.

Increasingly, the Management Office is becoming the major influence in federal government accounting. As Cate, G. M. states :

"... GAO is in many respects an accounting translation of The Office of Management and the Budget policy and procedures." (Cate, Winter 1978-79, P.5)

2.3.3.3 Evolution of Budgeting in the USA

Novick states that in the USA, examples of the use of management tools of the programme budgeting type being used in industry can be traced back to the 1920s or earlier. However, it seems to be generally agreed that most of the impetus for the development of Planning Programming Budgeting System (PPBS) as an operational system capable of being used by public sector bodies stems from its adoption in 1961 by the USA Department of Defence. Its use was extended to all departments of the federal government by President Johnson in 1965. It was implemented, or at least experimented with, by many state and local governments, both in the USA and the U.K. PPBS was seen as a solution to the frustrations and problems caused by traditional approaches to budgeting. By the mid-1970s, the PPBS had been abandoned by the USA federal government and also by many of the other organisations that had introduced it.

The first known application of Zero-Base Budgeting (ZBB) was by the USA Department of Agriculture in 1921. Since 1970, much attention has been focused on ZBB, largely due to the publicity surrounding its most celebrated advocate, Jimmy Carter, initially as Governor of the state of Georgia, where ZBB was introduced in 1973, and then as president of the USA. The decade of the 1970s saw major developments in the budgeting arena. For example, the legislative Reorganisation Act of 1970 and the Congressional Budget

and Impoundment Act of 1974 altered the way in which Congress played its part in federal financial management.

2.3.3.4 Municipal Accounting

Linda Kistler's studies of municipal accounting in the Plymouth colony indicate that annual reports of the audit committee of that colony commenced in 1658. As early as 1878 and 1879, the states of Minnesota and Massachusetts enacted legislation that affected county administrations, specifying activities that would enhance the efficiency with which county officials fulfilled their duties. The Minnesota act provided for the appointment of a state examiner, who was to be named by the governor and should be a skilled accountant. The most important feature in the Massachusetts act was the establishment of the office of Controller of County Accounts.

The influence of these early precedents trickled down to the municipal level and served to define the duties of appropriate officials. Although it was uncommon for cities to issue financial reports prior to the twentieth century, certain examples, notably in the cities of Boston and Milwaukee, do exist for years prior to the turn of the century.

An early American treatise on the subject of governmental accounting, a booklet entitled *Public Accounts*, was written in 1878 by E. S. Mills (Potts, 1976 P.47). Mills's scheme presented an early systematic attempt to deal with the perceived problems of municipal

accounting. Not until after the turn of the century was a comprehensive municipal system, including budgetary accounts, developed.

In the early 1960s, the Municipal Finance Officers Association had asserted its authority in the government accounting area through a document entitled *Governmental Accounting, Auditing and Financial Reporting*. In the late 1960s, the AAA sponsored a series of committees to study the need for developments related to reporting and disclosure in the area. In 1974 the National Council on Governmental Accounting was formed to replace the ad hoc National Committee on Governmental Accounting.

2.3.4 National Income Accounting

According to O'Laughlin (1971, P.3),

"The term (National Accounts) is used to describe a body of statistics which includes social accounting, input-output analysis, flow of funds analysis, and national balance sheets. Social accounting can be briefly defined as the analysis of transactions between the main economic entities: households, businesses, government, and foreigners..."

National accounting provides the information necessary to monitor the progress of the economy and plays an essential role in the formulation of economic policy. It includes five main elements:

1. National Income Accounts (NIAs),
2. balance of payments,
3. flow of funds,

4. national balance sheet, and
5. input-output tables.

The most popular of the five elements are the NIAs. These have evolved from merely an account of the wealth of noble families to become systematic accounts and tables of the wealth of a nation. The many possible uses of NIAs have led to different countries and writers using them for different purposes. The use for socio-economic development planning might be considered as the most popular use, especially in developing countries.

National accounting has two objectives: firstly to present a description of the economy in statistical terms in the form of a pattern of accounts and tables; and secondly to guide the use of these systems of measurement for planning and policy purposes (Ibid, P.7).

Originally, NIAs were developed to compare the wealth and power of individuals of substance in terms of their annual income (Studenski, 1958, P.11). They were not designed to provide information or data relevant to the economy as a whole. For almost 500 years, the subject of NIAs was confined to discussion by academicians for the purpose of building tables of figures showing the total income of individuals of a given country (Ruggles & Ruggles, 1968, P.7).

In the USA, the initial estimates were made in 1843 by Professor George Tucker, a former congressman, and a leading economist. Since then, there were no other estimates of USA national income until 1896, when

Charles Spahr made the attempt. Spahr was concerned with the inequality of income distribution and whether it was widening or narrowing.

The USA began making official estimates and turned the job over to the Department of Commerce in 1934, in response to Senate Resolution Number 220 of the 72nd Congress (1932) which had requested the Secretary of Commerce to prepare a report on USA national income for the period 1929-1931. Prior to this event, the private National Bureau of Economic Research (NBER) bore the burden, having first published national income material in 1921.

The national income and product account was developed in the USA by the National Income Division (NID) of the Department of Commerce. Three events signalled the increasing recognition and stature of the NID. *First*, in 1955 the NBER devoted an entire conference to the official NID system of computing national income. *Second*, the Bureau of the Budget established the National Accounts Review Committee through the medium of the NBER, to report upon the condition of all USA social accounting and to present recommendations for improvement. Since national income work is much better developed than input-output, flow of funds, and other social accounting, it received the greatest amount of attention. In conjunction with the Committee's report, a congressional hearing on the results was held in October 1957 - truly the apotheosis

of all national income endeavours. *Third*, the NID itself published another of its occasional reports on the status of its system - they have appeared every three years since 1947 - reflecting perhaps even greater sensitivity than ever before to the growing importance of its work.

Most objections to the NID system of sector accounting fall into two categories: (1) the accounts are unnecessary and possibly confusing; (2) the accounts should be extended, reduced, or revamped to serve new purposes. However, in the early 1960s, the NID eliminated the business sector as a separate entity.

2.4 ANALYSIS OF THE U.K. AND USA ACCOUNTING SYSTEMS

One particular evolutionary pattern which is common to most developed countries is the historical emphasis on external financial reporting (Scott, 1970, P.87). An analysis of the U.K. and USA accounting and auditing standards reveals that they strongly emphasise the accounting needs of private enterprises and even here the emphasis is on external reporting, i.e. financial statements and external audit (Briston, 1978, P.106).

Briston & Russell (1985) pointed out that far too much attention is paid to external financial reporting within the context of a very broad stock exchange. They added that even the word *accounting* is commonly interpreted to refer only to that narrow area, with the result that most books which claim to relate to

accounting theory consider only external financial reporting. There is a similar bias in the field of research, where a great deal of activity has been devoted to analysing the links between external reports and share prices. The field of international accounting has also suffered from this bias. The very subject of international accounting is defined by most academics to refer predominantly to the context of published company accounts in various part of the world.

The accounting and auditing standards in the U.K. and USA are concerned only with the problems of corporate reporting and of auditing annual statements, while the information needs of managers, of the government administration sector and of government planners are not regarded as the concern of accountants.

In the U.K., accounting and auditing have been defined narrowly, accounting being regarded primarily as financial accounting, with its main emphasis on external reporting to investors. In the same way, external auditing has been predominant over internal auditing. It should be recognised that an emphasis upon external financial reporting and external auditing, especially with the flexibility with which those functions are performed under the U.K. and USA systems, is an expensive luxury. What is more important is to ensure that data are available for management for making, implementing and controlling decisions, for it is surely more important to ensure that the correct decisions are

taken and that they are implemented satisfactorily, than it is to provide the luxury of external audit.

The need, therefore, is for management accountants and bookkeepers in the first place and then for the audit function to be based upon internal rather than external audit, and upon efficiency audit rather than compliance. This would involve a considerable change in the emphasis of training of accountants to concentrate upon management accounting rather than financial accounting, upon economics rather than law, upon responsibility to the public rather than to shareholders, and upon efficiency in the use of resources, rather than being satisfied with the correct recording of the results of poor decisions (Ibid).

A related advantage claimed for the USA system is that, because it is funded by Congress, it serves the general public rather than private persons or groups. A private agency, such as the (London) Stock Exchange, critics claim, rather will serve the Exchange members and related parties. Not only may a private agency cover up these insiders' wrong-doings, but it may also prevent outsiders from competing with its constituency.

It is clear that accountancy in the U.K. and USA does not satisfy the need and the role expected, primarily because it has been distorted by historical factors, with the result that it has concentrated almost entirely upon the enterprise sector, and even there the emphasis has been upon financial accounting and auditing

to the virtual exclusion of management accounting. Furthermore, a close relationship between micro- and macro accounting is lacking. In effect, the policy-making bodies have never intended to establish this connection.

From the above discussion, the following are the main features of the U.K. and USA accounting systems:

- (1) Accounting is regarded as mainly concerned with shareholders' needs, whereas the needs of other important parties are either given little attention or totally ignored.
- (2) Accounting is mainly concerned with financial reporting and external auditing. Other areas of accounting are given less attention.
- (3) Management is given considerable flexibility to decide on accounting methods and procedures,
- (4) The accounting profession is given the upper hand in running and shaping the accounting system.
- (5) Legal requirements tend to be very weak and are mainly restricted to the areas of financial reporting.
- (6) Central planning and control are not regarded as important influences on accounting theory and practice.

The above main features of the Western accounting system seem far away from the accounting needs of developing countries. They are not feasible, acceptable or practical in the developing countries' environment (this will be the main debate of the next and the last section of this chapter).

2.5 THE IRRELEVANCE OF WESTERN ACCOUNTING SYSTEM TO DEVELOPING COUNTRIES

Many writers argue that the introduction of the U.K./USA system of accounting would encourage the development of a strong capital market (which to most writers is synonymous with a flourishing stock exchange) and would make foreign companies and institutions more prepared to invest in the country concerned (Briston, 1986, PP.21- 26). The promulgation and enforcement of strict disclosure requirements in developing countries would probably have a decidedly favourable effect on their investment processes. In addition to providing investors with more information and thereby assisting capital allocation, *full disclosure* would help expand the capital markets of developing countries by attracting additional investors (Scott, 1970, P.123).

However, Enthoven, (1973a, P.297) argued that, although the historical development process in Western countries contains valuable lessons, it would be a serious error to assume that accounting in these countries is, and has been, sound and beneficial for

the enhancement of economic development, and that the adoption of such systems, fundamentals and practices is the solution to accounting problems in developing countries. However, notwithstanding that overall methods and practices in developed countries present a far from ideal accounting system, they contain interesting elements which are worth exploring for emerging nations.

However, we find that in the developed countries greater stress has been placed on accounting to conform to reporting and certification demands in accordance with certain rules, than on making it a system that is serviceably functional to various managerial and economic objectives. Accounting has not yet been effectively interrelated with its socio-economic environment. Accounting needs tend to be greatest in the areas of planning (enterprise, governmental and economic) and rational decision-making than in those of conventional financial accounting and auditing (stewardship accounting).

The requirements of capital markets have been a major factor for increased disclosure in financial statement in developed countries. Therefore, the accounting principles and practices developed in the U.K. and USA are those appropriate for countries with a large private sector and a well-developed capital market. Financial reporting and capital market activity in those

countries are so closely related that they have become interdependent (Barrett, 1977).

In conclusion, it would be very wrong to say that the U.K./ USA accounting system should necessarily be applied in developing countries. There may well be a conflict of interests between the professional accounting bodies and the information requirements for assessing company efficiency, and over-concentration on financial reporting and external auditing may not serve micro and macro level needs. It could be argued that the system pays insufficient attention to economic development and integration between the micro and macro levels. Hence, it would be unsuitable for developing countries to adopt this system. Briston (1986, P.30) pointed out that the U.K./USA accounting system does not fit the needs of developing countries. He argued:

"However, that system suffers from two major defects. In the first place, it takes a very narrow view of accounting, emphasising as it does, financial reporting and external auditing to the virtual exclusion of public sector accounting, national accounting, internal auditing, and accounting for decision-making. In the second place, it evolved in the environment of a free market, capitalist society in which the stock exchange was seen as a major allocator of capital resources. This environment has barely persisted in the U.K. and certainly bears little relevance to that found in developing countries, where there tends to be more government ownership and far less reliance upon a stock exchange."

The analysis of the U.K. and USA accounting practices reveals that external reporting has tended to

be emphasised to the detriment of the other areas of accounting (Scott, 1968). This probably stems from the dominant position of auditors among accountants in the early stages (Edey & Panitpakdi, 1956). The relatively low status given to government accounting in the U.K. has further encouraged the dominance of private sector auditing. In the early stages, management accounting was very much in its infancy, and its subsequent evolution was distorted by the bias towards the provision of information for the annual report, as opposed to a concern for the needs of managers for decision-making process (Pollard, 1968, PP.245-290). This situation has led to doubts about the competence of the Western style of accounting to satisfy the information needs of developing countries.

There is certainly no evidence that U.K./USA accounting and auditing are a good use of resources in an economy. They may be the last thing that a developing country needs. Similarly, it is not clear that U.K./USA commercial accounting is suitable for governments in developing countries. Thus, there is a strong question mark over the appropriateness of the governmental accounting in developed countries. In any case, it has been demonstrated that the kind of financial information provided by the accounting principles and techniques adopted in Western countries is not sensitive to the change in efficiency of enterprises (Chambers, 1973). This is important because in the case of developing

countries in general, accurate indicators of financial performance of enterprises are essential for effective planning and control purposes. As Scott points out,

"...developing nations should adopt organisations of accounting which consist of adoptions of modern ways to the special conditions of today's developing nations."
(Scott, 1968, P.64)

The fundamental failure in the attempt to improve the quality of accounting in developing countries is the assumption that the U.K./USA system is not only the best system for developed countries but also the most appropriate for other countries, whatever their stage of development.

The information needs of a developing country are very different from those of the U.K. or the USA and there is very little skilled manpower available to satisfy those needs.

In the light of the above argument, one can conclude that some of the developing countries which have adopted the U.K./USA accounting system face a real dilemma because it is not suited to their own society and economy. This situation has been realised by some of these countries in recent years, so their orientation has been toward more emphasis on projectional and analytical accounting data which reflect socio-economic relationships and attends the purposes of planning, control, and decision-making in both the micro and macro levels. These data may be provided when a uniform accounting system is applied.

Those important points as stated above are very relevant to be considered and deliberated in an attempt to improve accounting systems in developing countries, including Jordan, and integrate the various branches of accounting (enterprise, governmental and national accounting) to enhance economic development.

CHAPTER THREE

ACCOUNTING FOR ECONOMIC DEVELOPMENT IN DEVELOPING COUNTRIES

3.1 INTRODUCTION

Accounting and economics have a long history. Their relationship goes back to the prehistory of economics and, perhaps, to the origins of accounting as well (Ross, 1983, P.375). Ross argued that, it is not unfair to say that much of modern economics has its origins in accounting. Modern macro economics began with Keynes' work between the two world wars, but economists are not always aware of the debt that this work owes to accounting.

Historically, accounting has been inductive and technically oriented. However, a greater realisation has emerged that the discipline serves an effective function in the economic framework. Accounting has taken on a scientific approach, involving a deductive-normative methodology. Instead of accounting being merely quantitatively and procedurally accurate and objective, the stress is now on relevance and reliability of information for economic analysis and decision-making. Accounting is developing in a multidisciplinary direction, based on micro and macro economic structures and process.

The concept of accountancy or accounting , according to Enthoven (1981, P.11),

"...might now be so far extended as to qualify for the description of the recording, processing, classifying, evaluating, interpreting, and supplying of economic-financial information for statement presentation and decision-making purposes."

This chapter attempts to explain, for the benefit of developing countries, an integrated approach to the interaction of accounting with economic concepts and analysis, providing a stimulus for accelerated economic development.

The chapter comprises five main sections. The first remarks the need for accounting in developing countries. The second outlines the relationship between accounting and economic development, while the third highlights the significant role of accounting techniques in the development process. The fourth section of the chapter infers the necessity to economic development of an integrated accounting system. The last section of this chapter will deal with the arguments voiced against implementing a uniform accounting system in developing countries.

3.2 THE NEED FOR ACCOUNTING IN DEVELOPING COUNTRIES

Before examining the developing countries' need for accounting, it is important to explain the meaning given to the term *developing countries* for the purpose of this discussion, as it is capable of being defined in a variety of different ways. The countries referred to here are defined simply as countries which have low levels of economic and accounting development and which are seriously attempting to develop economically (Scott, 1968, P.52).

In most countries of the world, the economies are either stagnant or in transition towards economic progress. Accounting and auditing tend to be very introductory in many of these countries. Above all, it is the developing countries of the world, which are most in need of fundamental accounting approach within their economic structures.

Although the developing countries share certain common characteristics, they are not a homogeneous group in terms of their levels of accounting development. For example, while some countries have well-established accounting professions, there are others which do not even have a professional organisation for accountants.

An examination of the accounting development patterns of most developing countries, including Jordan, reveals that they have had little opportunity to evolve accounting systems which would truly reflect the local needs and circumstances. Their existing systems are largely extensions of those developed in other countries, mainly the U.K. and USA. These systems were imposed either through colonial influence or by powerful investors or multinational corporations (Perera, 1980, 1989; Chandler & Holzer, 1984). In addition, international accounting firms have also been an important vehicle for transferring Western-style accounting to developing countries (Briston, 1978, PP.110-111). In short, 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 (Perera, 1989, PP.141-142).

One important attribute common to most developing countries is that the available natural and human resources are not efficiently gathered and put to production- maximising use. Thus Scott (1968, PP.53-56) pointed out how accounting is needed to gather and organise the resources necessary for economic development in developing countries.

He added 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 of 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." (Scott, 1968, P.55)

Accurate economic information is necessary for every nation, certainly as necessary for developing as for developed countries, and since accounting statements, drawn up in the right way, cover the entire field of economic analysis, this necessity is felt throughout the economy. 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 most accurately serve these economic needs.

In broader terms, Enthoven (1965a, P.31) argued 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.

Finally, the developing countries have a great need to attract new industries, and international organisations such as the World Bank and International Finance Cooperation (IFC) already assist extensively in loan and equity financing in such countries. For such project preparation and appraisal, the need for qualified accountants is great. Accounting information is generally lacking at all levels in such countries, sometimes resulting in inadequate or misdirected investments.

3.3 ACCOUNTING FOR ECONOMIC DEVELOPMENT

It seems desirable, In this section, to evaluate the relationship which exists between economic development and accounting in its widest sense, and the impact that the accounting approach can have in accelerating the economic development which the developing countries so urgently require.

Accounting and economics have much in common, using similar tools and techniques to assist the analysis and interpretation of data for the benefit of economic development. This relationship has been realised by many eminent academics in both the accounting and the economic fields. Enthoven (1965b, P.216) has argued that:

" Accountants will have to become more aware of the economic meaning and use of accountancy than before, and should be equipped to assist in economic analysis and programming. The role of accountancy in the future might well extend itself to the whole economic sphere, and proper accounting information might even create something of a revolution in our economic thinking and policies. One thing at any rate is sure: a greater exposure of accountants to economic realities, and conversely a better insight by economists into the nature of accountancy, are among the urgent needs of world economic development."

This view is in line with that of Morgenstern (1963, P.70) who stated that business accounts may be considered the single most important source of information reflecting the economic activity of a country. Nevertheless, the relationship between accounting and economics needs to become still closer,

because the two disciplines study the same material and contribute a great deal to economic development.

In recent years, accounting and economics have moved closer to each other in many respects. They are both interested in forecasting the future consequences of decisions and gathering information accordingly, to aid decision-making at both micro and macro levels. Therefore, it can reasonably be argued that accounting has contributed to economics by providing data and knowledge relating to economic operations, and increased cooperation between the disciplines is needed for future economic development.

3.3.1 Accounting for Macro Economics

Whether for an individual organisation or for a nation, accounting is the coherent assembly of economic data so as to understand the past and plan for the future. The form of assembly may differ somewhat, but the principle is the same.

Here we consider the relationship between macro economics and macro accounting. If the government wishes to examine and control the economy, it needs information. Accountants, however, do not produce usually information for economists, but rather for management and micro economists. By modifying this information, however, it should be possible to obtain some picture of the state of the economy. This information may be in a statistical or financial form. An economist will use the information from whatever sources it is available.

The aim of macro (national) accounting is to describe the structure of the economic system in terms of transactions. Thus information obtained in the national accounts and related statistical aggregates fulfils more than a pure recording function. It is also the basis on which decisions can be made in the field of fiscal and monetary policy, international trade and general economic policy, and also will serve those concerned with drawing up projections about the course of the economy.

The importance of accurate financial data in the preparation of national accounts is obvious, and in highly developed countries good accounting practices play an important part in making such data available. It is the lack of those basic financial data that makes the compilation of national accounting data one of the most difficult statistical problems faced by developing countries. Accordingly, the cooperation between the economist and accountant in such countries should be very close. The accountant's function in national accounting is not only to secure better information from the basic economic units and to assess the analysis, classification, and description of the accounts, but above all to look at the financial data, not in isolation, but against the background of the entire economy. Accountants should be concerned that the information gathered on inventory valuation, depreciation, and capital goods is genuinely related to the realities of the national economy.

So far as developing countries are concerned, the balance of payments account considerably influences a nation's economic development, and therefore requires a careful analysis and accurate information for measuring the costs and benefits of foreign investment, exchange rates, imports, exports, tariff policy, and government subsidies. Shadow prices would be the preferable device for such analysis.

It has been suggested by Enthoven (1969a, P.22) that:

"macro accounting could play a role in helping to bridge the gap between economics and accounting and thus in offering accounting scope to make a contribution toward macro-economic policy."

Lubbert (1965, P.57) in demonstrating how accounting data would be useful for macro accounting purposes indicated that the National Income and Product Account

"can be derived conceptually by a consolidation of the profit and loss statements of all economic units that participate in creating the national product."

To be useful for macro accounting purposes, the micro accounting data must reflect the economic realities of the economy.

3.3.2 Accounting for Micro Economics

Economists have long been aware of the usefulness of accounting data and techniques. Even in the early days, economists, such as Adam Smith, David Ricardo, and Alfred Marshall, employed or referred to accounting in their writings. Furthermore, the extensive use of accounting

data in testing the validity of the theory of the firm indicates clearly the economist's interest in verifying his micro economic model. In addition to the traditional use of flow accounts, the application of the balance sheet approach to economic analysis shows further evidence of continuous efforts exercised by economists in utilising accounting data and other empirical studies that micro economic analysis is becoming a useful tool in the business world (Yu, 1966, PP.10-11).

Here we study micro economics, using a micro accounting system. The intention is to show how accounting can provide information to aid the firm and to help management to make better decisions, and to encourage investors to continue and increase their investment with the firm.

The relationship between accounting and economics seems more clear in the field of managerial economics, which explains how management can take economic decisions for the company. Micro accounting must supply information for micro economic purposes and the quality of the decision-making depends upon the quality of this information.

Accounting in the private sector has an important role to play in gathering, organising and measuring the efficiency of the utilisation of economic resources in order to maximise profits and wealth. Accounting also provides the information needed by managers for decision-making and efficient operation. The use of financial

management techniques, such as the discounted cash flow model, may facilitate comparisons between alternative investment opportunities.

At the micro level, the accounting function in developing countries should not be limited to a stewardship and reporting role, but should include all related aspects of operating decisions such as income measurement and budgeting and forecasting (Samuels & Piper, 1985, P.141).

One difficulty in many developing countries is the lack of adequate and reliable information upon which to base decisions concerning the allocation of scarce resources. Apart from this problem, which receives considerable attention later on, the role of accounting practice and techniques in the development process are discussed in the following section.

3.4 ACCOUNTING TECHNIQUES IN THE DEVELOPMENT PROCESS

Accounting has long been viewed as a normal ingredient of the already developed economy, but its contribution to the growth of a developing economy has been less widely recognised. The accounting function was described long ago by an economist as a process which makes possible the rational direction of economic activity (Mitchell, 1913). However, despite this early observation, the potential of accounting as a useful contributor to the process of economic development was

generally ignored and largely unexplored by both accountants and economists for a long period of time.

In the majority of developing countries, there is a lack of awareness of the potential significant role that accounting could play in the economic development process. This lack of awareness is considered by Scott (1970, P.1) to be due to the fact that:

"... development economists are not aware of the importance of accounting to economic development; or that accounting is thought to be in some sense *given* in that it is considered unalterable, or is assumed to be either adequate, or will be adequately elicited as development proceeds."

Since the beginning of the 1960's, the subject has regained increasing importance, particularly in the accounting literature (Winjum, 1971). In this regard Enthoven states his expectation:

"It may be beneficial for many countries to systematically examine the ways and means by which accountancy- as an effective economic device- could be more implemented in stimulating growth and development." (Enthoven, 1976a, P.138)

The accountant's function in development, whether in the private or the public sector should, however, not be limited to what might be called technical improvements in business methods. A brief look at the interdependency between economics and accounting will help to clarify the greater role accountancy could and should play in the process of economic development. Thus, Enthoven (1965b,

P.215) argued that accounting can be considered a tool of economic thought, but with its own set of rules.

Since accounting is concerned with the financial consequences of economic activities, the relationship between accounting and economic development revolves mainly around those aspects of the development process which are of a financial nature. The major areas of economic development where accounting information is of particular importance in a developing country are macro and micro economic planning, controlling of development plans, capital formation and taxation.

However, the essential questions that this section attempts to answer are: what are the significance and function of accounting and techniques in the process of economic development at the macro and micro levels?

3.4.1 Macro Economic Planning

Most countries require some form of economic planning or programming to allocate effectively and efficiently human, financial and material resources.

In the past, accountants have not been involved in the planning process at the macro level. Planning at this level has been left to economists. However, by his experience in the business world, the accountant is uniquely qualified to assist government in all stages of the planning process. Traditionally, he has participated mainly at the project level in the private sector. Elliott (1972, P.92) argued that the accountant should

extend his scope and become involved at the sectoral and aggregate levels of the planning process.

Accountants and economists share an interest in various tools or techniques. These assist the analysis and interpretation of data for the benefit of the national economy and include project appraisal, financial ratios, cost-benefit analysis, input-output analysis and budgeting. For these techniques to be used, the accountant must be thoroughly acquainted with them, and should understand how economists may use their results. The techniques should be used as far as possible in standardised ways and this will assist interpretation.

Developing countries are increasingly finding that, in the effort to allocate efficiently scarce human, financial, and other economic resources, some form of economic planning essential. One of the key components in the economic planning process is the accounting profession. The role of accounting is to generate sufficient investor confidence to stimulate the flow of capital and to help ensure the continued efficient use of the accumulated capital, to provide management with information for decision-making purposes, and to facilitate the government's role in levying tax and in planning, allocating, and controlling public sector resources.

In the developing countries, the only way planning can be made effective is through the availability of adequate information to the central planning body. If

there is inadequate information, then the proper decisions for the good of the people, will not be made. Moreover, evaluation of the results of planning can come only through reporting, that is, through accounting defined in a broad sense (Linowes, 1969, P.18).

According to Mirghani (1982, P.60):

"one of the stumbling blocks to effective development planning in developing countries is the unavailability of reliable information or the unreliability of available information."

Effective economic planning needs a comprehensive and analytical framework of social (or national) accounts data, and preferably input-output tables derived therefrom. If such social accounts and interindustry data are to be effective, the underlying accountancy information that is available in private and public sector must be both truthful and economically useful.

Accounting systems and accountants contribute in all phases of the planning model - planning, implementation, and control - since the initial stages of national development planning begin in the small work units within the society represented by national companies, organisations, establishments, and departments. These units collect, process, interpret, and report the data.

Some form of economic planning with which to effectively allocate scarce human, financial and material resources is desirable to enhance the economic growth and development of the developing countries. Such planning should cover macro economic aspects and the appraisals

necessary in the micro sphere, thus covering the project cycle. This planning process, of a preparatory evaluation and decision-making nature, warrants alternative measurements and evaluations for the priority determination of resources; it is future-orientated and generally based on a series of goals and means. Within this planning activity, sound data and measurements are necessary, including accounting tools and techniques such as: project return measurement; financial balance sheet and income statement preparation; source and application of funds statements; cost studies; systems of control; etc. Accounting information and procedures also play a major role in planning tools such as capital coefficients, input-output analysis and shadow prices.

(i) *Capital coefficient.* These reflect the relationship between capital formation (investment) and the resulting annual growth of the real national product. They serve as a guide for economic policy. In computing gross net or marginal capital coefficients, the composition and value of such items as fixed assets, inventories and output are of vital concern and standardised method are desirable.

(ii) *Input-output analysis.* This is considered here since dynamic input-output models form an important element of planning. Dynamic models reflect cost inputs and outputs on a standardised basis, preferably applying current value criteria. Enthoven (1969b, P.28) argued that:

"An input-output system gives a more dynamic idea of the economy, and although these tables are hard to prepare - above all in developing countries - they play a vital role in development planning. The accounting information derived from business activities is at the core of such matrix, and especially with the application of input-output coefficients current or prospective eco-accountancy values have to be reflected. These coefficients help determine the requirements of prospective projects."

(iii) *Shadow prices.* These are the values of production factors under conditions in which a market equilibrium could exist and investment plans could be executed. These shadow or accounting prices portray society's preference for, and the relative scarcity of, factors of production. They constitute an important tool in framing a development plan. Accounting can supply more standardised information on the values of these factors of production.

Deficiencies in measurement and inconsistent or non-standardised data used as input for these tools may have serious economic implications.

3.4.2 Micro Economic Planning

Every economic plan consists of a series of projects which require the compilation of information relating to the production of specific goods and services. The feasibility and justifiability of such projects must be appraised because they are the building blocks for the development plan. There is, thus, a continuous dialogue between the micro and macro phases.

A major task in micro planning in the effective identification, formulation, evaluation, selection and implementation of projects. The macro economic sector is able to provide indications of project potentialities by means of national income and product accounts, inter-industry tables, trade statistics, marketing studies and preliminary cost-benefit calculations, but detailed information on the project itself must be assembled, measured and evaluated in terms of priorities and possible alternatives, taking into account wherever feasible the direct and indirect, and secondary, benefits and costs.

Micro economics covers the evaluation and selection of specific projects to be included in the sectors and regions. The principal types of accounting-oriented data needed for micro economics are: detailed enterprise accounting information for project appraisals, involving reliable cost accounting measurements in addition to comprehensive financial accounting data. The integrity and reliability of the data generated by the micro phase profoundly affect the more aggregate phases, as the information for previous phases is largely built up from micro data, or at least should make more effective use of information from micro activities, assuming these data are realistic and comprehensive.

In this regard Enthoven (1973b; 1976b) argued that the most rational basis for project decision-making is sought. Project appraisal requires extensive present and

future data and direct and indirect qualifications and measurements. Extensive cost-benefit calculations and evaluations are incorporated in the decision model, which requires information that is economically realistic, comprehensive and standardised.

To investigate the project from all aspects, the need for experts in many fields becomes apparent. The cooperation of economists and accountants is of utmost importance, because they are in a unique position to understand the methods and techniques used in the accumulation of the information. They are also able to examine and analyse the data, not as related to feasibility and profitability of the project itself, but as they fit into the overall development plan of the country. It is unfortunate that the supply of skilled economists and accountants in the developing countries is limited.

The economic aspect of project appraisal involves the question of priorities in the economy. The analysis of the economy provides reasonable estimates of the general level of future requirements for goods and services, and thus indications of the relative priorities of various projects are indicated. This aspect also involves the justification of the use of scarce resources needed for economic development, such as investment capital, managerial talent, skilled labour, and the like. This aspect also requires the study of the market demand

for the goods and services to be provided by the project (Abdeen, 1980, P.145).

The first indication of economic justification of a project can be determined by calculating its commercial profitability and by finding the effect of the project on the balance of payments of the country. The latter aspect is very important in a country that suffers from shortages of foreign exchange. The determination of commercial profitability involves the application of accounting techniques and principles to arrive at the annual net income from the operations, often referred to as the accounting income. Once the estimated annual accounting income over the life of the project is determined, then the accounting methods for evaluation of investment in projects can be utilised. These methods are the payback period, the average return on investment, the present-value method, and the discounted cash-flow method. The discounted cash-flow method is more promising than the other methods, which are considered to be crude approximations of the profitability of investments (Alfred & Evans, 1971, P.2).

Cost-benefit analysis or cost effectiveness in government, resembles profit maximisation for the business firm. It is important that all the benefits and the cost of a programme or project be taken into account. The cost, benefit, and investment return data are also used for the social accounts and other feasibility studies, and these micro- data assist in portraying

alternative development models. Erroneous or unrealistic cost and benefit information may cause unwise investments and investment fund allocation.

Accounting practices and techniques play, then, an important role in project planning. This role is extended further to managerial control and decision-making aspects of the operations to follow. The acceleration of economic growth depends on the success of these planned projects.

3.4.3 Controlling of Development Plans

Accountancy can be seen from two viewpoints. It provides information for controlling purposes, as it provides information for planning purposes. Accountancy could provide measurement and control tools for economic development at the enterprise level and for the economy as a whole. It provides essential keys both to the measurement of what resources are available and to control of their use.

Accounting information should serve planning and control purposes for both macro and micro levels in the case of the public sector. Accurate and reliable information is necessary for the successful planning and controlling of economic activities in both developing and developed countries.

At the macro level the increasing entrepreneurial role played by governments of developing countries at local and national level creates more demand for adequate information, not only for planning purposes, but also for

controlling the economy as a whole. All governments' economic development activities should be based on well-informed decision-making. This again emphasises the role of accounting in assisting decision-makers to arrive at sound decisions. From the government's point of view, information about the total financial resources committed to its business enterprises, and how efficiently those resources are being used, is of paramount importance in controlling their activities.

If management is unable to control cost increases, the profit margin will be reduced; if as a result, the prices are raised, the enterprise may lose its competitive position and the markets for its products fall away, resulting again in a reduction of profits.

Once a decision is reached on the projects, another issue is important to economic development, namely, the control of expenditure for completing the projects, as well as future operations. Without this control, there is no way to assess the efficiency of planning and the professional quality of the officials making the decisions. Comparing the estimated data of the appraised projects with the actual data is essential to the determination of the profitability of the operations and the assessment of the quality and efficiency of management (Abdeen, 1980, P.157).

A prerequisite for effective plan monitoring, no matter how well-conceived the plan might have been, is an information system that is capable of generating reliable

information, within a prescribed time, about the major indicators needed for plan monitoring. The information generated by the information system is very valuable for judging the progress being made in the realisation of the development plan and for making revisions that would make the plan's targets more achievable.

The planned objectives cannot be achieved unless there is an elaborate monitoring and control system which should involve a formal budgetary control system. Thus, attention should be given to the comparison of actual results and those budgeted as a prima facie indication of good or poor performance, depending on whether it is favourable or unfavourable.

As regards control, budgets provide a major vehicle for this by establishing standards and measuring management performance, so that relevant decisions may be taken in order to bridge the gap between target and performance. Therefore, the budget can be seen as an integrated system for planning and controlling economic resources.

The major obstacle to effective monitoring of development projects' construction is that no attention is given to the design of accounting systems to become operational simultaneously with the implementation of the project. The accounting systems of development projects should have a built-in capability of generating the information needed to monitor effectively the construction of the particular development project and

also needed to monitor the construction of the development projects at the macro level. Furthermore, the accounting systems of development projects should be capable of generating the types of information that would enable the managements of the development projects to plan and control the resources at their disposal effectively. The absence of accounting systems for planning and control makes the chances of survival of even the most successfully completed development projects, very slim (Mirghani, 1979, P.98).

3.4.4 Capital Formation

The availability, formation and use of capital are important factors in the economic growth and development process (Enthoven, 1976b; 1981). Reinvestment and distribution of profits in the business sector, and saving in the household and government sectors' budget, can loom large in any consideration of capital formation. Government policies can stimulate the generation of capital at all levels; when private funds are not being channelled in productive directions, it might be necessary to resort to enforced savings. Deficit financing is another form of capital financing but may lead to rampant inflation. Capital formation may be stunted if no viable projects present themselves; funds may then flow abroad, although such an outflow can be curbed by restrictive policies or reasonable taxation.

An important task in economic growth and development is to attain a high rate of accumulation of capital, i.e. capital formation. Capital formation means that part of the goods and services are not being consumed; it is a result of having weighed-off present consumption and investment (savings), involving a short-term or long-term decision. As it inevitably restricts the resources available for current consumption, capital formation is a painful process, especially for developing countries.

Capital plays an important role in economic growth. Capital formation and accumulation in any economy, whether rich or poor, will normally be accompanied by improved accountancy. Even for the oil-exporting countries which have few problems with capital, accounting is still an important factor for allocating capital to the different economic sectors as well as for evaluating the efficiency and profitability of each sector. However for poor countries, like Jordan, capital is a problem, and the utilisation of what is available is an important matter (Schatz, 1968).

In developing countries, domestic savings for long-term investment are generally in short supply. Inadequate savings may be caused by low income and inadequate income distribution, investment opportunities and conditions and institutional factors. Changes which are institutional, legal, socio-cultural or economic technical in nature may be necessary to improve capital market mechanism and to mobilise domestic and foreign

funds into productive activities. Intermediary financial institutions can contribute greatly to better capital flows. They act not only as sources and catalysts for investment but also provide all kinds of technical assistance, including sorely-needed help in various fields of accounting.

Corporate growth, and the corporate form of organisation which enables smaller savings to be accumulated in the capital market, make heavy demands on legal, fiscal and accounting procedures. Accounting and auditing have to meet these demands; company statements must be reliable, helping to instil confidence in corporate operations. The necessary funds might not be forthcoming if inadequate accounting and auditing standards and practices continue. The need for sound accounting, however, is not limited to the larger corporate entities. Small-scale operations might be in even greater need. The requirements of small industry are too often neglected, and this can have serious repercussions on the country's potential for economic growth (Enthoven, 1976b, P.25).

Investments presuppose an accurate economic financial description of the performance and potentialities of the company concerned. The evaluation of developmental programmes and specific projects requires sound cost and financial accounting. With proper procedures, accurate projections may be made of the source and applications of funds (cash flow) and the

necessary feasibility studies made. Accounting helps to shape the climate of investment; well-devised systems and controls inspire investor confidence, which in turn leads to healthy growth.

If the fundamentals of accounting and auditing simultaneously became more uniform, the economic community would have a much more refined instrument with which to measure business performance, to pin-point capital needs and to further capital formation.

Capital formation and development finance would clearly benefit from the professionalisation of accounting and auditing. The patronage of government and development institutions may be necessary to persuade the accounting profession to address itself to the problem and challenges of the process of capital formation and economic development.

The effective mobilisation of capital is greatly aided by accounting information which with reasonable accuracy represents the wealth and progress of enterprises. Fair representation of financial facts of firms is a pre-condition for the existence of a serviceable capital market, for otherwise, prospective investors would not be able to make informed judgements about their prospects in making investment decisions. The inadequacy of financial information on the performance and position of different enterprises has been a contributory factor to the absence of serviceable

capital markets in many developing countries, including Jordan.

In this regard, Enthoven (1965a, P.31) argued that necessary loan and equity capital is not likely to be forthcoming from domestic and foreign sources unless investors or lenders have a good idea of the status and prospects of the enterprise. The developing countries depend for a high proportion of their capital formation on the inflow of foreign investments, and success in attracting investors is highly influenced by the financial climate.

In drawing attention to the interrelationships between financial accounting, capital formation, and economic development, Qureshi (1975, P.71) stated that:

"Capital formation, a strategic factor in economic development, is closely dependent upon financial mechanisms and institutions. Studies by such eminent monetarists as Kuznets, Goldsmith, and McKinnon provide a convincing evidence of the parallels between capital markets and economic growth. The development and proper functioning of capital markets, in turn, is intimately related to the availability of financial information which is provided by the accounting function of financial reporting."

Seidler (1967, P.153) added that:

"In creating a capital market, accounting provides the means and incentives for investing voluntary savings in new ways, so that a larger volume of such savings is placed at the disposal of entrepreneur willing to invest in new or existing enterprises."

3.4.5 Taxation

According to Scott (1970, P.41), the ability of governments to sustain economic development programmes is determined by their ability to finance these programmes. This financing must generally come in the main from one of two sources: from taxation, or from government creation of money to finance the programmes, which inevitably causes inflation.

Fiscal policy itself is a major factor in economic growth, and in developing countries, especially, taxation policy must consider national economic objectives. It must harmonise with the structure of the economy, with its production patterns and its income distribution, and it should encourage capital formation. Alternatives in form of taxation happen to be much fewer in developing countries, and accounting can be of great service in pointing out distortions in the tax structure and in outlining the best policies from among limited alternatives. In addition, accounting might assist in putting into effect up-to-date administrative procedures.

Principles and rules have an important bearing on the imposition of taxes.

"Taxation constituting an integral part of fiscal policy, or public finance, consists of two closely linked areas: (1) tax structure formulation (including tax policy) and (2) tax administration... Accounting techniques, such as: information accumulation, measurement, processing, recording and verification (auditing), are all essential to a well designed tax structure and smoothly operating tax administration. Closer integration between

taxation and accounting will undoubtedly be beneficial to the economic community as a whole, and could also predispose governmental policy making to favour the interests of the private sector." (Enthoven, 1977, P.32)

In developing countries, an adequate amount of taxation is needed to support the government's regular services as well as provide financing for economic development projects, especially in the infrastructure. The inability of government to collect taxes would force the government to resort to deficit financing and/or indirect taxes which would have adverse economic effects. Due (1968, PP.18-19) noted that:

"...taxes provide means of financing infrastructure without resorting to money creation or borrowing. Both of these latter tend to generate inflation, and borrowing also dries up funds available for private investment. Taxes may also provide funds for investment in development projects. Further, taxes offer potential for altering economic behavior in such a fashion as to aid development... Alternatively, if improperly designed, taxes may have effects on behavior that are adverse to development."

Further, Seidler (1967, P.27) noted that:

"In addition to its role in increasing domestic savings, an efficiently functioning tax system can assist in increasing the supply of foreign capital, particularly foreign loans flowing into a developing country by demonstration of its fiscal credibility."

The inability of governments in developing countries to collect adequate amounts of taxes is due mainly to weaknesses in the structure and administration of the tax system, and the absence of honest and reliable accounting records on the part of the tax-payers. The AAA Committee

Report on *International Accounting Operations and Education, 1975-1976* (*The Accounting Review, Supplement to Volume 52, 1977, P.74*) indicated that:

"There is evidence that in countries where traditions of tax evasion and tax inequities are prevalent, the lack of sound accounting practices in the business community and a shortage of professionally trained accountants are important contributing factors (Elliott, 1968, P.183). Since no tax system can be effectively administered without proper accounting and qualified personnel, inefficiency, abuse, and dishonesty in the handling of public funds result...It should be obvious that adequate accounting in the business community and effective accounting control in the collection and administration of public funds make important contributions towards the financing of development programmes."

Taxation in developing countries is important from two basic points of view. First, it is a primary source of funds which enable government to engage in various economic activities, financing not only the regular public services but also much needed investments. Therefore, it is an important source of capital formation. Second, the tax structure of a developing country must also pay special attention to the likely effect of different taxes on private incentives to work, save and invest (Meier, 1964, P.91). Generally a developed country collects about 30% - 40% of its GNP in taxes (Heller, 1964, P.115), compared with 8% - 15% in an average developing country (IMF, 1983, P.63). The tax structure of almost every developing country is characterised by a heavy dependence on indirect taxes and

customs duties. A major disadvantage of these taxes is that the revenue does not grow fast enough to meet the needs of development programmes.

The prevalence and reliability of accounting records, and therefore the existence of sufficient numbers of qualified accountants, are important requirements for successful income tax collection, and their shortage in developing countries seems to be a major factor in the poor tax-collection records of these countries (Scott, 1968, P.55).

By helping to overcome some of the difficulties of tax collection, accounting professions in developing countries can make major contributions to economic development. In this regard, Scott (1970, P.48) argued that:

"Accountants and the accounting professions of developing countries could show themselves as truly professional by doing their utmost to ensure that taxation legislation and administration is streamlined and lends itself well to helping their countries' economic development."

Accounting plays an important role in improving the organisation of both the tax administration and the taxpayer, enabling more equitable and effective tax policies and procedures. Furthermore, accounting is able to assist in appraising the best forms of taxation to achieve the necessary objectives.

The training of tax administrators is an urgent requirement for many developing countries, which has been

clearly stressed by the United Nations (UN), International Monetary Fund (IMF) and other international organisations. Tax administrators will need extensive training in both enterprise and governmental accounting; they should be familiar with financial accounting, cost accounting, auditing and even social accounting. In addition, tax administrators should have a reasonable knowledge of economics and law.

3.5 THE NEED FOR AN INTEGRATED ACCOUNTING SYSTEM

In a developing country, there is a need to formulate a comprehensive system which is capable of accumulating related information so that it can be used as the main data base for economic- decision making at various levels. Integration of the different branches of accounting, external reporting, management accounting, national income accounting, balance of payments accounting and so on, is important (Perera, 1989, P.144). Uniform information has been increasingly required for economic planning. Financial information in a standardised form must be obtained from each group of economic units or sector.

The urgent need for economic development is the main reason why government, especially in developing countries, interferes to a considerable extent in the country's economic affairs. The ultimate goal of this interference is to increase the national rate of economic growth. This can be done only when the government is

well informed of the factors affecting the goal- setting. This explains why there is a tendency toward more uniformity whenever the government of a nation feels the need for economic development (Al-Hashim, 1973, P.30). In the words of Al-Hashim,

"Uniformity has been easily applied in a country where the people are ready to accept government intervention in the country's affairs." (Ibid, P.30)

In the developing countries, there is another reason for the success of uniformity; this is because the level of accounting education is rather poor in comparison with that of the developed countries. Accountants cannot be expected to exercise mature judgement in their work. Thus, a central government has to take the initiative to achieve an accepted standard of accounting practices in the country. This can be done by applying a uniform accounting system.

The adoption of a uniform or standardised system of accountancy could alleviate many basic accountancy problems in developing economies, where there is often a lack of information and adequate accountancy skills. Such an integrated accounting system or plan would be widely useful; it would serve the business unit, the industry, the social accounts, the development plan and its related economic policies, the government budget, and the fiscal system. Uniformity would above all apply to concepts and terms, the procedures of valuation (inputs and outputs), the method of registration, and the

classification of accounts for business, sectoral, and even national purposes. The advantages of such a uniform accounting system which make it desirable, even essential, for developing countries would be as follows:¹

- 1) One of the most cited advantages of uniformity in accounting is the greater comparability it would afford among financial data of different enterprises and in different industries. It is said that greater uniformity would make security analysis more objective and would therefore assist in better allocation of economic resources among the users of capital.
- 2) The system allows a more unified and more rational development of accounting theory. If accounting methods and procedures were securely established within a uniform scheme, concern over accounting development could be directed more exclusively to theoretical matters.
- 3) Another positive argument relates to the ease of initiating a new system of accounting and the improved transferability of accounting know-how and skills when personnel move from one firm to another.

¹ Most of the arguments supporting the need of a uniform accounting system in developing countries are based upon the arguments provided by: Mueller, G.G. (1967, PP.109-111), Briston, R.J. and El-Ashker, A. (1985, PP.99-111), Enthoven, A.J. (1973a, PP.236-237), Singer, H.W. (1944, PP.50-51), and Alani, H.K. (1987, PP.131-134).

- 4) This leads directly to a fourth advantage sometimes brought to bear. Training of accounting students could be coordinated more closely, in that accounting curricula could be based on any existing uniform scheme, with the result of better technical preparation of students and greater immediate application of skills acquired during the educational process.
- 5) The collection of reliable national economic statistics is another advantage. Accounting data comprise a significant part of national economic statistics, and the collection of these data would be facilitated and their direct use enhanced if they were prepared on a uniform basis. This argument is particularly germane in the case of economically less developed countries.
- 6) Facility for national economic planning and control is the sixth advantage to be mentioned in the present enumeration. Singer (1944, P.50) states the first purpose served by a uniform system as follows:

"to facilitate the planning of state (government) developments by supplying significant statistics based on uniform and known definitions."
- 7) The adoption and adherence to a uniform and standardised accounting systems in both private and public sectors of an economy would greatly facilitate economic developmental accounting

requirements for social accounting, development planning, projects appraisal, capital formation and government administration.

8) The next item is the general proposition that uniformity would make for more equitable economic legislation, would better safeguard the public interest in economic affairs, and would allow more reasonable letting and administering of government contracts. More common costing rules would avoid relative advantages accruing to some individual firms from government orders. Labour negotiations would proceed on more factual bases, and possibly certain aspects of tax legislation could improve if financial accounting were more uniform.

9) Adherence to more uniform accounting concepts, charts, or plans would greatly facilitate the taxation task while implying benefit for other branches of accountancy and other analysis. Enthoven (1973b, P.123) pointed out that:

"In the area of tax administration, a greater degree of accounting unification is necessary to enhance the effective functioning of the administrative set-up, a procedure that must precede any improvement in tax structure formulation."

10) Finally, regional economic integration is said to benefit from accounting uniformity, with the European Economic Community (EEC) and the Arabian Economic Community (AEC) as examples. The adoption

of a uniform accounting system in these countries would assist economic integration and lead to greater harmony between their economies through unification of accounting evaluation methods, principles rules and cost systems.

Although the above advantages pertain to the uniform accounting system, there are, however, some arguments voiced against it. The next section will deal with these disadvantages and the practical problems which face developing countries when they try to implement such a system.

3.6 ARGUMENTS AGAINST A UNIFORM ACCOUNTING SYSTEM

The desire to have uniform standards, applying to all business without provision for alternative, is understandable. Its simplicity is very attractive. But it simply is not possible. It is not obtainable (Murphy, 1979, P.86). Murphy added that, on close examination, it doesn't make sense. And the reason is that business itself is not simple; it is a highly complex and variable structure.

To start with, the aims of uniform accounting must clearly established, after which the framework and procedures can be developed. To set forth a series of norms without reference to the aims and without an explicit set of underlying accounting concepts, will be of limited value. The norms and the unification scheme

are furthermore highly dependent on the economic structure and conditions of the country in question, and the type of industry. It is extremely hard to come up with one relevant unified system applicable to all industries and all types of accounting systems. However, these efforts appear to have a greater pay-off in emerging countries, where accounting may be as yet less fragmented and less molded.

The following arguments are voiced against uniform accounting²:

- (1) The first argument normally encountered in opposition to accounting uniformity is that it seeks to treat alike what are basically different, namely, the various business activities and processes to accounted for. In this regard, Enthoven (1973a, P.237) argued that:

"The concept of aggregating separate industries into one scheme is unrealistic and too theoretical."

Thus it is asserted that uniformity fundamentally runs counter to the actual nature of business and the meaningful accounting disclosures may be hampered.

² Most of the arguments voiced against adopting a uniform accounting system are based upon the arguments provided by: Mueller, G.G. (1967, PP.111-112), Enthoven, A.J. (1973a, PP.237-238), Murphy, T.A. (1979, P.86), Price, J.H. et. al (1965, PP.838-849), Al-Hashim, D. (1973, P.69), and Alani, H.K. (1987, P.134).

(2) A second line of argument rests on comparative analysis. A uniform system of accounts does facilitate statistical summarizations, providing some statistical comparability of limited usefulness, certainly far less than that visualized at the time regulatory powers over accounting were granted. Uniform systems of accounts are used in some programmes of continuing rate surveillance, and, on occasion, they have been misapplied in futile attempts to obtain uniformity from disuniform facts. Furthermore, Price (1965, P.838) pointed out that it is possible to have comparability without a uniform classification of accounts. If sound, uniform accounting principles and standards are applied to each business transaction, the financial statements should be reasonably comparable as to financial position and results of operations, even though minor differences may exist between balance sheet or income statement captions. But merely reporting pursuant to a detailed classification of accounts does not, in itself, automatically provide comparability. Thus, comparability in financial reporting both among companies within a single industry and among companies in different industries, as one of the major objectives of uniformity, should and can be reached without incurring a costly burden of detailed or strait-jacket uniformity, so that substantial factual

matters are not hidden from the public view by accounting flexibility.

- (3) Individual company or industry requirements and ideas may be stifled. Each company may want to produce its financial statement in a form considered most suitable for industry, while costing procedures may show its individual production pattern and circumstances. Comparison and analysis of data may become useless if proper individual separation by industry is not made. Lack of comparability may result if the same rigid accounting treatment is applied to different facts and circumstances.
- (4) Heavy expense may be incurred in adhering to the system, especially by small and medium enterprises. Uniform plans are thought to favour the patterns of larger firms and thus often prove too elaborate for smaller enterprises.
- (5) The system may induce close supervision of and in the affairs of private enterprises, thus becoming an efficient instrument for government control of the private sector.
- (6) It will hamper the development of a dynamic accounting theory and evaluation of accounting standards and principles based on changing economic circumstances. The uniform system may be too mechanistic and prevent the stimulation of new

ideas. Professional qualifications may also suffer neglect as the greatest need will be for technicians.

(7) Uniform accounting is said to clash with the modern concept of managerially oriented accounting. Uniformity, it is argued, would find it difficult to accommodate propositions and techniques originating from business statistics, business economies, information systems considerations, and so on. Proponents of this premise assert that the frontiers of accounting lie outside the accounting discipline itself and that environment factors will play an increasingly larger role in accounting development. They reach the conclusion that uniformity cannot properly serve expanded uses and purposes of accounting.

(8) It becomes a strait-jacket for accounting information for the accountant, and as a system could be rather dictatorial. A rigidity in measurement rules and other procedures may impede the required flexibility.

(9) Another disadvantage attributed to uniformity is that accounting concepts and practices would be difficult to change under a uniformity scheme. Uniformity, it is claimed, could be effective only if arbitration and review procedures were made available, and the machinery for potential change

would have to be so sizable and costly as to block needed changes or materially retard them. Furthermore, there would be general reluctance to change once a complete system has been installed and used by competitors and others.

(10) Continuing this listing of alleged disadvantages, one finds mention of over-emphasis, under uniformity, on the mechanical bookkeeping aspects of the accounting process. A uniform chart of accounts is in essence a mechanical device, and as such it is essential to all uniformity schemes.

(11) Finally, an international reservation against uniformity stems from the charge that if each country had its own rigid set of uniform accounting, accounting information would travel even less well between countries than is presently the case. In other words, there is concern that accounting should remain viable enough to adapt itself to the new demands of the international business community and should begin to embrace a global point of view rather than national orientations.

Undoubtedly, each of these objections contains an element of truth, but their validity largely depends on how tightly and specifically the system is to be planned and adhered to. In order to appraise how rigid or detailed the system should be, for example in regard to

both financial and management accounting, the circumstances and requirements of each economy will have to be reviewed.

All in all Enthoven (1973a, P.238) believes that, in view of the requirements of the economic process, the advantages to be derived from uniform accounting (see the above section), whether partial or complete, outweigh the disadvantages. Private industrial accountants and professional accounting bodies usually raise the greatest objections to standardisation in the fear that their independence may be curbed. Hopefully, however, they and others will come to realise that they have much to gain by greater standardisation, while the role of accounting in the whole economic process will be enhanced. The degree of standardisation, however is highly dependent on the economic system and economic requirements (e.g. development needs); and various shades of uniformity can exist, depending on the local/ regional needs. The efforts made so far need to be further reappraised in the light of micro and macro economic-accounting requirements. This should result in a general uniform system of standardisation that is applicable to both developed and developing countries. By regions and countries, standardisation could be in the form of a tightly or loosely woven plan.

Above all, in order to achieve better standardisation, regional (e.g. European) and also an international coordinating body should analyse the ways

to achieve greater harmonisation. International organisations, together with accounting, economic and statistical groups, could play a major role in such efforts. Developing countries, in particular, would appear to gain by adopting an overall unified framework or plan of accounting.

However, particular problems encountered in developing countries regarding the design of a system are:

- (i) general lack of a sound and coherent body of accounting fundamentals;
- (ii) deficient data on activities;
- (iii) inadequate professional and technical skills;
- (iv) and the sparseness of organised business enterprises (to which uniformity would be largely applicable).

While these items impede the development of uniform accounting they might facilitate the design and installation of a uniform system. For example, established forces of objection might as yet be few, while ingrained principles and practices will not need to be overhauled.

The conclusion might well be drawn that in order to plan the economy effectively in developing - and developed countries (and more and more countries will require a comprehensive form of planning), uniform accounting, in the form of a complete system, is required. The system has been accused of being rigid, unrealistic and unwieldy, though without any strong evidence. Whatever the truth of those arguments, a

uniform accounting system actually fulfils the requirement of integration between micro and macro levels, and facilitates the purposes of planning and control, providing better data for cost benefit analysis and other studies related to the acceleration of economic development.

CHAPTER FOUR

THE SOCIAL, POLITICAL AND ECONOMIC ENVIRONMENT IN JORDAN

4.1 INTRODUCTION

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. Thus, to understand its evolution, it is essential to study the environment in any society.

The condition of Jordan is no exception. The scope and role of accounting is expected to be developed in response to changes in the socio- economic- political environment in Jordan, and an examination of this environment should precede the study of any aspect of the accounting system in Jordan.

This chapter aims to shed light on the prevailing social, economic, political and legal conditions in Jordan under which accounting and accountants perform their functions. Accounting does not exist in a vacuum, but interacts with the existing environment. Relevant descriptive data will be collected about social, economic and foreign factors and their influence on accounting practice in Jordan. First, however, it would be useful to provide a brief account of the country's historical background.

4.2 HISTORICAL BACKGROUND

Jordan, a centrally-located Arab developing country, is bordered by Syria on the north, Iraq on the north-east, Saudi Arabia on the south and east and Israel on the west. Geographically, Jordan is divided into two distinct regions, separated by the River Jordan. The East Bank constitutes what was formerly known as the Emirate of Transjordan, which was established in 1921 and declared as *THE HASHEMITE KINGDOM OF JORDAN* after achieving independence in 1946. Unity between the two banks was realised in 1950.

The West Bank was occupied by Israel in 1967. As a result, in practice, the unity between the two regions broke down. However, the legal relationship survived till recently, when King Hussein of Jordan declared, in July 1988, the disengagement of the legal and administrative relationship between the two parts of Jordan.

The total area of the East Bank is about 90,640 square kilometres, including the Dead Sea (557 sq. km). The population of Jordan is estimated at 3.75 million, of which 1.9 million live in and around the capital of Amman (Arab British Chamber of Commerce, 1989). The country depends mainly on the exportation of phosphate, the remittances from Jordanian workers abroad and foreign aid.

Following the above brief introduction, the following sub-sections will discuss in more detail,

Jordan's history from the early formation of the state as an independent political entity.

4.2.1 The Period of Ottoman Rule

Jordan, as an independent political entity, was the product of events which followed World Wars I and II. Not until after the latter did the country acquire its present boundaries, population and full independence. For four hundred years before that, the present territory of Jordan was a tenuously- held and lightly- administered province of the Ottoman Empire. Still earlier, it had been a vaguely defined southern district of Syria under a succession of rulers- Greek, Roman, and Arab. With no natural boundaries to set it off from the territory around it, Jordan never stood alone, nor did it occur to its few townsmen, isolated villagers, and scattered nomads to think of themselves as *Jordanians* (Harris, 1958, P.1).

4.2.2 British Mandate

After the defeat of the Ottoman Empire in 1918, in place of the large, independent Syria desired by Arab nationalists, a French mandate was imposed upon Syria and Lebanon and a British mandate over Palestine, including Tranjordan.

Jordan was dependent on Great Britain; the financing and ultimate control of the country's armed forces abided in London. Formal independence notwithstanding,

Jordanian leaders found it desirable to accept British guidance on major domestic and foreign decisions.

4.2.3 Independence

On 25 May 1923, Transjordan was proclaimed an independent state, subject to British obligations under the mandate, and on 20 February 1928 an agreement was concluded under which the Amir Abdullah was to be guided by British advice in such matters as foreign relations, finance and fiscal policy, jurisdiction over foreigners, and freedom of conscience. In 1939 the British government agreed to the formation of a Council of Ministers, each member of which was in charge of a department of the Government and responsible to the Amir (Mansfield, 1980, P.407).

Finally, in March 1946, Britain, in the Treaty of London, recognised Transjordan as a fully independent state; on May 25, Abdullah was proclaimed King and a constitution replaced the Organic Law of 1928. In 1948 the Arab Legion, together with other military forces of the League of Arab states, took part in the Arab-Israeli war and restored a considerable portion of Palestine. Three Palestinians were added to the Cabinet, and Transjordan adopted as its official name, *The Hashemite Kingdom of Jordan* (HKJ).

4.2.4 The Creation of the HKJ

While the Transjordanians proclaimed their independent state as the Kingdom of Transjordan, the British retained the protection of their vital strategic-military interests in the country under a new Treaty. A new constitution for the Kingdom was promulgated in 1947. It changed much of the legal terminology of the state's formal institutions but not the nature of rule and authority.

After the 1948-49 Arab-Israeli war, the flight of the Palestine refugees, the partition of Palestine, and Transjordan's annexation of the West Bank, the new state of Jordan came into existence with a population three times that of the former Transjordan, but with total arable land increased by only about a third. The citizens of the new state numbered about 1,185,000: 375,000 Transjordanians, 460,000 West Bank Palestinians and 350,000 refugees (Mazur, 1979, P.8).

The HKJ was constituted in 1949 with the annexation by the Kingdom of Transjordan of a portion of Arab Palestine, west of the Jordan River. However, the formal act of union of the East and West Banks took place on April 24, 1950, following a general election for a new Council of Representatives in which Palestinians were to have the same number of seats as Transjordanians.

4.3 SOCIO- CULTURAL CHARACTERISTICS OF JORDAN

The East Jordanians are a homogeneous people largely descended from Arabian bedouin tribes of desert origin. The Palestinians derive from all the races that invaded or settled in Palestine before the Arab conquest and have been blended together by thirteen centuries of Islamic influence.

Jordan is a Muslim state. Islam is recognised as the official religion of the country and the state provides or regulates the means through which the Muslim religious structure reaches the people. Religion is administered by the Ministry of *Awqaf* (endowment). The Ministry also administers the *sharia* (Muslim Religious Law) courts that adjudicate personal- status cases as well as legal matters having to do with the religious endowments. Around 90% of the population are Muslim and 10% are Christian.

The culture of Jordan is somewhat mixed. Jordanians live in a variety of worlds, old and new and in-between. It is not uncommon to find in the same person several cultural personalities. The mood may be oriental, western or somewhere in-between, not a superficial imitation but because of a genuine appreciation of both. Jordanians, both historically and currently can be classified as nomadic, semi-nomadic, semi-sedentary and sedentary. Nomads are the *true* bedouin but have a fixed location and live a tribal life. There are also

villagers who call themselves *fellahin* (peasants) and their primary economic activity is farming the land.

Today an occupational breakdown in a village is as follows: 39% farmers, 28% military, 30% other non-agriculture (labourer, civil-servant) and 2% retired. The two largest cities of Amman and Zarka have 56% of the population and also have 85% and 71% of the large and small industries, respectively. The rest of the population is concentrated in the main four or five cities (Solas, 1988, P.7-8).

Jordanians are quite conservative in their social way of life. They keep their Arab identities, culture and values. However, most of the professionals obtained their degrees in the West and speak, in addition to their Arabic language, at least one foreign language (usually English) and are also very much Western-oriented in their professional attitudes and practices.

Western thought and technology have affected different segments of the Jordanian population in varying degrees and ways. The strongest impact has been felt in the towns and the most conspicuous reactions have been those of the educated urban groups.

Western influence in the towns has affected business, industry, the professions, and general patterns of life in matters ranging from recreation to dress. The highly personalised business dealings of the past are showing signs of yielding to the more impersonal methods usual in western countries, and individual accomplishment

vies increasingly with wealth and family affiliation as an avenue to success and social prestige.

4.4 POLITICAL AND LEGAL CHARACTERISTICS

Islamic law embraces the whole range of personal and social life. It tells the true believer how to live righteously and the community at large how to conduct its affairs, spiritual and temporal. Islamic law has always given wide latitude to local law and custom. It developed mainly as an ideal system, influencing concrete conditions through the wide dissemination of its basic doctrines and of learned writings and by the training of teachers and experts. In most Islamic countries today, Islam is designated as the state religion, and, although versions of western legal codes have been adopted almost everywhere, questions of personal status are still adjudicated in *sharia* courts applying Islamic law. In Jordan, civil jurisdiction is available and increasingly used.

In the days before western civil and criminal codes began to replace Islamic law, the *muftis*, who interpreted the law, and the *cadis* (Muslim lower Judges), who handed it down, were persons of considerable influence. Western-based secular law has reduced their influence, but the specialists in traditional law still function in the limited jurisdiction of the *sharia* courts and are consulted, if frequently not heeded, in the adaptation of western laws to the Islamic tradition.

Aside from what the Jordanian constitution owes to its Islamic background, its inspiration was drawn from western sources by way of Syria. Beyond this, the decisive elements have been the precedents of the British mandate, the influence of British administrators, and the personalities of both King Abdullah and the collaborators who aided him in building the formal constitutional order of Jordan from its inception (Harris, 1958, P.87).

In the last three decades, the country vacillated between parliamentary government and personal rule, non-alignment and western alliance. In spring of 1957, King Hussein of Jordan took decisive action, as a result of a series of political crises at that time, by dismissing the cabinet, abolishing all political parties, and declaring a state of emergency.

However, the period of relative calm witnessed many positive steps in the political development of Jordan. By 1965, the country seemed to be moving in the direction of a *guided democracy* and non-alignment in the political sphere and towards welfare capitalism in the economic realm.

However, the 1967 Arab-Israeli war changed the direction dramatically and since then, Jordan has been ruled by emergency legislation and royal decrees. An Emergency law permits the dismantling of any organisation or association and prohibits any demonstration. Parliament was dissolved in 1974 and partial elections were last held in 1984.

Even when a parliament is elected, it enjoys no real legislative or supervisory authority over the executive branch. At best, as reported by Jordanian newspapers at the time, Parliamentarians occasionally voice some criticism of the government (not the King!) in various contexts, including demands to honour civil liberties in the legal system and to strengthen democracy.

4.5 THE ECONOMIC FACTORS IN THE JORDANIAN ENVIRONMENT

Correlations exist among the economic, political and social factors present in any environment. Therefore, when attempting to study one factor, one must take the others into consideration.

The discussion in this section, will focus on the economic factor, which is the most influential one because of the strong relationship between accounting and economics (see ch.3); it is in relation to the economic situation that the relevant accounting system is defined. Therefore the main features of the Jordanian economy will be highlighted. The role of the Jordanian government in the economy, the importance of the Amman Financial Market and the current financial and economic crisis in Jordan will also be discussed in this section.

4.5.1 The Main Features of the Jordanian Economy

The economic system of Jordan is mixed, comprising a private sector together with state- owned or state- shared enterprises. However, emphasis is on market orientation (Solas, 1988, P.9). The Jordanian economy

enjoys the advantages of a mixed enterprise system; that is to say, it is a private enterprise economy. All trade and all professions are private. However, socio-economic development in Jordan is characterised by on-going cooperation between the public sector and the private sector.

The public sector, which has existed since the mid 1950's, has established large capital intensive projects such as potash and fertiliser industries, which are considered too costly for the private sector to initiate. During the 1970's, the government continued to expand the public sector because the state was the channel through which outside financial assistance was made. By this expansion, and rapid growth, increased employment opportunities also resulted, while the private sector was weakened (Robins, 1986).

The public sector employs around 50% of the labour force. Over two thirds of those working in the service sector are employed by the state. The public sector provides almost half of all capital investment in Jordan and is responsible for over 35% of the value added (Ibid).

In spite of this, Robins has stated that:

" the public sector has not been as successful as the private sector in managing its economic activities. The rate of return on public investment is roughly half the rate achieved by the private sector. Underemployment in the state sector is an increasing problem." (Ibid, P.51)

The private sector is predominantly involved in the areas of import trade, retailing, agriculture and small scale industry. In the services sector, private enterprise competes with their state run counterparts, while financial services are dominated by private firms, except for the specialized credit agencies such as the Industrial Development Bank. Also there are private and public shareholding companies which are quoted on AFM (Ibid).

Most of the private business in Jordan are small scale and owned by individuals or families (Ibid).

The Jordanian economy has fluctuations due to several domestic and external problems which affect it. However, it has been soundly managed over the last decade. The economy is reasonably diversified. It also has economic assistance granted by other Arab countries.

Jordan has suffered repeatedly from the conflict in the Middle East since World War I. In spite of this, Jordan has attempted to utilize, to the best of its ability, its human and natural resources through economic and social development plans, and has succeeded in establishing a number of large industrial projects. In the early sixties, the economy was approaching the take-off stage towards self-sustained growth and realised a rate of growth exceeding 10% annually (El-Issa, 1984, P.30). However, the second Arab-Israeli war, June 1967, not only interrupted the progress of the (1964/70) economic and social development plan, but also created

serious challenges and problems which interrupted the momentum of the country and inflicted heavy damages and losses on the Jordanian economy.

" The June War, the occupation of the West Bank, and subsequent bitter events put Jordan and its economic experience face to face with harsh challenges, economic paralysis, dispersed potentialities, scattered efforts and blurred visibility." (Jordan, Three Year Plan, 1973-1975, P.13)

For Jordan, the June War was disastrous. It ended with the whole of the West Bank under Israeli occupation, the refugee population of the East Bank increased by about 200,000 and the economy practically non-existent.

Furthermore, the war status pushed the government towards concentrating deeply on building the army, which has cost Jordan a large part of its expenditure. For example, in 1985, 23.6% of the government expenditure was spent on defence, with only small change in the following years to become 20% and 18.3% in 1988 and 1989 respectively (CBJ, 1990).

The second turn for the worse in the Jordanian economy began after oil prices plummeted in 1981, leading to a reduction in the revenue on which Jordan depended. There was a severe decline in financial aid from Arab oil-producing countries. In addition to that, there was a sharp drop in the income of the Jordanians who worked abroad and had been remitting about \$1 billion a year to their families. These remittances had a considerable

impact on an economy whose GNP does not exceed \$4 billion (Media Analysis Centre, May, 1989, P.5).

Until that time, Jordan had enjoyed economic prosperity, stimulated by the civil war in Lebanon (which had prompted many financial institutions to relocate from Beirut to Amman), the proximity to the booming Arab oil states in the Gulf, and the Iraq-Iran War, which had made Jordan an important conduit for Iraqi imports and exports.

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

4.5.1.1 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 make Jordan heavily dependent on foreign sources of materials, foreign productive imports and foreign aid.

Table 4.1 shows the sectoral contribution to the GDP, from which one can obtain a brief overview of the economy of Jordan.

TABLE 4.1
SECTORAL CONTRIBUTION TO GDP %

Sector	1989	1990*
Agriculture	6.0	7.4
Mining & Quarrying	7.0	7.9
Manufacturing	12.5	14.9
Water & Electricity Supply	2.4	2.7
Construction	5.3	6.0
Total Commodity Producing Sectors	33.2	38.9
Trade, Restaurants & Hotels	15.2	13.9
Transport & Communications	13.5	9.1
Government	18.4	19.3
Finance & Other Services	19.7	18.8
Total Service Sectors	66.8	61.1
GDP at Factor Cost	100.0	100.0

Source: CBJ, Annual Report, May 1990, Amman, P.70 and Economist Intelligence Unit, Jordan, Country Report No.2, 1992, P.3.

* Preliminary figures

- Agriculture

Only about 5% or 528,300 hectares of the country's land area is cultivatable, 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. There has been

considerable government and private sector investment in this sector. For example, most government investments in this sector have been directed towards the implementation of advanced technology irrigation.

Investment of the private sector in agriculture was only JD 5 mn during the Three Year Plan 1973-75, then it rose to JD 47 mn during the Five Year Plan 1976-1980, and JD 140 mn during the second Five Year Plan 1981-1985.

This sector has been affected by many problems, the most important being the relative loss of traditional markets, especially for vegetables, due to inconsistent exports procedures resulting in an irregular flow to export markets. There has also been shrinkage in the agriculture areas due to uncontrolled urban expansion at the expense of the agricultural land, which has affected agricultural products in general, and field crops in particular (Ibid).

Agriculture has deteriorated to the point where Jordan today imports about half its food. In 1988 severe frost damaged 95% of its export crops (Media Analysis Centre, May, 1989, P.5).

- Manufacturing

More than 30% of the manufacturing establishments in Jordan produced food products or clothing in 1986, whilst more than one third (34%) were working in industrial services. In addition, three heavy industries, phosphate extraction, petroleum refining and cement manufacture are the main revenue earners (Lloyds bank, 1986).

Actual growth during the period of 1981-1985 plan amounted to only 4.9% annually at constant 1980 prices. Income from this sector went up from JD 167.1 mn in 1980 to JD 281.5 mn in 1989, a total increase of 68.5%. Thus, the sector's contribution to GDP in 1989 was only 12.5% (see table 4.1). The annual rate of growth expected by the 1986-1990 plan was 7.2%, while the actual growth rate of this sector in 1986 was only 0.4% virtually no change from the situation in the previous year, when the actual rate of growth was 0.3%.

This low level of growth in manufacturing resulted from the stagnation of domestic demand, coupled with limited growth of external demand for industrial products since the economic recession in the Gulf area in 1983 (Jordan, Five Year Plan, 1986-1990).

- Exports and Imports

The difficulties from which the Jordanian economy has suffered have caused a continuous deficit in the trade balance, as shown in table 4.2.

TABLE 4.2
EXTERNAL TRADE AND TRADE BALANCE (Millions of JD)

Years	Imports	Exports	Trade Balance
1985	1074.4	310.9	-763.5
1986	850.2	256.0	-594.2
1987	915.6	315.7	-599.9
1988	1,022.5	381.5	-641.0
1989	1,230.0	637.6	-592.4
1990	1,725.8	706.1	-1019.7
1991	1,710.5	770.7	-939.8

Source: IMF, International Financial Statistics, September, 1992 (PP.302-305).

From the above table, it is evident that the trade balance has been consistently in deficit, though with a decreasing rate. In 1985, the deficit rate was 71.1%, in 1989 it decreased to 48.2% at the end of 1990 it reached 59.1%, while it became 54.9% in 1991.

The traditional markets for Jordanian products are other Arab and developing countries. The recession which these countries experienced resulted in the fall in value of Jordan's domestic exports. In addition, the continuing fall in oil prices exerted a heavy pressure on the Arab markets, and consequently, on Jordanian exports.

Turning to imports, the drop in oil prices in 1985 and 1986 resulted in a lower oil import bill in these years. However, crude oil from Saudi Arabia remains the main import of Jordan.

The heavy dependency on imports is apparent from by the raw material imports- including petrol- which reached 24% of the total imports in 1975. This proportion increased to 38.7% and 34.9% in 1985 and 1989 respectively (CBJ, May 1990, P.58).

According to Al-Ashi (1991), 62.3% and 69% of industrial input were imported in 1979, 1984 respectively.

Most of Jordan's imports originate in the developed countries comprising the OECD. There has been some substitution of suppliers, with major European community exporters such as the U.K., West Germany and Italy being displaced by Japan, which has become the largest single source of Jordan's imports (Seccombe & Wilson, 1987).

The discussion of exports and imports reveals that Jordan suffers from a chronic deficit in its trade balance. From its exports, Jordan finances only 17% of its imports, leaving 83% to be financed from other sources. This large trade deficit is usually financed from foreign aid (Al- Ashi, 1991).

- Tourism

Tourism in Jordan is still a relatively small industry since it was largely dependent on the Holy sites on the West Bank of the River Jordan, which have been occupied by Israel since 1967. The contribution of tourism to the national economy fell by 85% after the 1967 war and it has taken Jordan many years to build a tourism industry on the East Bank (Sharaiha & Collins, 1992). The recent Gulf Crisis is a further reminder of the damaging effect that regional conflicts have on the country's tourist industry.

Nevertheless, tourism in Jordan is an important source of income for the country. Gross tourism receipts represented 12% of the GDP in 1989, only slightly less than workers' remittances, which are the largest source of foreign currency (Ibid, P.2).

However, Jordan lacks natural resources, and industry is marginal. Services, including tourism, the largest sector of the Jordanian economy and the main source of foreign currency, are in decline.

4.5.1.2 Dependence on Foreign Aid

The outstanding economic fact about Jordan is that it is dependent on outside aid for its very survival and it is certain to remain heavily dependent on aid from the Arab oil states and Western countries, mainly the USA and U.K.

Aruri (1972, P.61) argued 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 Amirate of Transjordan, domestic revenue has consistently lagged behind expenditure. Grants from abroad were always needed to cover expenditure, which the country was never able to meet with its own resources."

Table 4.3 illustrates that since 1924 and until the most recent available statistical information, self sufficiency has never been realised.

TABLE 4.3
SUMMARY OF REVENUE AND EXPENDITURE, 1924-90
(Millions of US \$)

Fiscal Year	DR	Grants in Aid & Loans	Total Revenue	Expend.	DR as % of Expend.
1924/25-					
1933/34	0.64	0.22	0.86	0.86	74.4
1943/44	1.79	5.48	7.27	7.27	24.6
1955/56	22.34	30.43	52.77	49.36	45.3
1958/59	30.46	55.19	85.65	82.15	37.1
1962/63	59.08	49.67	108.8	105.1	56.2
1965/66	75.38	67.20	142.6	163.9	46.0
1968	78.81	136.6	215.4	241.6	32.6
1971	107.3	127.1	234.4	249.4	43.0
1974	203.7	229.4	433.1	454.5	44.8
1977	432.3	549.3	981.6	1,027.2	42.1
1980	759.7	943.8	1,703.5	1,892.4	40.1
1983	1,101.7	753.0	1,854.6	1,939.6	56.8
1986	1,471.2	868.0	2,339.2	2,806.5	52.4
1988	1,439.6	705.2	2,144.8	2,781.6	51.8
1989	1,025.9	510.9	1,536.8	1,744.1	58.8
1990 ¹	1,037.5	317.8	1,355.3	1,565.3	66.3

Where DR: Domestic Revenue
Expend. : Expenditure

(Source: Konikoff, A. "Transjordan: An Economic Survey". Jerusalem, 1946, P.95; Jordan, Ministry of Information. "Al-urdun: Al-kitab Al-sanawi (Jordan: The Year-book, 1964, P.57); and Jordan, Budget Department, Budget Law for the Fiscal Year, 1990.

¹ Estimated.

- Aid From Britain

From 1951 to 1955, no more than 40% of government budget revenue came from domestic sources (see table 4.3); foreign grants accounted for more than 50% and foreign loans for 8% of the total receipts. It has been estimated that almost one third of the national income of Jordan formerly was provided by British aid alone. Almost two thirds of the expenditures for the economic and social development of Jordan have been covered by foreign aid (Harris, 1958, P.141).

Thus, the most important single source of foreign currency for meeting Jordan's deficit in the past was grants and loans from Britain. Until the termination of the British-Jordanian alliance, Britain subsidised almost all the expenditures of the Arab legion and contributed also to other military expenditures. British aid in the military budget increased from approximately 50% in 1955-56 to 70% in 1956-57; Britain also provided loans without interest for economic development projects. However, after 1957, Britain became one of the countries that provide aid to Jordan on an occasional basis, like France and Denmark.

- Aid From Arab Countries

Under a treaty signed in January 1957, the Arab countries promised to compensate for the deficit caused by the withdrawal of the British subsidy to Jordan. Total Arab aid to Jordan during the first phase (1959-66) amounted to JD 21.37 mn. In the second phase, which came

in the aftermath of the 1967 war with Israel, annual aid totalling JD 40 mn was pledged by the Arab oil-rich countries. This emergency aid to Jordan was intended to support the government budget, increase the defensive capability of the Jordanian Army, and to enhance the steadfastness of the people of the West Bank.

Between 1967 and 1973, Jordan received JD 224 mn in aid from Arab countries alone, compared to JD 91.02 mn from the USA and JD 37.04 mn from other sources. The amount of aid that Jordan received in 1974 and afterwards was very large compared with that received in the previous two phases.

After the Baghdad Arab Summit conference, Jordan received grants from Arab states of JD 299.6 mn (\$1 bn) in 1979 alone. Arab aid increased steadily from JD 4.54 mn in 1964 to reach its maximum level in 1981. Total Arab aid since 1959 amounts to JD 2,332.93 mn, compared with JD 337.76 mn and JD 284.38 mn from the USA and other sources respectively. In percentage terms, Arab governments have contributed 79.1%, the USA 11.3% and other sources the remaining 9.6% of total aid (Hammad, 1987, P.25-26).

Arab aid to Jordan has been almost entirely in the form of grants to support the budget. It has come through decisions by Arab summit conferences. Other technical and development loans have come from the Arab league and through bilateral agreements between Jordan and other Arab states.

- Aid From USA

Jordan has received USA aid since the early 1950s, mainly through the Agency for International Development (AID). The primary objective of AID's programme in Jordan is to assist the continued development of a moderate, Western-oriented state. For forty years, USA economic aid has been an important component of the USA presence in Jordan, contributing to the formation of both the physical and human infrastructure which helped foster the rapid socio-economic growth on the early 1980s.

USA aid to Jordan falls into two categories: economic and military. Total aid less repayments and interest totalled \$2,195.6 mn between 1946 and 1983. The AID statistics divide total aid by period and annually. Accordingly, Jordan received \$5.2 mn grants in economic aid in the period 1949-52, \$275.6 mn in the period 1953-61 and \$1,185.8 mn in the period 1962-83. Total loans were \$498.8 mn and total grants were \$1,696.8 mn, or 22.7% and 77.3% respectively, of total aid (see Hammad, 1987, PP.18-23).

However, while all USA aid ceased in 1981 and Arab aid is declining, other sources of aid have been contributing increasing amounts of loans since 1980. In recent years, Japan and Germany have been the most frequent aid-givers to Jordan.

4.5.1.3 Remittances

Ministry of Labour sources in 1984 estimated the emigrant Jordanian labour force at 328,000 people. About

85% of these are work in the Gulf area, in particular Saudi Arabia and Kuwait, whilst the rest (15%) are working in other countries, such as USA and Germany (Jordan, Statistical Year Book, 1986).

The remittances of these workers are of great importance to Jordan, accounting for 26.1% of GDP in 1984. These remittances financed about half of the trade balance deficit within the period from 1973 to 1984 with a total of JD 2.6 bn.

Remittances occupied second place to foreign aid in the financial resources between 1975 and 1981, with the exception of 1978, when remittances influenced foreign currency provision more than foreign aid (remittances accounted for 35.8% and foreign aid for 27.5%) (Haddad, 1985).

Moreover, in 1984, remittances represented the first source of foreign currency, accounting for about 30.4% of total foreign currency.

4.5.1.4 Unemployment

Unemployment in Jordan may be seen to have passed through three stages. During the first stage, up to 1973, 20% of the people who were willing and able to work were unemployed. The second stage was from 1974-1982, during which time the unemployment rate in Jordan stood at 2%, mainly as a result of the emigration of Jordanians to the Gulf area due to the increased prosperity there. This emigration caused a deficit in skilled Jordanians while the influx of the foreign labour force started.

The third stage started in 1983 and continues until the present time.

According to statistics produced by the Ministry of labour, the number of registered unemployed was approximately 30,000. As well as these registered people, there was an unknown number of unregistered unemployed people who tend to apply to the public enterprises and private sector. These would probably bring the total to 40,000 people (Khasawna, 1987).

Some researchers have predicted that the number of unemployed people at the end of 1990 will be 60,000 people, about 10% of the labour market (Al-Ashi, 1991).

Unemployment in Jordan may be mainly attributed to the following reasons.

- (i) The drop in oil prices had a two-fold impact on employment. The resultant economic stagnation and inflation in the Gulf area led to a drop in investment expenditure. At the same time, the recession in oil prices resulted in a reduction in the work opportunities available in the Gulf area, consequently leading to a reduction in the remittances and Arab aid received by Jordan, which again reduced local opportunities for employment.
- (ii) As a result of this reduction in the work opportunities in the Gulf area, increased numbers of Jordanian emigrants have returned home, adding to the rate of unemployment.

(iii) There has been a continuous influx of foreign labour, estimated in 1989 to total around 125,000 to 150,000 people.

(iv) The rate of population growth is high (3.9%). Natural increase accounts for 3.5% while the rest (0.4%) has resulted from the forced immigration of the inhabitants of the occupied territories.

4.5.1.5 Inflation

Before the June 1967 war and in the early postwar period, price increases were relatively gradual, notwithstanding some sharp year-to-year changes due to harvest fluctuations. Inflation was a serious problem for Jordan in the 1970s, caused by inflationary wage settlements, high import costs, and a sharp increase in the domestic money supply due to the large government deficit and the expansion in credit granted to the private sector.

In a study by the IMF, inflation in Jordan was described as the Kingdom's "most pressing problem"¹ in the short run. By 1972 all three major influences on the money supply - the monetary base, the reserve- holding behaviour of commercial banks, and the currency- holding behaviour of the public- were acting in the same direction: toward rapid expansion of the money supply. It was at this time that sustained, rapid inflation made its appearance in the state of Jordan. In 1972 inflation

¹ Jordan Time, 6-7 August 1978, P.4.

accelerated sharply to double-digit level and remained in the 10-20% range for every year from 1972 to 1977.

After 1972 a number of selective measures were adopted in an attempt to alleviate the inflationary impact on certain groups or sectors. These included subsidies to some staples, mainly wheat and sugar. In an article on the IMF Survey, the *Jordan Times* reported that the government had decided to give "the anti-inflation effort the highest priority" (see, *Jordan Times*, 6-7 August, 1978).

With fixed salaries in much of the private and public sectors, the inflation rate has become an important factor in judging the material hardship suffered by ordinary Jordanians. According to the government's criteria, the inflation rate rose by 25.7% in 1989. By the end of April 1990 inflation was running at 18.5%. However, there are some potentially volatile variables, the most uncertain at present being the future direction of the subsidies policy. Any attempt to cut or target subsidies will immediately fuel inflation.

It is generally accepted that inflation has an important influence on accounting practices in individual countries. Jordan is no exception. The cumulative effect of inflation over a number of years can render all accounting information meaningless unless it is appropriately adjusted.

However, the development programmes and policies call for development in accounting techniques and

procedures, in the sense that accounting should meet the needs of its users.

4.5.2 The Government Role in the Economy

The government's role in the economy is that of a catalyst, supporter, promoter and, in certain cases only, a partner. This role gives the government freedom to build up infrastructural services, pursue the exploitation of natural resources, attend to planning and exercise some measure of control wherever and whenever necessary, e.g. to stabilise and/or subsidise the prices of essential commodities such as wheat, meat, sugar and others.

According to Sullivan (1987, P.135),

"The government's role is invariably described as that of a watch-dog, to see that prices do not run astray and that large projects demanding significant capital outlay beyond the public's reach do not remain unexploited."

This role can be described as neither Socialist nor Capitalist but as an in-between course, more or less tailored to create a stable balance between economic and social demands and, for this purpose, between economic development and social welfare.

Economic and social development ranks very high among Jordan's national objectives. The intention of the government is to maximize the utilization of available resources and to expand the productive capacity of the national economy in order to ensure decent and ever-rising standards of living for all citizens. In order to

achieve social and economic development in Jordan, the government prepares a comprehensive development plan every five years.

As a partner, the government participates in the equity of 44 companies with 31% of industrial shares outstanding. The percentage of participation is variable, but the largest portion is found in the mining industries (Phosphate, potash, oil refinery, cement and transformation of agricultural products). Newcomers in the investment field are the newly formed autonomous funds such as the Pension Fund, the Social Security Fund, the Postal Savings Fund and some provident funds. These funds are allowed to invest in any project or enterprise they may wish. The five year plan (1981-85) estimated that their investments would total JD 1 bn, or 31% of the total investment allocations of JD 3.3 bn (Sullivan, 1987, P.137).

Government policy as expressed in laws and regulations is aimed at planned industrial development. The Jordanian government has outlined basic projects of its own and participates in industrial activity through part ownership of various enterprises. It further attempts to direct private domestic and foreign investments through legislation, import licensing, and credit facilities. Formal protective measures against imports have been a basic element of government policy since 1951.

The government encourages the private sector to show more zeal in developing the economy. It provides tax exemptions under the Encouragement of Investment Law, training for upcoming workers and loans through the specialized credit corporations at reduced rates of interest, and it also rewards private sector exporters with special certificates of merit.

The government is actively promoting industrial and agricultural development and domestic and international trade. Businessmen are beginning to show a disposition, when they can get government backing, to reinvest in industrial undertakings. Banking is developing and the government, in addition to being itself a subscriber of capital to the Development Bank of Jordan, guarantees a dividend of 5% to private investors. The Development Bank is designed to grant medium- and long-term loans to industry and agriculture, to take up equity participation in enterprises, and to provide technical assistance to potential borrowers.

As explained above, the Jordanian government has played a pioneering role, within the framework of the economic system, by participating with the private sector in implementing large scale industrial projects and providing incentives and an appropriate entrepreneurial climate of private investment.

4.5.3 The Importance of the Amman Financial Market

During the first years of the Hashemite Kingdom of Jordan, the major elements of the Jordan Financial System were commercial banks. The Central Bank of Jordan (CBJ) came into existence in 1960. Thereafter more local and foreign banks were established.

The financial market plays a key role in increasing the amount of funds available to finance industry and encouraging saving toward investment. Recognition of this fact, together with the recent developments in the Jordanian economy, in particular huge domestic and foreign investments, created the need to establish an instrument capable of mobilising these investments. These factors led to the establishment of the Amman Financial Market (AFM).

The establishment of the AFM extended the financial profile of Jordan. It commenced working on January 1, 1978, as a public financial institution with legal and financial independence and carrying the responsibility to promote and develop both the money and capital markets in Jordan. The AFM was formally established to provide an organised market for trading in securities of public shareholding companies, government and private corporation bonds, and other securities and debt instruments introduced in the Jordanian financial sector.

The AFM is a new market, small in terms of absolute size. It is, as described by the Inter-Arab Investment Guarantee Corporation and the AFM (1985), a narrow and

shallow market. However, when the size is compared to the economy, the AFM looks larger than the average developing market and close to the average European market (Al- Hmoud, 1987, P.42).

The provisional law No. 31 for 1976 was passed to provide the general framework for the operation of the AFM. Article (4) of the law prescribed the following objectives of the market:

- (i) To promote savings by activating and encouraging investment in financial papers, and to direct such savings to serve the development of the national economy;
- (ii) To organise and control issues of, and dealings in financial papers so as to ensure the soundness, ease and speed of such dealings and to guarantee the financial interest of the country, and the protection of small savers; and
- (iii) To gather and publish the statistics and information necessary to realise the above objectives. In order for the capital market to play its role efficiently, El-Issa argued that:

"...information about the economic activities and transactions within the market must be available to the public without any costs."
(El-Issa, 1984, P.46)

Due to these two resources, commercial banks and AFM, the Jordanian economy provides two different kinds of funds for its domestic business life. In addition,

specialized credit institutions like credit cooperations, real- estate and saving and financial intermediaries, are providing sources in the financial system.

The establishment of the AFM increased the demand for the amount of information which companies disclose. Due to the use of two different kinds of financial resources, not only credit- oriented financial statements but also investors- oriented financial statements are prepared by the companies.

4.5.4 The Current Jordanian Financial and Economic Crisis

The Jordanian economy has faced many problems, but since mid- 1988, the economy has faced a new , even more difficult situation. This started when Jordan suffered a slump in the value of the Dinar prompted by the devaluation and record decline in Central Bank foreign currency reserves, from about \$1 billion to only \$28 million (Financial Times, 1989).

In September 1988, the Central Bank floated the interest rate on commercial banks and financial corporation deposits in order to drive up local interest rates and attract more funds to the JD, but it was too late for such a move to convince the public to hold their savings in Dinars under the panic turn on it (Shallah, 1989).

The Jordanian Government issued regulations by which the situation become worse, such as:

- The disengagement of the legal administrative relations with the West Bank, which affected the Palestinians in the West Bank and Jordan itself, who are 55% of Jordanian population. The Palestinians who were working in the Gulf area became worried about having their Jordanian passports withdrawn. Therefore, they started to think of moving to countries other than Jordan, and tended to keep their investments in big international capital markets. This also caused a drop in remittances from Jordanian citizens abroad. At the same time, it was estimated, West Bank Palestinian withdrew about JD 50 mn from Jordanian banks in the wake of the move, and purchased dollars or other foreign currency and shipped the money abroad (Rosenberg, 1988).

- The Government froze wages in the belief that Jordanian business should not lose the competitive advantage given to it by the devaluation. It raised tariffs on non-essential imports and banned the imports of luxury items until the end of 1989.

- The Government invoked martial law in February 1989 and closed more than 70 offices of money changers. Their licenses were cancelled, their accounts at banks and other financial institutions frozen, and their books seized for inspection. This happened because the money changers were trading at

exchange rates up to \$1= JD0.660 instead of the official \$1= JD 0.570 (MEED, 1989).

In an attempt to help Jordan's expectations from the Arab world materialise, at the end of November 1988 King Hussein convened a conference on Arab economic development in Amman and also argued the establishment of the Arab Cooperation Council, whose other members are Egypt, Iraq and North Yemen. However, the situation did not improve. In February 1989 Jordan was obliged to turn to the IMF and invite a delegation of IMF economists, who recommended a recovery plan. As expected, this included a massive cut in subsidies, the freezing of development projects, the introduction of value-added tax, and the like. In exchange, the IMF extended an immediate \$ 125 mn line of credit and a conditional commitment for another \$ 150 mn.

On 16 April 1989 the first stages of the IMF plan were implemented. The prices of many goods were increased by 10% - 15%. The brunt of the new burden fell on the middle class, which launched demonstrations, beginning in Ma'an. However, just as the demonstrations are also linked with Jordanian politics and the nature of the regime, so too economic recovery is inherently linked with democratisation and expanded personal freedom in Jordan.

A new parliament was elected in November 1989. Later in May 1990, King Hussein told the Arab summit in

Baghdad that the Jordanian economy was in great need of Arab help. This need was urgent, "not in the future, not tomorrow, but now". As a result, the Arab summit decided to grant \$ 700 mn to Jordan, which was intended to help the Government to stop the decline which affected every person in Jordan, particularly business people. The economic decline had also affected foreign investments which continued to flow into Jordan, though at a reduced rate.

**- The Effect of the Gulf Crisis on the
Jordanian Economy**

The invasion of Kuwait massively disrupted remittances from Jordanians working in the Gulf state. Half of the Palestinians and most of the Jordanians who were working in Kuwait fled the country after August 2, 1990 and those who remained could not get money out. The Palestinians of the West Bank lost access to \$ 100 mn a year. In Jordan, half of the \$ 800 mn Amman derived from remittances each year came from workers in Kuwait.

The economic crisis predated the Gulf war of 1991, but the war severely exacerbated the situation. One of the gravest consequences was the deportation to Jordan of an estimated 275,000 Palestinians holding Jordanian passports, most of whom fled Kuwait and Iraq without belongings or savings. These refugees have taxed the country's social services, especially the water supply and health care. The refugees' future prospects are

bleak. The overall unemployment rate of 32% climbs to 83% among the refugees (Amawi, 1992, P.27).

The GDP declined by 8.2% in 1990, reflecting the impact on the Jordanian economy of the crisis and the severity of its losses. Most of the economic sectors were badly affected, especially tourism, transportation, industry, agriculture, mining, construction and trade (ASCA, 1991).

Aid from the oil-rich countries to their poorer neighbours had been declining throughout the 1980s. As the Gulf states divert their revenues to meeting war and reconstruction costs, aid will probably become even less available. Aid to states which appeared sympathetic to Iraq was suspended almost immediately. Jordan quickly lost the \$ 300 mn in aid it had been receiving annually from Iraq and Kuwait; and now Saudi Arabia also has cut its support, suspending concessionary oil shipments to Jordan (worth a million dollars per day and representing half of Jordan's consumption). It also suspended economic aid to Jordan, which had totalled \$ 200 mn annually and supplied 15% of the state budget.

On the other hand, Saudi Arabia contributed \$3- 4 billion to a special USA Treasury fund to help countries like Turkey and Jordan bear the consequences of supporting the UN Security Council embargo against Iraq.

The Jordanian economy's dependence on Iraq rested essentially on three legs; the port of Aqaba, industrial exports, and oil imports, all of which were threatened by

the UN call for international sanctions against Iraq after its invasion of Kuwait. By mid- 1990 some 70% of the imports and some of 25% of the exports through Aqaba were still transit trade, with most of it going to Iraq. Indeed, a well- informed Jordanian source defined the port's closure to Iraqi goods as "suicide". As for exports to Iraq, with some 75% of Jordan's industrial establishments producing primarily for the Iraqi market, Jordan understandably made termination of the sale of industrial products to Iraq conditional upon the demand that alternative markets be found. Finally, by mid-1990, Jordan depended on Iraqi oil for 80 to 90% of its needs. The oil was supplied as repayment for the large Iraqi debt, and Jordan was unable to obtain the same amount of oil free of charge from the Gulf states. Under such circumstances there is no reason to doubt Prince Hassan's exasperated remark, after the Iraqi invasion, that full compliance by his country with the UN embargo was tantamount to committing "economic hara kiri".

Jordan lost \$15 mn monthly as a result of the closure of the port of Aqaba, the only access for Jordan. The Jordanian government appealed to the UN for special assistance under Article 50 of the UN charter, which provides for compensation to countries damaged by a UN embargo. Jordan also sought Western and Japanese aid, to help it cope with the massive influx of Arabs and Asians fleeing Iraq and Kuwait. The brunt of the embargo and the burden of sheltering evacuees, however, was borne by

Jordan itself, further fuelling the anger and resentment that Jordanians felt toward wealthier Arabs and the West.

More international aid to Jordan after August 1990 would have greatly alleviated Jordan's economic plight and relieved it of much of its dependence on Iraq. Jordan would be hard-pressed to submit to the USA-led coalition's conditions for economic assistance.

4.6 SOCIO-ECONOMIC AND FOREIGN INFLUENCES

ON ACCOUNTING IN JORDAN

4.6.1 Social Influences

The social changes discussed earlier in this chapter have certainly influenced accounting in Jordan over the years. Since the growth of Islamic influence, Arabic has become the official language and all signs and legal documents in Jordan have to be written in Arabic. However, the colonisation of Jordan by the British undermined this and the English language superseded the Arabic language during the British occupation. Hence, many accounting documents, rules and procedures have been derived from those originally in English.

Since independence, however, the Arabic language has again become dominant and accounting records, rules and procedures are all in Arabic. This has given the chance for Egyptian books, teachers and accountants to influence accounting in Jordan.

Another social change which has influenced accounting in Jordan is Islam: Zakat (wealth tax) and the distribution of inheritance must be carried out in

accordance with Islamic teaching. Thus accountants have had to incorporate such roles into their accounting practices.

The recent social changes which have given the Jordanians the chance to study accounting abroad (mainly in the U.K. and USA) as well as the spread of accounting education and training in Jordan, have also influenced accounting improvements whereby British and American accounting techniques have been adopted in Jordan.

Furthermore, the entry of women into the labour market has created a new source of accounting manpower. Meanwhile, the introduction by foreign companies of new technological innovations, such as accounting machines and computers, has helped Jordanian accountants to improve their practices.

4.6.2 Economic Influences

The process of economic environmental change has certainly left its mark on the evolution of accounting in Jordan. During the Ottoman Rule and under British colonisation, the Jordanian economy was primitive. Thus, at the time of British colonisation, accounting was confined to simple bookkeeping in order to compute *Zakat*, or income tax.

However, the rapid growth of the economy has made important demands upon accounting in Jordan. According to El-Issa (1984, P.46):

"... economic development calls for accounting procedures and standards to evolve and expand to be able to meet the emerging needs of the developing economy."

Solas (1988, P.1) indicated that:

"accounting is mainly influenced by the needs of the economy and the educated elite who are in practice in Jordan."

This economic development has been paralleled by accounting development. The expansion of enterprises necessitated more sophisticated accounting practice. As a result, to some extent, cost and managerial accounting came into practice in Jordan (Ibid, P.10).

The necessity for financial control led to the establishment of the Auditing Bureau, which has a regulating role over the auditing profession.

Here, accounting practice is classified under the British- American Model. Accounting practice is becoming increasingly investor- oriented, due to the establishment and increasing role of the AFM. Although the disclosure of information was formerly limited to creditors and government, there has been a rapid move towards investor-oriented information as a result of the economic steps taken to increase domestic savings.

All in all, changes in the economic environment have led to the improvement of the accounting discipline in Jordan.

4.6.3 Foreign Influences

There are many foreign factors of an institutional rather than environmental nature that have strongly influenced accounting principles world-wide. A prime example of this is the geographical influence of England and France in the colonial era. Each of these countries took their business and accounting philosophies to their colonies and instituted similar systems. The USA has tended to do this as its economic influence has spread through foreign direct investment (Radebaugh, 1975, P.46). Jordanian accounting strongly reflects the influences of the U.K., due to British colonialism, and of the USA, not only through investment but, most important, through USA aid.

On the other hand, many international accounting committees are currently active in the attempt to harmonise accounting principles. The International Congress of Accountants (ICA) is the major forum for the accounting professions of various countries to exchange views on a wide variety of topics. The ICA has set up the International Accounting Standards Committee (IASC) in an effort to formulate standards to be observed in the audited accounts and financial statements of firms world-wide. Jordan joined the IASC recently. Since then, attitudes have been increasingly in favour of adopting the International Accounting Standards (IAS) in Jordan.

CHAPTER FIVE
ACCOUNTING EDUCATION
IN JORDAN

5.1 INTRODUCTION

Accounting is a product of its political, social, and economic environments and should be flexible enough to adapt to these differing influences. For accounting to do this, requires professional accountants who understand their environment. To prepare such accountants, the educational system should be designed to ensure that its graduates have a broad and basic understanding of the political, social and economic systems. The need for broadly- educated accountants is nowhere more important than in the developing countries, such as those in the Arab world, especially Jordan, where environments change constantly.

An accounting educational system consists of students, faculty, curriculum, and resources, 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. The educational system is affected by and also affects the economy, as well as the national social and cultural environments. Consequently, an educational system should be designed to meet these overall needs. Agami argued that:

" An effective educational system of one country might poorly serve the educational needs of another country if the two nations have drastically different economic systems or social and cultural settings." (Agami, 1987, P.145)

Furthermore, if an education system is to be relevant, then its components have to be relevant also.

Consequently, the components of Jordanian accounting education will be briefly discussed in this chapter. Those components are accounting programmes and curricula, accounting text books, academic staff and teaching methods, and accounting research. First, however, we shall consider in general terms, accounting education in developing countries, and the role of accounting education in economic development.

5.2 ACCOUNTING EDUCATION IN DEVELOPING COUNTRIES

The accounting information needs in developing countries differ from those of developed countries. Whereas developed countries place heavy emphasis on financial accounting and auditing to provide information to investors and creditors as to a given entity's profitability, the emphasis in developing countries is on information needs for economic planning at the macro level. Thus, national accounting, a subject rarely emphasised in developed countries, becomes an indispensable part of the accounting curriculum. Managerial accounting is a very important subject in developing countries because it can provide useful information for evaluation economic activities, projects and managers.

Another difference between accounting in developed and developing countries is in the area of measurement.

In developed countries, where most business entities are privately owned, income determination becomes the focus of measurement in accounting. On the other hand, in developing countries, where government ownership of at least a portion of economic activities is common, income measurement is quite often deemphasised, and efficiency measures and input/ output relationships assume important roles.

Despite the differences between developed and developing countries, many developing countries have adopted the easy course of creating their accounting educational systems on the models of developed countries. The developing countries do not adapt these systems to their specific economic, social, and cultural environments. Naturally, the imported educational systems have often failed to provide graduates who can meet the challenges of their societies (Ibid, P.152).

Most of the curriculum is imported from developed countries. The text books, procedures, and training are designed for the accounting environment of a developed country. This is partly due to the fact that many indigenous instructors received their advanced training in academic institutions of developed countries. There they were taught applications in the accounting environment of a developed country. As a consequence, much accounting training is oriented towards the wrong environment. Procedures, principles, systems, and level

of sophistication are geared towards the developed countries' accounting environment.

According to Shuaib (1985, P 221):

"Developing nations have tended to borrow concepts and standards from developed nations on the ground that these are the best concepts and standards available. The environmental factors surrounding business activities in developing nations differ from those in developed nations. Furthermore, the legal, political, social, cultural, and economic systems also differ from one environment to another. It is necessary to utilise those concepts and standards that are more closely related to each individual environment."

However, most developing countries lack qualified accounting instructors, due mainly to the low salaries paid to professors. Furthermore, most professors in developing countries supplement their income by consulting or by having their own practice, which causes them to be less available to advise students, to participate in curriculum updating, to do research, or to attend professional meetings and continued education workshops and seminars. The lack of qualified faculty members and the need for faculty to supplement their income have a negative effect on the quality of education.

Another serious problem for schools in developing countries is the scarcity of text books that meet the educational needs of students in these countries. Due to the lack of qualified faculty and the low salaries already mentioned, faculty members do not have time to write accounting text books focused on the accounting

needs of developing countries. Further, the scarcity of foreign currencies experienced by most of these countries prevents the schools from purchasing up-to-date texts from developed countries. It is not unusual to find some text books that are ten, twenty, or thirty or more years out of date, being used in developing countries. In addition, visual aids are either not available or are not used because of the size of classes. The opportunity for students to participate in class discussion or to interact with instructors is very limited. Computer facilities and other supporting equipment and resources are neither adequate nor usually up-to-date (Agami, 1987, P.161).

In this effect, Enthoven (1981, P 7) argued that:

" A major deficiency referred to in accounting education is the view of the profession in the eyes of both the government and the private sectors, e.g., a lack of awareness by government authorities of the role and necessity of accounting. There is a problem of over-emphasis on financial enterprise accounting and little emphasis on managerial, governmental, and even macro (national) accounting. The private sector does not seem to place as much effort on accounting as on other disciplines. This leads to a gross shortage of materials, texts, and teachers."

Obviously the accounting problems in developing countries can be overcome only through educational efforts at both the clerical and the professional levels. Educational and training programmes should be adapted to meet the specific needs of each developing country. Yet an examination of present programmes for the training of

accountants in many developing countries shows that they are frequently copies of Western, usually USA, programmes which obviously do not address the problems of the developing world.

5.3 ACCOUNTING EDUCATION FOR ECONOMIC DEVELOPMENT

Accounting education lags behind other forms of education in many developing countries' economies. A lack of awareness exists in many developing countries regarding the significance and role of accounting in the micro and macro economic sector.

Formal accounting education should focus on concepts instead of techniques only, although the latter are necessary for carrying out the accounting functions. The educational programme of professional institutions and training centres tends to concentrate on the more technical aspects. A major objective of education is to develop students who can think in accounting concepts, norms and procedures; it involves a conceptual appraisal of systems and models, and an awareness of the socio-economic environment in which accounting operates.

Accounting educational structures and activities should take into account socio-economic objectives. It is not very beneficial just to copy educational systems from abroad without assessing them in the light of a country's requirements (Enthoven, 1982).

Increasingly, it appears that economic development at all levels can be significantly improved if attention

is paid to the accountability and planning roles of accounting, and education is designed to prepare society and accountants for this aspect of economic development. It is in the research role that accounting education can make a significant contribution to economic development. Of particular importance is behavioural and motivational accounting research, which if coupled with research on the cost and value of accounting information, should result in a flow of new accounting knowledge that would enable a society to maintain accounting information appropriate to a continuous programme of economic development. To be effective, an organised system for transmitting this knowledge would have to be maintained at the university level.

The real challenge here, in the words of Enthoven, is that:

"to make accounting more relevant and useful for all sorts of economic analysis, policies, planning and decision-making. This in turn raises the question whether the accounting discipline and the accounting educational set-up for a country are able to cope with the anticipated needs." (Enthoven, 1981, PP.66,67)

He added that a major educational question is whether the present accounting programmes are suitable to educate the people for future social, managerial and professional demands.

Given the importance of the role of accounting in development planning in general and project appraisal in particular (see ch. 3), accounting education in

developing countries appears to be of major importance. There is obviously a need for systematic accounting education in connection with technical assistance programmes to give a better chance for development planning to be effectively implemented.

The actual situation of accounting education in the developing countries is far from compatible with what is required for effective implementation of development planning. There are various problems of accounting practice , and accounting education in the developing countries could be considered inadequate in its role of facilitating economic development. A recent survey of experts gives a rough ordering of the relative importance of the major accounting practice and education problems and their causes in the developing countries and shows that many of the most important accounting problems are believed to result from important causes deeply rooted in accounting education (Belkaoui, 1988).

Belkaoui, (1988, P.202) states that the problems include the following:

- (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 failure to utilize accounting information advantageously for internal management purposes.

- (4) There is insufficient legislation relating to accounting and auditing standards and procedures.
- (5) Teaching of accounting subjects at the college level is inadequate.
- (6) There are too few qualified accounting instructors at the college level.
- (7) Locally authored text books are inadequate.
- (8) There are insufficient professional development opportunities for accounting educators and practitioners.
- (9) Accounting education for managers and prospective managers is inadequate.
- (10) There are no strong national associations of accountants.
- (11) There is a lack of adequate accounting in government agencies and government- owned business.

5.4 EDUCATIONAL CHARACTERISTICS OF JORDAN

Jordan is a small country, but it is one of the most progressive countries in the Middle East. Education is important to the Jordanian economy. It occupies a special place and is given special emphasis in Jordan. Jordan lacks natural resources but has a rich abundance of human resources. However, if they are to contribute to growth and development, they must benefit broadly from

education. Currently the literacy rate of Jordan is 70% (Solas, 1988, P.6).

Education starts with kindergarten and continues with primary, preparatory and secondary high school and University. There are three civil and one military university in Jordan: university education in Jordan is a recent development. The University of Jordan was founded in 1962, Yarmouk University in 1976 and the Jordan University of Technology and Sciences in 1987.

These universities have adopted and adapted the USA university system. All offer the normal range of degrees in arts, science, education, business, medicine, agriculture and engineering. They are state-supported.

The teaching medium of the University of Jordan is Arabic, but some courses are taught in English. At Yarmouk University, the official teaching medium is Arabic also, but English is used generally. In the 1987/88 academic year, 24,292 students were enrolled at both universities (Jordan, Statistical Year Book, 1988, P.251). Both of them offer degrees in accounting. In addition, many colleges offer two-year associate degrees in accounting.

In 1987/88, 29,095 undergraduate students were enrolled in Jordanian universities, 4232 of them (about 14.5%) studying Economics and Administrative Sciences. In the same academic year, 164 out of 2341 graduate students at the M.A./ MSc. level enrolled in Jordanian

universities were studying economics and administrative sciences (about 7.0%) (Ibid).

In business faculties, the curricula of accounting courses, with very minor modification, are very similar to those of USA universities. Most of the degree holders who are practicing in the accounting field, received their doctoral degrees either in the USA or in the U.K.(see table 5.1). As a result, accounting practice is oriented in this direction. Currently, the institutions which use accounting information are familiar with the kind of information provided. However, the individual users have difficulty in using this kind of information, though they are learning, and the new generation has been acquiring the necessary education and also the motivation in this field.

TABLE 5.1
ACADEMIC STAFF MEMBERS AT THE DEPARTMENT OF ACCOUNTING,
UNIVERSITY OF JORDAN, CLASSIFIED ACCORDING TO THEIR
DEGREE AND COUNTRY OF EDUCATION

	USA	U.K.	Others
PH.D.	5	1	1
MA. /MSC.	3	-	1
Bsc.	-	-	1
Total	8	1	3

Source: University of Jordan Prospectus, 1989 (P.114, 115).

As indicated above, the increase in the rate of literacy and the development of the education system will have impacts on accounting development in the near future.

5.5 DEVELOPMENT OF ACCOUNTING EDUCATION IN JORDAN

The evolution of accounting, both in education and as a profession, started a long time ago. As time passed, many changes occurred in the socio-economic factors, in the environment, and in the technology, forcing accounting educators and professionals to respond to the emerging needs.

As early as 1900, accounting became a separate field at the university level. The department of accounting curriculum was and still is in a dynamic state. Many disciplines have been added to the accounting curriculum, including computer applications in accounting. Changes are still occurring (Qtaishat, 1988, P.46).

However, until 1960, there were no facilities for higher education in Jordan. Traditionally, sons of the wealthy had been sent to universities in neighbouring countries or overseas. Recognising the need for higher education on a broader scale, at that time, the government offered a number of scholarships for study abroad. Other grants were available through UNESCO, the British Council, and the USA government exchange programmes. Increasing numbers of Jordanians are going to the USA for study.

Prior to 1965, a university education in accounting in Jordan was unavailable. The Jordanian student had no choice but to go abroad for legitimate business study. In 1965, the Faculty of Economics and Administrative Sciences (FEAS) of Jordan university was established to (1) prepare highly qualified graduates to serve the government and private sectors; (2) offer interested students of other colleges courses which might usefully supplement their fields of specialization; (3) provide opportunities to orient the academic activity towards real issues and contemporary problems of the Jordanian society; (4) contribute to the knowledge and better understanding of business subjects in Jordan in particular, and the Arab region in general. The faculty now offers bachelor degrees in accounting, management, economics and statistics, public administration, and political sciences (Shuaib, 1985, P.215).

In 1981, the FEAS at Yarmouk University was established as an independent faculty; before that it was part of the faculty of Science and Arts. The faculty now includes the following departments: Economics, Business Administration, Accounting, Public Administration, and Banking & Finance. Accounting was part of the Administrative Sciences Department from 1977 until academic year 1983/84, when the department of Accounting was established (Agami, 1987, P.154). The university operates on the semester system; students

must complete a minimum of 123 hours to graduate (see Appendix 5.A).

5.6 ACCOUNTING EDUCATION AT THE UNIVERSITY OF JORDAN

The University of Jordan was established in 1962. Three years later, a FEAS was established. At that time, the university of Jordan followed the year system (the British style); the student attended the school for four years without a summer school. Each year the student had to pass a comprehensive exam covering all the material taught during that period. There was no element of individual choice in registration for courses.

Three prospectuses were reviewed. The first was for the academic year 1969/70, when the university was following the year system. The second prospectus reviewed was for the academic year 1976/77, and the third which is still in use, was for the academic year 1982/83. 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 occurred as a result of the change from the year system to the credit system (Qtaishat, 1988, P.41). The requirements for each accounting student listed in 1969/70 prospectus is given in Table 5.2.

TABLE 5.2

ACCOUNTING PROGRAMME AT THE DEPARTMENT OF ACCOUNTING
OF THE FEAS / UNIVERSITY OF JORDAN

First year "Common subjects for all business students are required":

Course	Weekly Hours
Principles of economics	4
Principles of management	4
Principles of accounting	4
Principles of politics and public admin.	2
Principles of law	2
Psychology	2
English language	3
Arabic language (3) should pass the exam. (not counted)	
Total	<u>21</u>

Second year "The students choose their majors":

Course	Weekly Hours
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
Total	<u>19</u>

Third year:

Course	Weekly Hours
Advanced cost accounting	3
Cost accounting for farms	2
Financial statement analysis	2
Statistics	3
Jordanian financial legislation	2
Accounting in English	3
Elective course	3
Total	<u>18</u>

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
Total	<u>16</u>	<u>16</u>

The requirements were later changed to more closely resemble those of the USA universities, since the student was required to complete 134 credit hours in order to receive a degree.

In 1970 the university of Jordan started following the credit hours system (the American system), and it now uses the semester system. The total credit hours for the bachelor degree in accounting are 134 with two options: single specialization and major specialization. The study plan listed in the 1989 prospectus is given in Table 5.3.

TABLE 5.3

BSC IN ACCOUNTING STUDY PLAN GENERAL REQUIREMENTS

Requirements	Single Specialization Credit Hours	Major Specialization Credit Hours
University Requirements	20*	20*
Faculty Requirements	21**	21**
Required Courses	60	39
Elective Courses	24	18
Free Electives	9	9
Minor Specialization	-	27
Total	134	134

* 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 award of the bachelor's degree in accounting as a single or major specialization (table 5.4).

Table 5.4 presents the required courses given by the department of accountancy at the university of Jordan for

single and major specialization. Table 5.5 presents the elective courses offered by the department.

TABLE 5.4

ACCOUNTING PROGRAMME AT THE DEPARTMENT OF ACCOUNTING
OF THE FEAS / UNIVERSITY OF JORDAN

Course No.	Course Title	Credit Hours	Pre-requisite		
A. University Requirements					
100	Arabic language	3	--		
100	English language	3	--		
--	Military science	3	--		
--	General culture	2	--		
--	Free elective	9	--		

		20			
B. Faculty Requirements					
23101	Accounting principles	3	--		
23102	Accounting principles	3	23101		
31103	General mathematics	3	--		
21110	Principles of economics	3	--		
21111	Principles of economics	3	--		
20101	Principles of management	3	--		
22101	Principles of statistics	3	--		

		21			
C. Accounting Department Requirements					
		C/H	S/S	M/S	
23211	Corporate accounting	3	X	X	23102
23212	Corporate accounting	3	X	X	23211
23213	Special financial accounting	3	X	X	23102
23214	Accounting studies (in English)	3	X	X	--
23221	Cost accounting	3	X	X	--
23311	Accounting for banks	3	X	-	--
23313	Accounting studies (in English)	3	X	-	--
23314	Budgetary statement & analysis	3	X	X	23212
23321	Cost accounting	3	X	X	23221
23341	Governmental accounting	3	X	X	23102
23411	Auditing	3	X	X	23212

Table 5.4 (continued)

23412	Auditing	3	X	X	23411
23421	Managerial accounting	3	X	X	23102
23422	Accounting studies (in English)	3	X	X	23102
23431	Accounting for taxes	3	X	X	23102
23491	Accounting theory	3	X	-	23102
22221	Principles of statistics	3	X	-	22101
25231	Principles of marketing	3	X	-	--
10111	Principles of law	3	X	-	--
10121	Commercial law	3	X	-	10111
		60	39		

Source: University of Jordan Prospectus
1989 (PP. 15-18, 131, 132).

C/H: Credit Hours, S/S: Single Specialization

M/S: Major Specialization.

TABLE 5.5

**ELECTIVE COURSES OFFERED BY DEPARTMENT OF
ACCOUNTING AT THE UNIVERSITY OF JORDAN FOR
SINGLE AND MAJOR SPECIALIZATION**

*((student should choose not less than 24 hours in case of
single specialization and only 18 hours in case of
major specialization))*

	C/H	S/S	M/S		
23201	Business mathematics	3	X	X	--
23215	Statistics accounting machines	3	X	X	--
23216	Accounting studies (in English)	3	X	X	23102
23311	Accounting for banks	3	-	X	23102
23322	Cost accounting for farms	3	X	X	23221
23413	Accounting cases & problems	3	X	X	23102
23414	Accounting for insurance	3	X	X	23102
23415	Accounting systems	3	X	X	23102
23416	Petroleum & minerals accounting	3	X	X	23221
23423	Accounting quantitative analysis	3	X	X	31103
23441	National accounting	3	X	X	--
23470	Seminar in accounting	3	X	X	23102
23491	Accounting theory	3	-	X	23102
23492	Current problems in accounting	3	X	X	23102
20291	Research methods	3	X	X	--
		39	45		

Source : University of Jordan Prospectus 1989 (PP. 15-
18, 132, 133).

The accounting department of the FEAS at the University of Jordan is the most influential factor in accounting education in Jordan, due to the fact that it was established about twenty-five years ago. Hence the rest of this chapter will be devoted to the accounting education provided by that department.

On average, students are expected to graduate after eight semesters, though the maximum is ten semesters. Students' performance is evaluated according to a points scale, ranging from F (Fail)- zero points to A (outstanding)- four points. For any student to graduate he/she has to earn at least a D grade, or one point, for each course taken and an overall average of at least C, or two points.

<u>Grade</u>	<u>Points</u>
A	4
B	3
C	2
D	1
F	0

The new system has granted a degree of freedom of choice among a wide variety of courses. However, the vast majority of these courses are designed to prepare the student for preparing, auditing and analysing financial statements for the purpose of private sector external reporting. The only difference between the old system and the new is that the old system was British oriented, while the new one is American oriented. A detailed study of the three main components of the new

system (curriculum, text books and teaching) will explain this fact.

5.7 EVALUATION OF THE ACCOUNTING EDUCATION IN JORDAN

It is important at this point to focus attention on specific elements of accounting education in Jordan, to identify matters of concern that should be addressed by Jordan University. This section discusses matters related to curriculum, staffing, text books and teaching methods.

5.7.1 Accounting Programme

The teaching/ learning process consists of educators, students, and curriculum. The curriculum can be regarded as encompassing all educational experiences that an individual encounters (Calhoun, 1982). To make sure that accounting students have the necessary experience, professionals and educators must review their educational programmes. Within this context, accounting professionals and educators are facing pressure to prepare students with the skills and tools necessary to be successful practitioners (Reep, 1984).

Further, 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.

If these aims are to be achieved, liberal arts education must replace the rigid technical accounting education now dominant in the Arab world. Fewer

accounting courses should be compulsory; those that are so, should be less procedural and more conceptually oriented. The Arab world needs educated accountants and policy makers who are able to help decision-makers; it does not need technicians and bookkeepers (Agami, 1987, P.161). The focus in accounting education should be on developing analytical and conceptual skills, rather than bookkeeping and memorization. The emphasis should be on developing lifelong learning skills rather than immediate skills (Gress, 1990).

Gress (1990) added that today's accounting student should also be taught basic computer skills. The emphasis here should be on the fact that the computer enables accountants to work more quickly and accurately. Students should be taught that the computer is only a tool that speeds the processing of data. Students should use the computer's ability in solving complex problems only after the concepts involved have been understood.

In this respects, Agami (1987, P.158) argued 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."

Less emphasis should be placed on accounting for external reporting and financial auditing, and more emphasis should be on managerial accounting, operational

auditing, and other courses designed to meet the economic, social, and cultural needs of each country. If the focus of accounting education is to be shifted from financial to management accounting, the accounting curriculum should be revised to include more courses in mathematics, statistics, and operations research. Additional courses in behavioural sciences and the humanities are also needed. The system approach to accounting, where the focus is on countries and their information needs, should be adopted. The number of courses in economics should be increased and the topics should include micro economics, macro economics, economic development, and international economics.

The former Jordanian accounting education was highly influenced by British accounting education, which itself was oriented towards the British accounting profession. Accordingly, the system was out of touch with the needs of the Jordanian economic environment.

The new system offers a wide variety of accounting and non-accounting courses for students to choose from. The total content of the accounting programme is 230 credit hours, 92 credit hours, or about 40%, of which are compulsory accounting and non-accounting hours, while the remaining 138 credit hours, of which the student should take at least 42 credit hours or about 30%, are accounting and non-accounting optional credit hours (see tables 5.4, 5.5).

The new programme has followed the old one in requiring that students should take a high load of accounting courses. 78 credit hours out of 134 credit hours needed for graduation (about 58%) have to be accounting credit hours (see Table 5.4). 54 hours out of those 78 hours are compulsory while, the remaining 24 hours are chosen from a pool of 39 accounting hours.

A close look at the make-up of the 78 accounting hours reveals that 77% of the financial accounting hours deal with the preparation, analysis and auditing of private firms' financial statements. Cost and managerial accounting count only for 15.3% , and governmental accounting for merely 7.7% . The latter is particularly unsatisfactory, since half of these hours are optional, which means that there is a high chance that an accounting student will graduate with only 3 credit hours of governmental accounting.

The private sector orientation of accounting is also emphasised in the non-accounting courses, where accounting students are required to take micro economics courses, but are given no chance to take courses in macro economics, economic development or public finance. They are also required to take financial management courses, dealing with private firms' affairs, while the study of national income accounts is optional.

The contents of both accounting and non- accounting courses have been taken directly from similar courses at the American universities, except for a few subjects

which were meant to be related to Jordan, so that the bulk of the subjects have no direct relation to the Jordanian social, economic, and political environment.

The fact that there are no professional institutes where students can obtain pre- job training after graduation (as in the case in the U.K. and USA) makes evident the need for the widest possible practical curriculum to be adopted within the accounting programme.

Moreover, with the commencement of a Masters programme in Business Administration (Management, Marketing, Finance, and Accounting), and the existence of ambitious economic development plans, both Jordanian managers and students need more advanced, specialized and relevant knowledge of accounting. To meet the new demands, there must be a strong effort to develop relevant text books and teaching materials.

5.7.2 Accounting Text Books

Accounting text books used in the FEAS are mostly British, or if Arabic, are either translated from English or written by Arabian writers who graduated from British universities. Most (if not all) of the accounting courses have two types of references: those written in the Arabic language and those written in English. Since most of the accounting students know little English, they prefer to use books written in Arabic. However,

accounting instructors often use English references for the purpose of establishing course syllabuses and for preparing lectures.

The lack of adequate accounting text books is an additional problem facing Jordan Universities. Over the years, several American text books have been translated, with some modification, into Arabic. Accordingly, accounting education has witnessed some changes from the British oriented education system to an American oriented education system.

5.7.3 Academic Staff

The academic staff plays a very important role in any educational system. In addition to teaching and doing research, they develop the curricula, write text books, participate in setting the goals and objectives of the educational system, and integrate the resources to achieve the system's goals and objectives. One of the most frequently cited problems in the educational systems of developing countries is the lack of qualified academic staff (see Table 5.6 for the student/ faculty ratios in seven Jordanian institutions). The data in Table 5.6 indicate a severe lack of qualified faculty in the country; for example, the student/ faculty ratio at the Intermediate University College in Jordan is 193 : 1.

TABLE 5.6

**STUDENT/ FACULTY RATIOS
INSTITUTIONS IN JORDAN OFFERING DEGREES IN
ACCOUNTING**

Institution	No. of students	No. of faculty			Total	S/F ratio ¹
		PhD	MA	Bsc		
Jordan	NA	7	4	1	12	NA
Yarmouk	250	4	-	3	7	63
Intermediate	580	-	3	9	12	193
Khawarizimi	112	-	2	2	4	56
Zarkha	25	-	1	10	11	25
Interm. Arabic	738	-	12	-	12	62
Amman	161	-	2	9	11	81
Kharnada	286	-	2	7	9	143

Source: Schmide, L.C., Directory of Academic and Technical Programs in Selected Middle Eastern and North African Countries (Washington, D.C., AMIDEAST, 1985).

S/F ratio: Student Faculty ratio

NA: Not Available

Interm.: Intermediate

The percentage of faculty holding the doctoral degree in Jordanian universities is alarming low. The lack of qualified faculty in other higher institutions is even greater; where there is no intermediate college in Jordan with accounting faculty members who hold the doctoral degree (Table 5.6).

Because of the excess teaching load and the average number of students per teacher, accounting teachers do

¹ Based on the number of faculty holding doctoral or master's degrees.

not have enough time for study and research, or even for class preparation.

Unfortunately, the situation is exacerbated by the fact that some students, when given an opportunity to study overseas for advanced degrees, remain in the developed country, resulting in a further drain of staff; a self-defeating operation.

Like their USA counterparts, almost all Jordanian accounting teachers are full-time professors. Most of the present accounting teachers in Jordan university have a final degree (doctorate) in accounting.

The present approach of teaching bookkeeping, rather than accounting, should be stopped. Accounting academic staff should realise that the lengthy drills they require their students to go through in keeping all kinds of specialized journals, posting, neatly balancing the books, and placing the monetary unit symbol in its proper location in the financial statements is only an exercise in futility.

The current teaching methods of classroom lectures, mechanical exercises and text book reading constitute only spoon-feeding, and render the student totally dependent on memorizing written material, with no sense of creativity or analysis. Hence, case studies, seminars field trips, on-job training, real business problems and research-orientated courses should all be integrated into accounting education, if accounting students are to contribute to their country's development. Jordanian

cases must be written by Jordanian authors, for American cases are written for the American environment, and should not be used for Jordanian classes (Briston, 1978, P.113). Jordanian accounting books should also be written on an original basis, with reference to American and European books in the areas of quantitative techniques, but not in areas of a problematic nature. The blind import of foreign concepts, theories and problems may cause more difficulties than it solves in real situations.

All in all, the new Jordanian accounting education system is American oriented in all of its elements- teachers, text books, curriculum, evaluation, and the administrative system. Undoubtedly the real needs of accounting education and training in Jordan nowadays differ significantly from the content of American accounting education, which Jordanian teaching staff have rushed to introduce into the classroom, and on which they have built the syllabus for accounting education. As a result, the Jordanian accounting programme and curricula are biased towards financial accounting and external reporting, with more than 77% of the programme devoted to those subjects.

5.8 ACCOUNTING RESEARCH AND DEVELOPMENT

Research and development are part of education. In many countries, including Jordan, such accounting research activities are extremely weak. There is a lack,

both of funds and of well-qualified personnel, and the regular accounting practitioners at both government and private levels are too occupied with daily tasks. Frequently, accounting research, writings, and related functional developments (e.g. course material development) may be limited to copying foreign accounting research and pronouncements without effectively determining domestic or regional usefulness.

Most accounting research is being conducted by the Accounting Faculty of Jordan University. Several empirical (field) studies of aspects of financial, managerial accounting measurement and reporting have been conducted. Accounting literature in Arabic is increasing, though at a rather slow pace.

Research is generally acknowledged to be one of the basic functions of academic departments at universities. However, accounting research in Jordan is hampered by lack of recognition on the part of the authorities, lack of time on the part of faculty staff, lack of facilities and lack of encouragement from other parties.

Research is needed in order to ascertain whether accounting systems and/ or accounting standards developed in one country are feasible, desirable, and relevant to the needs of other countries, particularly developing ones.

MBA students in Jordan university have the chance to undertake research projects, selecting an accounting topic for investigation. Most of the topics so far

undertaken have involved library research based on American, British and Arabic books. Very few of them contained any empirical data and most were purely descriptive studies. However, even this opportunity does not exist at BSc. level under the new accounting system.

The topics of accounting research should be related to current Jordanian accounting problems, such as current cost accounting, foreign exchange treatment, accounting for multinational firms, comparative accounting, national income accounts, governmental accounting, internal auditing, managerial accounting, and integration between micro and macro financial accounting.

CHAPTER SIX
ACCOUNTING PROFESSION
IN JORDAN

6.1 INTRODUCTION

The word profession is used in many ways and to describe many different things. In simple terms it can be defined as the occupation which one professes to follow, or in more elaborate terms as an occupation which involves high educational or technical qualifications which are applied to the affairs of others. Even this latter definition, which appears to be the more appropriate when applied to the accountancy profession, is still very wide and could encompass occupations which would not be regarded as professions because they do not display the characteristics of a truly learned profession.

Eric L. Kohler has defined *profession* as a vocation a) generally recognised by universities and colleges as requiring special training leading to a degree distinct from the usual degrees in arts and sciences; b) requiring principally mental rather than manual or artistic labour and skill for its successful prosecution; c) recognising the obligations of public service and of the public interest; and, d) having a code of ethics generally accepted as binding upon its members (Kohler, 1983, P.339).

Miller (1984) stated a profession to be 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." (Miller, 1984, P.6)

This definition not only states the characteristics of a profession, but also notes the processes by which occupational groups achieve professional status, and the vital role of education and training in the acquisition and maintenance of professional status.

Roy and MacNeill (1967) have outlined the criteria of a profession which include: the rendering of essential services, government by ethical principles, requirements for admission to the profession, which are regulated by law, procedures for discipline, dependence upon a body of specialized knowledge acquired through formal education, and development of its own language.

Meanwhile, the accounting profession has been defined by Buckley and Buckley as follows:

"Accounting is a multi-disciplinary profession defined in terms of the problems it addresses. 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 design 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." (Buckley & Buckley, 1974, P.15)

Accounting in most countries has reached a certain level of professional acceptance. However, there are differences depending upon the maturity and establishment of the profession in each country, due to its different historical background, environment and the level of the development of the economy. These situations highlight the difference between the status of professional accountants and the accounting profession in developed and developing countries.

It is against the background of the above definitions of professions in general, and of the accounting profession specifically, that this chapter considers the accounting profession in Jordan. It discusses the emergence and development of the public accounting or auditing profession in a developing country, and more specifically, addresses itself to the question: Is there a well established accounting profession in Jordan ?

6.2 ACCOUNTING PROFESSION IN DEVELOPING COUNTRIES

The characteristics of the profession as pointed out by Roy and MacNeill (1967) are reasonable requirements to be held by professional society in developing countries. However, the different situations and conditions or development of the accounting profession in developed and developing countries lead to different levels of quality

of the profession. In developed countries, with a long professional history, the association is strong enough to police its members and even to create and suggest to the government, some laws and regulations relating to the strengthening of the profession. The situation in developing countries might be very different, in that the accounting associations are still in the developmental stage, and still need to strengthen themselves. In these circumstances, without revolutionary planning sponsored by the government in developing countries, and international coordination, professional accounting in developing countries will always run behind that of developed countries.

The results of several surveys aimed at identifying accounting needs in developing countries have confirmed their shortage of qualified and experienced accountants and financial management personnel. Many such countries have a professional accounting body, but very few of them offer a national qualifying examination. That constraint, and those imposed by the scarcity of educational resources, cause a gap to remain between the demand for and the supply of accounting technicians and qualified accountants (Heffer, 1991, P.40).

Malallah has concluded from his thesis 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."
(Malallah, 1983, P.iv)

In developing countries, the effort to promote and to develop the accounting profession needs better cooperation and coordination between professional societies and the government; in this effort, it is reasonable to expect that the government will play the greater role.

Some writers believe that government involvement is likely to weaken the accounting profession. However, in the case of developing countries, the accounting profession is already weak and relatively small, and it is exactly for this reason that government intervention becomes necessary to safeguard public interest.

There are some suggestions 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 & Oliga, 1982, PP.69-88). This might necessitate obtaining the support of governmental agencies, as well as other groups interested in financial reporting standards.

The accounting profession of a society will be continuously influenced by economic and business environmental changes and the various needs of that society. To ensure that the accounting profession is able to fulfil its function to meet social needs, it should consider environmental developments, without departing from or sacrificing the basic principles of its profession. This necessity is more pronounced in

developing countries, such as Jordan, where national development in all sectors is rapid.

The dynamic changing environment will always enhance the needs of the public to push the professional accountant to be aware of those changes and present a challenge to the accountant to improve and develop his professional skills.

The changing environment in developed and developing countries has a different influence on the professions. In developing countries this is often rapid, and may be unexpected. This is true especially in a country like Jordan, in which the political situation and economic conditions are unstable. There are many new laws, regulations and policies created by the government in the economic field which have a direct impact on the professions, with which the professions may be unable to cope.

Nor can the role of accounting and professionalism be said to be the same from one country to another. It depends on the economic system adopted by each country. In capitalist countries, accounting and professionalism have a greater role and there is much more scope and opportunity to develop the profession. In some developed capitalist countries the role of the accounting profession is comparatively *authoritative* in its field. In the socialist or communist countries, in which the government role is much greater than the private one, the

role of the accounting profession is hinged to government policies.

Thus, it can be seen that the accounting profession will be greatly influenced by the dynamic changing environment. The requirements of professional service to the public under these conditions necessitate increased professional competence or technical proficiency. These situations are more complex in developing countries than in developed countries.

6.3 ACCOUNTING PROFESSION FOR ECONOMIC DEVELOPMENT

A sound information system is needed in the financial and economic matters of both governmental and private sectors. The establishment and development of such a financial information system is regarded as one of the most important tasks of the accounting profession.

The role of the accounting profession in a developing economy is particularly important, but faced by many obstacles. Indeed, there is a need for more awareness and consciousness of the importance of professional competence and judgements. Owners, investors, managers, creditors, governments and other interested parties should be able to rely on accounting and accountants for dependable information on public and private sector productivity, profits and the use of non-revenue earning resources.

According to Hadori (1989), the developing countries confront different situations in which the democratic systems in the political and economic fields emerge.

Especially in countries where most of the economic sectors are liberalised, the accounting profession must play a much greater part in the economy. Again, in developing countries, the role of the government is still very strong, as is necessary in order to catch up a certain level of 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, in the effort to push the role of accounting and the profession, government intervention is still needed.

It is important to note that to face the dynamic changing environment and to serve the public and government professionally, accounting professionalism need to be strengthened, both in the micro and macro accounting branches. Strong professions will do much for economic development and serve well the needs and aims of the public.

Moreover, Amer stated 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."
(Amer, 1969, P.53)

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 professional education. The development of accounting education and professional education must be implemented on a long-range planning basis, irrespective of the economic conditions.

6.4 ACCOUNTING EDUCATION AND ACCOUNTING PROFESSION

The accounting education and accounting profession are two aspects of accounting which cannot be separated from each other. There is a link and close relationship between the two. If accounting and the profession are badly needed by the community, accounting education has a duty to prepare persons to become professional accountants. The links between these two fields in accounting were described by Solomons and Berridge (1974) in their proposed systems for the *Long Range Enquiry into Education and Training for the Accountancy Profession*, as correlated stages in the chain of a system. Basic relevant education leading to a Diploma of Higher Education or a degree, is a duty and responsibility of accounting education; further practical instruction, experience requirements, tests of professional competence, specialized qualification, and continuation of education, are the duty of the accounting profession.

There are also many possibilities for accounting educators and professional practitioners in accounting to work together to develop accounting education and the accounting profession through continuing professional education. This form of joint effort between accounting

educators and practitioners would be a good way to promote continuing professional education in developing countries.

In this regard, Hadori (1988) points out the interrelations between development of the accounting profession, social needs and various levels of education and the improvement or development of various institutions, in harmony with the development of the society. Therefore, the development of accounting education cannot be separated from the development of the accounting profession.

In 1986, the AAA published what is commonly known as the *Bedford Committee Report*, about the future education of accountants. It concluded that accounting programmes were not preparing students adequately for professional accounting careers in industry, government, or public practice. It contained two primary recommendations (Sundem et al, 1990):

1. Colleges and universities should approach accounting education as an information development and distribution function for economic decision-making.
2. Education of accountants should emphasize students' learning to learn as the primary classroom objective.

In early 1989, a white paper signed by the managing partners of the Big 8 accounting firms, *Perspective on Education: Capabilities for Success in the Accounting Profession*, repeated many of the Bedford Committee's

conclusions. A major contribution of the report was a specification of the skills and knowledge required for a successful accounting career. The skills were listed first: communication skills, intellectual skills, and interpersonal skills. Knowledge of three types followed: general knowledge, organisational and business knowledge, and accounting and auditing knowledge (Ibid).

The clear implication of both the Bedford Committee Report and the Big 8 white paper is that education for accountants must change.

Following up, the AAA and major public accounting firms collaborated to form the Accounting Education Change Commission (AECC). In September 1990, the AECC issued its first statement, entitled *Objectives of Education for Accountants*. The statement emphasised the need to move from a knowledge-based educational programme to a process-oriented approach. The objective of the new approach to accounting education is to prepare students to become professional accountants, not to be professional accountants at the time of entry, as it is impossible at this stage to have the full range of knowledge and skills expected of a professional accountant. An accountant's academic preparation should lay a base on which lifelong learning can be built. To accomplish this, students must learn to learn (Ibid, P.50).

In developing countries, it is important to recognise that professional and educational problems of accounting were found to be related and many of the causes affecting the professional problems were found to relate to accounting education and its inadequacies. Therefore, it was concluded that any effort to improve accounting education in these countries could help to solve or minimise the professional problems (Foroughi, 1981).

It is necessary to stress that law and regulations concerning continuing professional education have to be established by the government or professional organisations, as far as possible within the framework of the state or government laws and regulations. In this regard, there is a difference between developed and developing countries. In developed countries, such laws and regulations have been established either by government or by professional organisations, but in developing countries, the role of the governments still predominates and there is a need for strong cooperation between the government and the professional organisations to facilitate the implementation of continuing professional education.

Hadori (1989) stressed,

"In developing countries, there is even greater need for good co-operation and co-ordination between higher education institutes 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, P.36)

He added that if there is a lack of cooperation and coordination between the two, it will cause inefficiency and loss of national resources, or at least the development of the accounting profession will be very slow and it will be unable to cope with the challenge of the modern world. This means that the profession in the developed nations, will be in an unfavourable position for international business and economic relations or activities (Ibid).

Training is a key factor in the development of the accounting profession, and professional development programmes in accounting are a must for professional accountants.

Hadori has concluded:

"Professional development programmes or continuing professional education and training in accounting, vary from country to country and from developed country to developing country, in terms of systems, length of the training, depth of the materials and so on, but the objective of the programmes is the same in that it can be said to maintain and develop the professional competence of the professional accountant." (Ibid, P.43)

Continuing accounting education for the profession, as in the developed countries, is still needed in developing countries before any major development of accounting practice can be expected. This is particularly true in the case of Jordan, considering the

diverse educational background of practicing accountants, and the current state of inadequate disclosure.

Concentrated efforts seem to be needed in order to coordinate activities by accounting academics, practitioners, and bodies responsible for accounting practice (Governmental agencies as well as the Jordanian Association for Certified Public Accountants). This may be achieved by forming task- forces representing various groups, in order to establish an agreed strategy for improving accounting standards and auditing practice.

6.5 EVOLUTION OF ACCOUNTING PROFESSION IN JORDAN

The definition of the accounting profession as stated in the first section of this chapter, is the product of social and economic changes in the western world and the USA during the industrial revolution. While the same definition is generally applied in Jordan, it is not a product of changes that have occurred in Jordan, but is the product of the U.K./USA accounting influence upon accounting.

The first auditors in the Middle East were British subjects who were members of British Accounting Associations (BAA). These came originally to audit branches or subsidiaries of British companies and to audit local companies with British ownership interests. The high esteem awarded the British accounting bodies, and, more important, the willingness of the BAA to admit foreign members, were primary reasons for the emergence

of local professions patterned after the British model. This is especially true in Egypt, which was the first Middle Eastern country to organise its own national accounting profession and form its own institute of auditors. Outside Egypt, there were no local accounting institutes per se; membership of British accounting bodies was the only qualification sought by enterprising local accountants (Gress, 1985, P.168).

The British accountants opened local accounting offices in Egypt, Palestine (now called Israel), and Iraq, and hired residents of the area to work for them, or more appropriately, to serve as apprentices. This led to the emergence of a handful of local qualified public accountants who gained admission to BAA. This number was established at not more than five in the late 1920s, excluding members from Egypt. Although membership of BAA has increased over the years, it has not increased dramatically. Several accountants in the Middle East became members of the AICPA through naturalization.

It should not be construed, however, that all public accountants in the Middle East have attained the status of recognised professionals. The ground has been broken, but the construction is still in its early stages. Good public accounting in the area is practiced by a few reputable local firms, with perhaps as many branches of British and American firms.

It was in 1943, that the accounting profession started to emerge in Jordan. Before this date, there

were no accounting services based in the country, and any such activity was carried out by auditors from the West Bank of the River Jordan.

During the early period after independence, only rudimentary accounting practices existed in Jordan, with the exception of the accounting practices of international companies, mainly British and American, operating in Jordan. These firms had to appoint international accounting firms to certify their financial statements as required by their respective countries' laws.

In 1948, accounting professionals moved from Palestine to Jordan, dramatically enhancing the profession in Jordan. Most of the major accounting firms operating in Jordan came from the West Bank of the River Jordan. The first accounting firm to establish a permanent office in Jordan, in 1944 was George, Kader & Co., which later became Kader, Ramadan & Co. The second firm was Saba & Co., which moved in 1948 from Jerusalem on the West Bank to Amman in Jordan. The two firms continued to offer their services alone until the beginning of the 1950s, when foreign accounting firms such as Russel & Co. and Whinney, Murray & Co. started to open branches in the country.

In the 1960s, more accounting firms were established. By 1975, the number of accounting firms operating in Jordan reached twenty; there were also about

100 licensed accountants practicing their skills in the country.

Since independence, the development of the accounting profession has been widely influenced by several factors: accounting education, accountants coming from other countries, Jordanian students returning from abroad (mainly the USA and the U.K.), and the rapid change in the Jordanian social, economic, political and legal environment.

The influence of most of these factors has caused the Jordanian accounting profession to follow the same path as its counterparts in the USA and the U.K. Despite this, the Jordanian accounting profession in the 1950s had no regulation whatsoever, and accountants could practise with no formal permission or license. At the same time, there was no uniformity or consistency in the presentation of financial reports or certificates.

6.6 THE LEGAL BASE OF THE PROFESSION

The accounting profession should establish an acceptable list of accounting principles and auditing procedures in the country. These standards are the foundation of a true profession: Accounting and auditing standards are a requirement for the development of a financial accounting profession; these standards are necessary for determining the appropriateness of accounting and reporting practices. Accounting and auditing standards are the foundations of the practice of

the accounting profession; hence they should be the initial concern of a professional organisation in a developing country.

If the Jordanian accounting profession had followed a course of action similar to that of the American and British professions it would have been expected gradually to develop its own pronouncements on accounting principles.

Instead, the absence of an effective accounting profession in Jordan forced the government to bear full responsibility for regulating the practice of accounting and auditing. However, this did not significantly contribute to the advancement of the local profession, because government achievements did not correspond to the needs in this respect.

An important factor affecting public accounting as practiced in Jordan is legislation. Legislation relating to accounting and accountants takes a variety of forms: from the appointment of auditors to specification of the matters that should be covered in an auditor's opinion. This feature is not unique to Jordan. British and German auditors, as examples, certify whether financial statements comply with certain provisions of the law.

Admission to the profession is also a legal matter in Jordan. To describe oneself as a public accountant, one needs a license, which is issued after meeting certain education and experience standards as stated in the law. To obtain a license to practice public

accounting in Jordan before 1985, applicants had to possess one of the following qualifications¹:

1. Be a member of a recognised public accounting body (since no such body exists in Jordan, it is presumed that the applicant should be a member of a British Society, of the AICPA, the Egyptian society, or of some other recognised institute).
2. Hold a degree from a university or an equivalent institute of learning with specialization in commerce, economics, or finance and have one year of experience as a senior auditor in a government agency or in a licensed accounting firm.
3. Hold a high school certificate with four years' experience as a senior auditor in a government agency or in a licensed accounting firm.
4. Have completed junior school and have worked on a full-time basis as a senior auditor in a government agency or in a private office for a period of six years prior to the enactment of the law.

When this law was enacted in 1961, it included a grandfather clause allowing accountants who had been in the practice of public accounting for two years to be licensed under this law. There were also a variety of other provisions relating to citizenship and reciprocity.

¹ Jordan, Law for the Practice of the Auditing Profession, Law No. 10, 1961.

This legal base of the Jordanian accounting profession through law No. 10, 1961 amended by Law No.32, 1985, specifies that professional accountants in Jordan must be licensed. Licenses are now issued by a new governmental agency, the Audit Profession Council (APC).

The APC administers a uniform examination for entry to the profession of public accountancy in Jordan. The purpose is to determine candidates' technical competence to practice as certified accountants. Similar to the CPA, it is conducted twice a year (May and September). Since it was introduced in November 1986, the examination has been the normal prerequisite for and major hurdle to entry into the auditing profession. Only approximately 20% of those taking the examination are successful at the first attempt.

According to the new Audit Law (No. 32 for the year 1985) the examination is open to the following persons².

1. Those possessing a first university degree (Bachelor's or equivalent) in accounting with a minimum of three years experience in accounting and auditing, of which at least one year in auditing.
2. Those possessing a second university degree (Master or equivalent) in accounting with a minimum of two years experience in accounting and auditing, of which at least one year in auditing.

² Ramadan, S., Dirasat, Vol.xvi 1989 No.1, P.112.

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 in auditing.
4. Those possessing a community college degree in accounting with a minimum of six years of experience in accounting and auditing, of which at least two years worked 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 chartered institutes of accounting are exempted from the examination as a condition for entry into the public accounting profession.

The examination consists of two papers (each of three hours duration, and worth 100 marks), the pass mark being 60% for each paper. Candidates are required to pass both papers at the same sitting. If a candidate passes one paper and fails the other, he is allowed another two attempts to sit that particular paper; if he fails in both attempts he has to resit both papers. The examination covers subjects in all branches of

accounting, auditing, legislation related to accounting and auditing and the financial and tax system in Jordan.

6.7 THE AUDIT BUREAU OF JORDAN

Auditing of public sector agencies and programmes has become a standard practice throughout the world. In most developed and developing countries, state audit is a government activity separated from the executive branch. This pattern is the one adopted in Jordan where auditing of all government programmes, activities, and organisations is conducted by the fully independent Audit Bureau (AB), which is responsible to the parliament.

The AB, in its present form, was established by Article 119 of the constitution of Jordan in 1952. The constitution declares that:

"An Auditing Bureau shall be established by law to supervise the state revenues and expenditures and inspect the methods used for such activities." (Jordan, The constitution of the HKJ, 1952, P.61)

The AB is administered by a president appointed by royal decree based upon the recommendations of the council of ministers. To ensure the independence of the AB, the 1952 legislation provided immunity for the president of the Bureau. According to the law, the president could not be discharged, transferred, placed on pension, or disciplined without the consent of the parliament. These provisions were, however, modified in 1959 by a law which provides that if the parliament is not in session, the president of the AB can be removed by

royal decree upon the recommendation of the council of ministers.

The AB has been organised into divisions corresponding to major governmental agencies or ministries. For example, the Ministry of Education division is responsible for auditing the programmes of the Ministry of Education. Currently, 280 auditors review the programmes of the various ministries according to an overall audit plan prepared by the AB. This plan, which serves as a guide for the auditors, is divided into sections for each agency and designates account records and transactions to be audited (Dabbas, 1986, P.21).

The AB performs two major functions: post-auditing expenditures and pre-auditing government payments. These audit responsibilities are based on financial and compliance auditing. Basically, the Jordanian auditor is concerned with obtaining evidence to determine whether financial operations were properly conducted (Ibid).

At the beginning of the ordinary session of the Parliament, the president of the AB 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 of 1952, must include the president's observations on the ministers, accounts of the 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 also includes in his report to parliament any financial matters that have been under dispute.

Traditionally, the AB issues one report each year which details its activities. For example, the AB report for 1990 included: suggestions on how to improve financial laws and regulations; payments by agencies and ministries which were not approved by the AB; violation of financial laws by government agencies and ministries; funds collected by efforts of the AB; fraud cases and related questions; results of auditing financial accounts, including violations of the General Budget Law of 1989; results of technical audits, especially the costs, penalties, efficiency, and effectiveness of several public construction projects; and public revenues which had not been paid by citizens (Jordan, AB, 1990).

The auditing of governmental activities has received great attention and importance in the last decade due to the greater role governments have come to play in the lives of citizens at the various levels. This role is evidenced by the consecutive development plans that most countries have been undertaking. In Jordan, this is apparent in the development plans 1973-75, 1976-80, 1981-85, and 1986-90. Yet the Jordanian Audit Bureau has failed to match this progress because it did not develop new ways and means aimed at auditing the various governmental activities.

Forty years have passed since the establishment of the AB, but it has not contributed significantly to the Jordanian accounting profession. This might be because the basic objectives of the AB have limited its scope to realising effective control over public funds, and it has not been given any specific role in the status of the accounting profession.

6.8 PROFESSIONAL ORGANISATIONS

Accountants, like other professionals, have made extensive efforts to control their profession and to improve their performance. Their work and their organised efforts have resulted in the formation of professional organisations. These organisations have played and continue to play a large role in the development of the accounting practice and education.

The Arab accounting profession is presently at a crucial stage in its development. It is under closer public scrutiny than it has ever been. Public comment, often of a critical nature, and demands for change are being generated on all fronts (Abu-Ghazaleh, 1985, P.1).

As Abu-Ghazaleh points out, the lack of ethical codes, ineffective legal sanctions or disciplinary machinery, lack of proper standards and guide-lines, and inadequate education and training have all helped create an environment in which many accountants do not appear to really understand or appreciate their responsibilities to shareholders, investors, creditors, and the general public. What is needed is a recognised professional

society which would tackle these problems on the scale required and in a uniform and constant manner throughout the Arab world so that what is weak can be eradicated and what is best can be coordinated and organised in a proper manner (Ibid, P.5).

In the following sub-sections, regional professional accounting societies and a new Jordanian Association of Certified Public Accountants will be discussed.

6.8.1 Middle East Society of Associated Accountants

A major effort to organise the profession of public accounting throughout the Middle East was launched in Lebanon, culminating in 1964 with the formation of the Middle East Society of Associated Accountants (MESAA).

Because of the desire to deal with the issue of professional conduct, the MESAA attached to its constitution and by-laws a set of rules of professional conduct so that there could be no misapprehension concerning the ethical standards expected of its members. The twenty rules of professional conduct that were circulated were patterned after AICPA rules (Gress, 1985, P.173).

The MESAA still exists. In 1970, it issued a statement of auditing standards that included the ten standards of the AICPA. It has also issued certain other minor pronouncements that dealt primarily with terminology, since one of the objectives of the society is to spread a common usage of certain Arabic terms

throughout the countries of the Middle East. An important accomplishment of the MESAA was the 1982 adoption, effective at the beginning of 1983, of nineteen standards issued by the IASC and eight guide-lines of the IFC. The society is not very active at present because of the political situation in Lebanon.

The membership of the society presently stands at about 115. Of this number, approximately ten members gained admission on the basis of qualifying examinations, with the rest admitted on the basis of membership of other professional accounting organisations or because of the grandfather clause.

In the twenty eight years since the formation of the MESAA, it has had little impact, perhaps because some did not wish to comply with strict rules of professional conduct, or because others felt that the society was patterned after an American system.

6.8.2 Arab Society of Certified Accountants

In October 1983, twenty-eight leading accountants from several countries of the Middle East met at the head office of the Association of Certified Accountants in London. In that meeting, they formed the Arab Society of Certified Accountants (ASCA). After a short time, this association became the primary accounting association in the Middle East, because many of the founders and supporters of the MESAA had retired or left the practice of public accounting. The new regional association is

patterned after the Association of Certified Accountants, which played the role of midwife at the birth of the ASCA.

The ASCA was founded to develop a professional body with internationally recognised technical and ethical standards that can qualify by examination accountants from within the Arab world. Its objectives are clearly set out in its articles of association and these are³:

1. To advance accountancy, financial management and association or connected subjects as applied to all or any of the professional services provided by accountants whether engaged in public practice, industry and commerce or public service throughout the world and in particular the Arab world.
2. To promote the highest standards of competence, practice and conduct among members of the society so engaged.
3. To protect and preserve members' professional independence and to exercise professional supervision over them.
4. To do all such things as may advance and protect the character of the accounting profession whether in relation to the public practice, industry and commerce or public service.

³ ASCA, First Arab International Accounting Conference on The Changing Sense of Accounting in The Arab World, 23-25 Nov. 1985, Tunis, P.398.

6.8.3 Jordanian Association of Certified Public Accountants

In the search for a solid and well-organised accounting profession, finding an active professional body of Jordanian accountants is of paramount importance. Such a body according to Enthoven, can speed up the establishment of an organised profession:

"The development of the accounting profession in the developing areas can be greatly accelerated and enhanced with the existence of a machinery through which organised and co-operative effort can be undertaken. This machinery is provided most effectively by a professional accounting organisation. A professional organisation is imperative for elevating the status of accountants for establishing and maintaining high standard of conduct and practice, and for disseminating information of common interest to all accountants. It is a vehicle through which its members could accomplish on a co-operative basis, what could not be accomplished by individuals or firms acting alone." (Enthoven, 1977, P.77)

Recently the society of auditors, called the Jordanian Association of Certified Public Accountants (JACPA) has been formed according to Article 18 of 1985 law, No.32 and its first executive board was elected by auditors. The Executive Board of the society plans in the near future to introduce accounting standards for Jordan, which do not exist at present.

The JACPA, established in 1987, has played no active role so far in establishing and developing accounting and auditing standards in Jordan. One reason for its

inability to make any impact on accounting practice is the lack of a general framework as to how accounting standards should be set in Jordan, and of any form of coordination among governmental agencies and other parties including the JACPA.

The accounting professional body, in Jordan, is still in its formative stages and inactive in providing reporting guide-lines to be followed by accountants. Therefore, beyond the minimum level of disclosure required by the Companies Act, companies disclose only such information as they deem beneficial for their interests. This suggests that accountants have much more flexibility in accounting and disclosure practices and therefore it is likely that the Jordanian voluntary disclosure represents managements' responses to market forces (demand for and supply of capital).

6.9 THE INDEPENDENT STATUS OF THE AUDITOR

The committee on Auditing Procedure of the AICPA explains how the auditor could be independent by saying that:

"To be independent, the auditor must be intellectually honest; to be recognized as independent, he must be free from any obligation to, or interest in, the client, its management or its owners.... Independent auditors should not only be independent in fact; they should avoid situations that may lead outsiders to doubt their independence."
(AICPA, 1963, P.15)

In Jordan, all shareholding companies, public or private, must appoint independent auditors. These auditors must be licensed by the APC. Licensing requirements have been amended recently so that individuals who have recognised professional qualifications or who have relevant academic degrees and appropriate experience are licensed as auditors. In some cases written examinations are called for. Auditors must be independent of their clients and as a general rule must not carry out accounting work for them. In the first stages of setting up a business, auditors may offer accounting assistance but otherwise do not generally set out to provide such a service. Major accounting firms provide tax advice and may represent their clients before the tax authorities, except where court cases are involved, when it becomes necessary for a lawyer to act on behalf of the tax-payer. A number of accounting firms provide management consultancy work as well.

A shareholding company should provide a copy of the company's financial statements to the controller of companies, annually. Every shareholding company must publish its annual financial statements in a daily paper, together with the auditors' report. Only small private shareholding companies, which have less than 20 shareholders, are not required to do so.

In the matter of the independence of the auditor, the laws of Jordan prohibit the appointment of auditors who have an equity interest in the company, who have

close relatives on the management teams, or who serve on the board of directors of the company. Solicitation of business through advertising is specifically prohibited in Jordan (Gress, 1985, P.173).

However, the independence of the Jordanian auditor, in practice, is very doubtful, given that social and family ties play a major role in appointing the auditor.

6.10 PROFESSIONAL ETHICS

Not all countries, developed or developing, have formal codes of ethics for their accounting profession. However in countries that do not have a formal code of ethics, the practitioners may informally agree upon a fairly developed code of ethics. Moreover, the agreement on a code of ethics and the adherence to it by the overwhelming majority of practitioners transform a vocation into a profession (Higgins & Olson, 1972, P.33).

In the case of Jordan, there is no formal code of ethics except what is mentioned in the Auditing Profession law No. 32, 1985 and in chapter Seven of the Companies Law No. 1, 1989.

Because public accounting in Jordan is not supported by local professional bodies that govern the conduct of their members, and also since membership of the only recognised institute, i.e. JACPA, is for auditors only, any rules of professional conduct that exist are the result of legislation. There is nothing wrong with

legislation in this area, but since professional conduct depends primarily on the integrity of the accountant, no law can cover this area adequately.

6.11 THE AUDIT REPORT

Given their American or British orientation, the language of the opinions expressed by public accountants in Jordan follows closely the terminology of the AICPA or British associations. The Jordanian auditor is also required to express an opinion on whether a company has complied with certain provisions of the law. The result is that in most auditors' reports, there is the standard reference to *generally accepted auditing standards and generally accepted accounting principles*, although no such local standards or principles exist. Furthermore, these standards and principles are not clear in most of the auditors' minds, since sometimes their reports do not fully comply with them.

In general, it is safe to say that there have been no formal auditing standards in Jordan, except what is mentioned in the companies law regarding how to write a formal audit report, until recently when the JACPA decided to adopt the International Auditing Standards.

Consequently, the benefit of the audit report, in Jordan, is very doubtful with regard to decision-making investment, credit, education or policy.

6.12 EVALUATION

Following the detailed discussion of the status of the accounting profession in Jordan, it is now possible to answer the question presented at the beginning of this chapter, namely: Is there a well established accounting profession in Jordan ?

According to L. Kohler's definition of a *profession*, to be a profession there has to be recognition by universities and colleges. Jordanian education has recognised accounting in this sense, in the establishment of accounting departments at different levels of education. At the lower level of education the country has a number of commercial institutes, at the intermediate level it has some secondary institutes, while at the higher level it has a number of higher institutes as well as two accounting departments at the universities of Jordan and Yarmouk. A third department of accounting emerged recently at the university of Mu'tah. However, the fact that accounting education in Jordan is highly American and British orientated suggests that accounting as a profession may receive little support from education, for accounting education in the USA and U.K. is only part of the professional education. The other parts are the various institutions which are mainly concerned with preparing college graduates to become members of the profession. Such professional institutions do not exist in Jordan and hence the support

by universities and colleges for the accounting profession is at best incomplete.

As we have seen, the only problem addressed by public accountants in Jordan is the checking of figures of financial statements against documents, i.e. accountability. In their audit of financial statements, public accountants express their opinion on the accuracy of the figures presented in those statements. No opinion is expressed on the efficiency or effectiveness of the operations of their clients, nor do the majority of them offer any management advisory services.

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, too, is unlikely or unwilling to take the 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, 1988, P.60).

In the absence of any statement of auditing standards as a guide for auditors, such as that issued by the AICPA in the USA, or the ICAEW in the U.K., auditors are permitted to choose the methods and means they deem

necessary to assure themselves of the regularity and correctness of the accounts. In practice, British and/or American methods tend to be followed (Ibid, P.61).

The Jordanian government and accounting profession are currently under great pressure to meet the demands which challenge them. They have suffered a shortage of qualified accounting personnel, despite the considerable increase in numbers as a result of accounting education at the higher education level. To improve their standards and technical skills or professional competence at an adequate level, seems a difficult task.

Recently, the Jordanian government has begun to pay attention to the accounting profession in the country. Since 1961, intellectual auditors have called for a new auditing profession law to be issued in order to organise the profession. After about 25 years, the government was able to respond by amending 1961 law with law No. 32, 1985. The new law has many shortcomings, and contains of some impossible articles, the only new feature being the decision to establish a society for Jordanian accountants, which was ignored by the old law. This suggests that the new law was formulated by people from outside the profession.

The 1989 Companies Act has had an adverse effect on the profession, because it has limited it and narrowed its scope, placing too many duties and responsibilities on the auditor's shoulder. Moreover, neither laws provided a protection for the auditor.

There are no accounting principles, auditing standards or procedures, or uniform audit reports. 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 that mentioned. All these facts, suggest that the status of the accounting profession is indeed very weak in Jordan.

There is a general agreement that the accounting profession has an impact on the development of accounting thought and standards that are most relevant to the economic, cultural, political, and social environment of the country. As the accounting profession in a great number of developing economies, including Jordan, is still in its infancy, the adoption of the IAS and reporting practices may have an impact on the accounting profession's role in the development of locally accounting principles or auditing standards in the best interest of these developing countries. In Jordan, the ASCA with the, cooperation of the Jordanian AB and APC and the JACPA, held a conference in March 1990 on *Accounting and Development*. The International Accounting and Auditing Standards were presented in the conference as the basis for discussion. Whether these international accounting or auditing standards are in the best interest of Jordan may be questioned.

It is the author's belief, however, that Jordan must concentrate on evaluating and improving its own accounting system instead of rushing towards the adoption of IAS, a tendency which has been brought about by foreign pressure due to critical economic situation in the country.

Although the accounting function may be quite similar in all nations, the accounting systems among different economies often vary. Such diversity of accounting systems can be attributed to differences in the stage of economic development, the active role of the accounting profession, the regulations governing the content and format of accounts, including valuation methods, and the level of culture of financial information users in the various countries. Douban (1988, P.3), quoting Samuels, stated that:

"The crucial problems currently facing the Third world...are not the problems confronting the industrialized world...it would therefore be unreasonable to expect that accounting information that services the interest of the industrialized world would be equally relevant to the crucial problems of the Third world."

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. It is possible that the two can be

developed simultaneously, but the latter should not be seen as a substitute for the former.

6.13 JORDANIAN SOCIAL NEEDS AND THE ACCOUNTING PROFESSION

Given that Jordan does not have a strong or well established accounting profession, it is worth asking what a strong accounting profession does to serve the social needs of a country.

The accounting profession in Jordan is mainly concerned with external financial reporting and external auditing of such reports.

Briston has challenged the independence of the external auditor, (Briston, 1985, P.30) due to the fact that an auditor will report on the activities of the same management who have appointed him and who will pay him. Other accounting writers have challenged the independence of the external auditor, including Dyckman (1974), Boland (1982), Davidson (1977) and others.

If the U.K. and the USA accounting profession and its external auditing is under heavy criticism in developed countries, then by inference it should not be related to developing countries. Indeed, Briston (1978 and 1985) has demonstrated that external auditing is based on an accountability concept designed for the capitalism of the nineteenth century. Such an audit has become out of date in the developed world, because it is highly biased towards private sector financial reporting, with very limited appeal to management accounting and the

virtual exclusion of national and government accounting. This biased financial accounting is designed to provide historical information for shareholders and potential investors in the capital market. Very few developing countries have a capital market and resource allocation is mostly in the hands of the state, which allocates available resources according to social needs.

Indeed, Scott has stressed the weakness of the accounting profession in France compared with its counterparts in the U.K. and the USA (Scott, 1970, PP.135-140). He also stressed the weakness of the accounting profession in West Germany (Ibid, PP.139-140). Despite the weakness of the accounting profession in these countries, they enjoy some of the strongest economic growth in the world. In fact, Japan, which may be considered as having the highest growth in the world, has a weak accounting profession (Arpan & Radebaugh, 1981, P.29). Such evidence indeed suggests that the relation between a strong accounting profession and a strong economic development and growth is at best very weak.

According to the above discussion, a strong accounting profession based on financial external reporting and external auditing has a very weak connection with economic development or economic growth. Even the USA and the U.K., which have a strong accounting profession based on financial external reporting and external auditing, are failing to meet the current needs

of their respective environments. Thus Jordan, which is a developing country and will remain so for a long time to come, may well be better off without a strong accounting profession, for two reasons:

First: The long delay in producing an audit report in Jordan makes the benefit, if any, of such a report very doubtful. Audit reports in Jordan are often 3 months or more in arrears.

Second: The independence of the external auditor, which is very essence of external audit, is highly suspect even in the U.K. and the USA, (Briston, 1985, P.30). It is only to be expected it will be even more so in Jordan. Family ties and friendship connections are a very important factor in appointing an external auditor in Jordan. Consequently, his independence is highly questionable.

CHAPTER SEVEN

FINANCIAL REPORTING PRACTICES

IN JORDAN

7.1 INTRODUCTION

In developing countries, accounting, and in particular financial reporting, is an important factor in socio-economic development, in the sense that it should provide a sound basis for economic planning, control and better allocation of scarce resources. Moreover, it will be of great help in the process of capital formation through the distribution of income, reinvestment in productive projects, and more importantly, in directing national savings towards investment, by using techniques such as financial analysis. The purpose of this chapter is to discuss the various laws and other factors affecting financial corporate disclosure and highlight the shortcomings of current reporting practices in Jordan.

Following the introduction, financial disclosure in general is discussed, while the various laws and other factors affecting corporate financial disclosure in Jordan are discussed in section three. The fourth section of the chapter is devoted to examining the problems in current reporting practices in Jordan. The chapter concludes with a summary.

7.2 FINANCIAL DISCLOSURE

Disclosure can serve three basic functions for the users of statements. It can (1) explain the significance of items appearing in the financial statements; (2) provide additional financial information not actually

contained in the statements; and (3) identify the financial standards utilized where alternative methods are acceptable (Radebaugh, 1974, P.68).

It can be argued that, in a developing country, different information from that required in a developed country should be disclosed. The problems are different; what are considered to be the important issues differ. IAS are based on the needs of users in developed countries; therefore, they are not particularly relevant to the needs of Jordan and other less developed countries. Whereas accounts prepared according to international standards may serve the needs of local private and foreign investors, these investors constitute only a very small part of the capital market in the country. In reporting its performance, a company should provide information appropriate to the major issues of the society in which it operates. The accounting numbers disclosed and the standards should result in data that are useful for economic decision making, and data that are needed for the social and political debates taking place within a country.

Therefore, Jordanian accountants are responsible for establishing a national accounting system suited to Jordanian business requirements. These requirements should take into consideration the needs of the investors, government authorities, and other users of accounting information.

7.3 DISCLOSURE LAWS AND ACCOUNTING REGULATIONS IN JORDAN

In general, certain professional organisations, governmental agencies, and legislative acts have been influential in shaping the development of the existing body of corporate disclosure. In this section, the various laws and other factors affecting financial corporate disclosure in Jordan are discussed.

7.3.1 Companies Act.

In Jordan, corporate disclosure rules and regulations are relatively unsophisticated and contain minimal disclosure requirements. The Companies Act No. 12 of 1964¹, contains general disclosure requirements. 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. A true and fair profit and loss account for the accounting year is also required.

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

- (i) Shareholding companies: private, public. These entities possess separate legal identity.
- (ii) Partnerships: general, limited. These are referred to in the law as ordinary companies.

¹ As amended by companies amendment laws Nos. 23 (64), 3 (66), 6 (66), 23 (67), 35 (72), 4 (73), 54 (73), 22 (74), 3 (76), 16 (78), 20 (78) and provisional law No. 1 of 1989.

(iii) Foreign enterprises: The following types of foreign companies can be registered in Jordan in accordance with the Companies Acts:

- a) ordinary partnerships and partnerships with limited liability;
- b) private shareholding companies;
- c) public shareholding companies;
- d) foreign insurance companies;
- e) regional companies registered according to Registration of Foreign Companies law No. 46 of 1975.

Both forms of shareholding companies are widely used by Jordanian enterprises. Foreigners doing business in Jordan do not commonly form Jordanian shareholding companies but usually operate as foreign shareholding companies, or occasionally as branches. Joint ventures between foreign and Jordanian firms are not mentioned in the law and are not separate legal entities, although they have been increasingly common in recent years.

(iv) Cooperatives: There are a number of cooperatives of a commercial and agriculture nature.

The companies law requires each company to have a financial year which is the fiscal year. It is permissible for the articles of association of any company to specify the beginning and the end of its financial year (Article 175 para. 1).

Article 175 paragraph 2, states that each company should keep proper books of accounts including journal,

ledger, correspondence files and other subsidiary books as necessary. 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 extent of financial statements, either for public or private shareholding companies. Financial statements must be in Arabic script. Presentations familiar to those in the U.K. and the USA are followed. However, the balance sheet should be clearly written so that it gives a correct picture of the company's financial position.

Article 115 of the Companies Act, states that, within three months of the end of the company's accounting year (frequently the year to 31st December), the Board of Directors must prepare financial statements, including details of revenues and expenses. A copy must be mailed to each shareholder, together with the notice calling the annual general meeting. 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.

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 144 was added to the companies law in 1978. It says:

"The chairman or any other member of the board may not deal with any securities of the company on the basis of important information which he may have acquired in his official capacity in the company, and 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."

Although insider trading was outlawed in the above article, the important step of publishing the stockholding position of dependents (or trusts in which a director has a beneficial interest) was not required.

There are no provisions regarding consolidated financial statements and such statements are not legally required. 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.

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

However, as mentioned previously, there is nothing in the law requiring a company to adhere to particular principles, but only a general requirement that financial statements should be drawn up to reflect the company's true position.

The main problem challenging the Jordanian accounting system is the Companies Act itself, which has not kept abreast of the rapid developments in the Jordanian economy.

7.3.2 Amman Financial Market Regulations

Companies whose securities are traded on the AFM must make adequate public disclosure of material developments in their affairs. The AFM, in order to protect investors, considers that a listed company has an obligation to disclose to the public the information necessary for making informed investment decisions.

In order to ensure that all who invest in securities enjoy equal access to such information, the AFM has adopted certain policies concerning disclosure (El-Issa, 1988, P.50):

- (a) A listed company is required to make immediate public disclosure of all material information concerning its affairs.

- (b) A listed company is required to release material information to the public in a manner designed to obtain its fullest possible public dissemination.
- (c) Any rumour or 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.
- (d) A listed company should refrain from promotional disclosure activities which exceed that necessary to enable the public to make informed 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.
- (e) 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 thorough 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 following of listed Jordanian public companies:

- (a) The market has the right to ask listed companies to disclose any information about their performance, to ensure safe transactions and to protect investors (Article 28).
- (b) Article 33 requires companies wishing to issue securities (shares or bonds) to prepare a prospectus on a special form containing all information and explanations deemed necessary to investors.
- (c) Article 34 requires companies to inform the market of any information which is likely to influence security prices, and the market has the right to disclose such information via any means (e.g. the press).
- (d) Article 36 states that General Director (and/or any member of the board of directors of quoted companies) is required to provide the market with a statement showing the shares or bonds he (they) own in the company within one month of his (their) appointment. Further, he is (they are) required to provide the market with a statement of any changes in his (their) ownership within ten days of the change.

(e) Article 39 states that public shareholding companies are required to keep records of shareholders. Such records contain the following:

1. Names of the shareholders.
2. Number of their shares.
3. Transfers of shares.
4. Any details deemed to be necessary by the market.

Moreover, the market has the right to inspect the records at any time. It also has regulatory powers to guarantee that listed public shareholding companies make new share issues and distribute dividends according to its own laws governing these matters, the aim being to ensure that all potential investors have the same opportunity to buy or sell company shares and bonds on the basis of detailed and accurate public financial information.

In order to encourage investors and to assure them that they are involved in a fair game, timely information needs to be publicly available. To what extent is this applied in the Jordanian market? What measures has the AFM taken to make sure that the relevant information is publicly available, and in what ways are investors protected against insider trading?

Regarding the publication of information about share prices, volume of trading, and analysis of financial statements, the burden is mainly taken by the AFM. It prepares the following:

The daily price sheet.
The weekly price sheet.
The monthly report.
The quarterly report.
The semi- annual report.
The annual report.

The daily and weekly prices give a summary of the individual prices for the day or the week and are published in the local newspapers. The daily sheets are broadcast on the local radio and TV stations and on the Reuters Information System.

The other reports provide summary statistics for different activities of the market during the specified period.

In addition, the AFM publishes a guide including a classification of the financial statements for all companies and provides some financial ratios for each company and statistics about the shareholders, employees, etc. This guide is very valuable, especially for research purposes, though somewhat out of date. However, many improvements could still be made to the AFM's published reports, These improvements include:

- 1- an increase in consistency;
- 2- an increase in accuracy;
- 3- more comprehensive information;
- 4- greater timeliness of publication.

The daily reports of the AFM are comparable to those of the *Financial Times*, except that a daily index is not

published. However, when the more detailed guide to public limited companies, prepared by the AFM, is compared to Datastream in the U.K., it is seen that the gap is wide because of the lack of facilities and specialization. The main source of information about the performance of the companies is their financial statements which should be prepared and audited annually. The auditors are appointed by the general assembly of the shareholders. However, these statements can be delayed (by law) for up to three and a half months after the end of the year, by which time they may be considered as outdated. This delay could open the door for the leaking of information, which might directly affect the efficiency of the AFM. Such delays would be less harmful if interim statements were prepared and published. However, interim financial statements are not prepared and published by companies, as they are not required by law.

The AFM is working hard to improve financial disclosure and provide investors with the information needed.

7.3.3 Listing Requirements

Article 15 of the AFM law No.31 of 1976 states that:

"Financial papers are accepted for listing on the market upon a decision by the 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 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 JD 100,000 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 papers."

Provided that it meets certain criteria, a Jordanian public company may have its securities listed in the AFM official list, so that a market is made in the securities.

Before admitting any of a company's securities to listing, the AFM has to ensure that the company makes 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.

The obligations relating to publication of accounts, contained in the listing requirements are (El-Issa, 1988, P.56):

- (1) The company should publish an annual report which includes the audited balance sheet and the audited profit and loss account, to reveal its financial position and the results of its operations, regardless of the date of starting business.

- (2) The company must undertake the responsibility to publish the information mentioned in (1) above, in two daily newspapers for two days respectively.
- (3) In order to ensure that investors are aware of the disclosed information and 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 the 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 subscription in the share capital of the company.
 - f) The interests of pension 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 + Retained earnings.
 - i) Profit before and after tax, dividends, etc.

7.3.4 Other Laws Affecting Disclosure

In Jordan, all companies with limited liability are required by the Law of Commerce of 1966 to maintain the following books: the daily journal, the ledger, and the correspondence book.

The Income Tax Law No. 34 of 1982 is another law that has an effect on accounting 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 price 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 practice (see; El-Issa (1984)). Another example is that, as the Companies Act does not provide any regulations for depreciation, the regulations contained in the income tax law are used. The depreciation rates for tax purposes are only claimable if they are the rates used in the accounts as the tax allowable figures.

Under the Companies Act, every company is required to appoint an auditor at the annual shareholder meeting and in 1985, according to law No. 32 of 1985, the Auditing Profession Council was established. Its composition is as follows:

- (1) The president of the AB.
- (2) The vice president of the AB.
- (3) Deputy Minister of Finance.
- (4) Deputy Minister of Trade and Industry.
- (5) Director of the Income Tax Department.
- (6) Deputy of the CBJ.
- (7) Director of the AFM.

- (8) Two professors of accounting from Jordanian universities.
- (9) Three auditors.

Article 21 of the Audit Profession Law states that:

"The auditor shall carry out his work in the audit of the accounts of companies or individuals in accordance with acceptable accounting and auditing principles."

Article 22 stipulates that:

"The licensed auditor must not obtain an engagement by solicitation or means considered to be demeaning to the accounting profession."

Furthermore, article 24 states that:

"an investigation may take place in the case of any auditor charged with violation of the provisions of this law or the acceptable principles of the profession."

According to the law, the auditor shall not practise any work in conflict with the nature of the audit of accounts of the company, such as being a member of the Board of Directors or in the management of any advisory office. Moreover, he has the right to examine all the books of the company and to present his report which should include the following:

- (a) All information and explanations which, to the best of his knowledge, are necessary for rendering an opinion.
- (b) Financial statements (i.e, the balance sheet and the profit and loss account) that present a true and fair view of the financial position and results of operations of the company under his examination.

Furthermore, these statements must be prepared in accordance with the Companies Act and other related laws.

- (c) A statement that confirms that the statements were prepared in accordance with generally accepted accounting principles.
- (d) An assertion as to whether or not there has been any violation of the Companies Act or other laws which has had an effect on the company's financial statements.

It is obvious from the foregoing that the main purpose of these requirements is to ensure that fair financial statements are prepared by accountants and presented to shareholders and users of such statements.

7.4 WEAKNESSES IN THE CURRENT REPORTING METHODS

The problems of accounting and weaknesses in current reporting methods in Jordan and other developing countries have been well documented. Typical accounting problems relate to disclosure of financial information; valuation methods; poor internal control; lack of management accounting concepts; incomplete, inaccurate and late records; unauditable systems and lack of comparability of financial statements.

The disclosure requirements are weak: for example, the annual financial statements are delayed and interim

statements are not required. The role of financial intermediaries is weak, and there is no financial analysis or research.

Moreover, there is the absence of an organised auditing profession. The professional accountants' association and auditors' association were established only recently (1984 and 1985 respectively), and are still in their infancy.

Accounting standards are nonexistent. Companies are permitted to adopt reporting practices as they choose. Voluntary disclosure varies in extent from company to company.

The problems are primarily due to the critical shortage of qualified staff and the lack of good accounting systems. Moreover, as stated earlier, the Jordanian accounting profession has applied the accounting practices of the developed countries without modifying them to meet its needs. These imported accounting systems are geared to serving the needs of financial information users in advanced countries, who are quite often far more advanced in accounting matters than their Jordanian counterparts. The Jordanian experience emphasises the need in developing countries, for more relevant and useful accounting systems which consider the environmental variables and the level of accounting sophistication of financial information users. The conventional balance sheet, for example, has outlived its usefulness within the Jordanian context. It must be

modified to meet the changing needs of the Jordanian accounting and business environment.

If the above problems could be solved, then an efficient financial reporting system may begin to emerge. It is important that such developments take place, because efficient financial reporting is an essential tool, for the economic development of the country, in the sense that it would create confidence and trust among investors.

7.5 SUMMARY

Having surveyed the existing laws related to disclosure in Jordan, one can conclude by attempting to identify future trends of development. As we have seen, successive Jordanian governments have endeavoured to issue and enact corporate laws which would contribute to the strengthening and development of the Jordanian financial system. As for legislation, one can be confident that the AFM is working very hard to improve the corporate disclosure level of Jordanian companies. However, there remain several areas where there is room for improvement.

Nevertheless, it can be seen from the description provided in this chapter, that disclosure requirements in Jordan are generally more lax, vaguer and looser, in comparison to those in the USA or U.K. Thus, companies in Jordan have much more flexibility in accounting and disclosure practices than those in the U.K. Annual reports are often delayed and interim reports are not

required. Generally speaking, disclosure requirements differ from those in many developed countries' capital markets (e.g. U.K.) in a number of ways:

- (1) The disclosure requirements as specified by the Companies Act are very limited. In the U.K., disclosure requirements are more detailed and specific. Moreover, they allow less scope for judgement by companies and auditors.
- (2) In Jordan, general requirements are set out in legislation, while in the U.K., in addition to the legislation requirements, there are the accounting profession's own requirements.
- (3) There is no administrative agency to monitor the disclosure requirements and practices in Jordan. In the USA, for example, the SEC monitors disclosure requirements; while in Jordan, until recently, most senior accountancy personnel in industry and the public sector were not graduates in accounting or business studies or did not possess equivalent qualification. The same could be said of the auditing profession.

The problems of accounting and weaknesses in current reporting methods in Jordan are primarily due to the critical shortage of qualified staff and the lack of good accounting systems.

CHAPTER EIGHT
GOVERNMENT AND NATIONAL
ACCOUNTING IN JORDAN

8.1 INTRODUCTION

Extensive government involvement in national affairs is now normal in developed and developing countries alike. It has created a demand for sound systems and methods of accounting, essential for responsible and effective public administration. More specifically, such systems are needed for public finance, involving: budget preparation and execution, tax administration, and control and accountability for public funds.

Accounting information measurement and reporting for government activities should be accurate, reliable, timely and above all, useful. Accounts should be comprehensive, with receipts and expenditures giving a full picture of the government's financial activities.

Following the introduction, government accounting in developing countries is discussed, followed by an explanation of government accounting and auditing procedures in Jordan. The fourth section is devoted to Jordan's budgetary system. This section includes a discussion of the evolution of budgeting institutions, accounting basis, budgeting process and capital budget in Jordan. Section five of this chapter is devoted to Jordan's national accounts; the structure of national accounts are discussed in this section. The chapter concludes with a summary.

8.2 GOVERNMENT ACCOUNTING IN DEVELOPING COUNTRIES

In many developing countries, the public sector is dominant and the increasing range and complexity of government activities requires comprehensive governmental accountancy for social accounting, economic policies, planning, management, control, and accountability.

Government accounting deals with the collection, measurement (classification and valuation), processing, communication, control and stewardship of receipts, expenditures and related activities in the public sector. The accounting needs of the government sector are no less than those for the business enterprise sector. Furthermore, many enterprise accounting records of entry, techniques and procedures are applied extensively to government sector activities. This is true regarding public enterprise and other government undertakings. However, there are distinct aspects of accounting information, classification, and procedures applicable only to transactions in the government sector that make it desirable to treat this as a separate branch of accounting, even though it is interrelated with the other branches (Enthoven, 1976b, P.15).

Accounting is one of the most important and essential tools of management, budget preparation, execution, and review. Governmental accounting is one of the instruments which a government uses for implementing its national economic policies. Basically, a government

accounting system is required to serve two broad purposes: (1) accountability, and (2) management needs.

The lack of a governmental accounting system has been a major weakness in many countries (especially developing ones) hindering the carrying out of more sophisticated forms of budgeting. Accounting in the public sector in developing countries frequently shows many of the same weaknesses as are apparent at the private enterprise level; for example, accounting procedures in governmental departments often reflect such a complicated system of checks, rechecks and balances that the efficiency and timeliness of an accounting system are hampered. Unfortunately, relatively little attention has been given to sound government accounting and budgetary control systems. Government accounting has not received the study and reform warranted, although some progress has been made in the mechanization and processing of data and classification of transactions.

The current issues in developing countries need to be seen in terms of what the accounting systems are expected to do. The shortcomings of the accounting systems can be summarized as follows: *First*, accounting systems have developed independent of the requirements of policy formation and related administrative purposes. They have largely concentrated on providing a set of detailed appropriation accounts to meet accountability needs. Also, because of inadequate classification, they have not provided the necessary support for the

functional and economic assessment of government operations. *Second*, the systems have over-emphasised cash disbursements or receipts and their recording rather than measurement of costs. Measurement of costs and benefits is one of the most neglected aspects of government accounting in developing countries. *Third*, even in the limited area of accountability, unreasonable delays in the compilation of accounts have substantially reduced the effectiveness of the systems. *Fourth*, experience indicates that they have been weak in serving public needs, particularly in matters relating to the payment of taxes to government and pension payments by government. Undue rigidity, unnecessarily complicated procedures and excessive paperwork have caused avoidable bottle-necks in public transactions.

8.3 GOVERNMENT ACCOUNTING SYSTEM

AND AUDITING PROCEDURES IN JORDAN

The government accounting system and auditing procedures in Jordan are traditionally conservative. They concentrate primarily on legal requirements and accountability, and ignore the role of accounting as a management tool to provide useful financial information on governmental transactions, for purposes of planning and economic analysis.

Basic to the lack of management orientation in Jordan is the lack of an appropriate design of the government accounts and budget classifications. The General Accounting Department (GAD) is naturally obliged

to establish as many accounts as appear in the budget in order to account for government operations.

The general accounting regulations do not provide a uniform system of consolidated accounts; a variety of accounting procedures have come into existence with doubtful relationships of coordination and uniformity. Some public administrative agencies have their own accounting systems, which may differ greatly from those of other agencies. For example, the National Planning Council has a special accounting system which is quite different from the one used in East Ghor Canal Authority. However, in the ministries, the systems of accounts are *uniform*, in the sense that the subdivisions of the budget and the rules of the general accounting law are binding.

The lack of uniformity and effectiveness of the present governmental accounting system causes a delay in the settlement of governmental accounts. This, in turn, leads to a lapse of time before the financial results of a fiscal year can be ascertained. This type of situation seriously interferes with careful budget planning.

Once the budget has been prepared and adopted, the accounting system should be capable of providing budgetary control over revenues and expenditures. To achieve this effectively, the budget and the accounts must be prepared and maintained on a coordinated basis.

"Accounting systems must be developed in a manner that will permit effective administrative control of funds and operations programme management and internal audit and appraisal." (United Nations, 1970, P.14)

To satisfy the need for accountability, governmental departments in Jordan maintain an accounting system which has responsibility for exercising related internal controls. Such controls are prepared to ensure that all financial transactions are handled in compliance with applicable laws and financial regulations. The accounting records are maintained in such a way as to facilitate external audit and review by the Audit Bureau.

The auditing process in Jordan is carried out by the AB, an arm of the legislature originally created in 1931. According to Article 119 of the constitution of 1952, the functions of the AB are to audit the state's revenues and expenditures and to submit to the Chamber of Deputies (COD), at the beginning of every session, a general audit report on the operations of the government. The AB publishes an extensive annual report, encompassing revenues and both recurrent and development expenditures. Recently it has been proposed that the AB should also audit all corporations in which the government owns over 45% of the stock (Sawt Al-shaab Newspaper, April 13, 1986, P.5). The chief of the AB, who is appointed by royal decree on the cabinet's recommendation, cannot be removed from office, transferred, or retired without the approval of the COD. The chief of the Bureau has the same authority as a minister with regard to the administration of his agency.

Debates on the AB's annual reports are considered by the Parliament, and in theory this makes the executive

and the bureaucracy responsible to the country's representatives. In line with the Bureau's position as an arm of the legislature, it has been proposed that the COD, rather than the cabinet, should be the last resort in solving disagreements between the AB and any other ministry or department.

As to the auditing process in Jordan, it is limited to routine checks on the accuracy and verifiability of governmental financial transactions, expenditure vouchers and other documents to ensure that they were handled in compliance with financial laws and instructions. Moreover, the auditors ascertain that all assets, funds and other resources are safeguarded against waste, loss and improper use.

8.4 JORDANIAN BUDGETARY SYSTEM

In the words of Wildavsky, budgets are defined in general as:

"attempts to allocate financial resources through political processes in order to serve different ways of life." (Wildavsky, 1986, P.9)

The budget is a financial plan that manifests outlays and receipts. It is the outcome of several processes: preparation of the financial plan, review of the plan by the legislature, execution of the plan, and finally, an evaluation of results.

The general budget is simply a reconciliation between the needs of the Jordanian government and the financial resources available. It is the means by which the government determines how to spend its resources and

who will benefit from this expenditure. Therefore, the budget is both a planning document and a means of controlling the execution of these plans.

The budget serves various purposes, the first being as a guide-line for policy formulation. A number of choices should be reviewed and evaluated before deciding among competing proposals. Second, the budget is a guide to management, and budgetary procedures are instruments to maintain administrative control. Third, the budget is an instrument of legal control: it helps prevent abuse of power and misuse of funds. Fourth, the budget and the development portion of the capital budget are a source of public information, from which the private sector and foreign investors find opportunities to invest.

Good financial administration is considered essential for effective budget administration. One of the basic tools in financial administration is accounting. Thus, for better coordination between budgeting and accounting, the two systems must be closely integrated.

"Accounting systems must be related to the budget classifications between budgeting and accounting functions are complementary elements of financial management and must be closely integrated." (Dahmash, 1973, P.171)

The government budget in which government accounting is reflected, delineates the financial programme for the year. This budget preferably should be integrated with the country's economic development plan, because it forms an important element of plan implementation. New

budgetary techniques dealing with managerial and planning aspects and the systematic appraisal of inputs and outputs of these aspects have an important bearing on government accounting.

Jordan has adopted a mixed economic system in which both the public and the private sectors participate in the development process. Budgeting and planning are conducted on a departmental basis; that is, each ministry and public organisation examines its needs, formulates plans, and prepares annual schedules in congruence with the economic and social development plan. These development plans are then submitted to the General Budget Department. A large number of participants, including sectoral committees, subregional councils, and a Higher Planning Council, which all consist of both public and private sector representatives, are involved in development planning.

The budgeting and accounting system in use by the government until the issuance of the Budget Law No. 39 in 1962, was inherited from the British Mandate in Palestine. Budget receipts and expenditures were classified according to ministries and departments. The accounting system was primarily designed to establish accountability and to control cash and other assets, with little concern for the modern concept of the usefulness of accounting data as a tool to management in making policy decisions. Only one accounting report for each fiscal year was required by the Financial Regulations of

1951, that being a complete report for all the closed accounts of the government. Before closing the accounts, the Ministry of Finance (MOF), in accordance with the Financial Regulations, held open the accounts of March, the last month of the fiscal year, until it could be ascertained that all transactions affecting that year's budget had been completed. During the period following March 31st, the end of the fiscal year and the date the closing of accounts actually took place, each payment made against that year's budget was charged to expense and credited to liabilities; in effect, this retroactively placed the accounts on an accrual basis.

These procedures were highly inadequate from an economic viewpoint. The 1951 Financial Regulations did not consider a detailed form of account presentation, nor did they specify a definite system of classification. Inadequate classification and subdivisions, lack of budget unity and comprehensiveness, lack of technical and scientific methods, shortage of experienced skilled personnel, weakness of tax laws, and inadequate accounting work for preparing the budget accounts, all created serious problems for the MOF in attempting to use the budget as an instrument of economic development planning.

As a result of the above-mentioned shortcomings in the budgetary system, the World Bank Mission suggested in 1957 that budgetary planning and administration in Jordan should be improved. New classifications and subdivisions

of the budget were suggested in order to reflect the nature of expenditures rather than the source of revenues. The mission felt that such a classification might be more helpful for purposes of economic and financial planning. The Jordanian government felt that the budgetary system had to be improved, with more information being generated to permit economic analyses and the ability to assess the economic implications of the government's responsibilities in promoting economic and social development.

On May 31st 1960, a Royal Fiscal Commission (RFC), composed of members from the private sector and government officials, was appointed to study and to make recommendations with respect to the fiscal policy of Jordan. After a thorough examination and analysis of the budgetary and accounting system, the Commission found the following weaknesses: (1) unnecessary delays in closing accounts; (2) seriously unrealistic budget estimates; (3) imprecise and often improper classifications of receipts and expenditures, and (4) an inadequate concept of the budget process in general. The commission recommended the establishment of a new budget department, and reform occurred with the issuance of the *General Budget Organisation Law, No. 39* for 1962.

The contemporary budgetary system in Jordan is based on 1962 law No. 39. This law established the budget department in order to meet the need for a specialized and efficient organisation. The Budget Department was

attached to the MOF and the Budget Director was directly responsible to the MOF for all operations of his department.

The joint efforts of the Jordanian Government officials, the United States Agency for International Development budget and accounting advisories to Jordan, and the Ford Foundation experts have brought remarkable improvements and reforms in certain aspects of the budgetary system during the past three decades. Such improvements cover the budget structure, classification, the accounting basis and procedures, and the training of government officials in accounting and budgeting.

Like most developing countries, Jordan suffers from a shortage of well-qualified staff in the fields of financial administration, accounting and budgeting. The shortage of capable, trained accountants and budget-makers is the greatest single obstacle to government budgeting and accounting in Jordan. Since the Budget Department was established, the policy has been to staff it with university graduates, without any consideration of their experience, and then to train them in the Department or sometimes outside the country.

Another serious factor which tends to keep the average qualifications of employees low, is that budgeting is not recognised in Jordan as a profession, nor as an occupation having much prestige, and graduates seek other kinds of work. Moreover, the present low salaries in the field of administrative services in the

government make it very difficult to keep well-qualified employees in the government departments in general and the Budget Department in particular (Dahmash, 1973, P.158).

8.4.1 The Evolution of Budgeting Institutions in Jordan

Although the state of Transjordan, the predecessor of the present state of Jordan, came into existence in 1927, there were no formal budget institutions in the kingdom until 1962. Consequently, little information has survived about the budgeting process in these early years, but it is known that the task of preparing what was called *the budget* was undertaken by an Under-secretary of Finance, a career civil servant who worked part-time on this activity with the assistance of one clerical helper.

Not until the 1950s was a more formal budgeting process implemented. During this decade, the national budget began to show amounts of revenues and expenditure, each of which was to a large degree independently administered (Reese et. al, 1969, PP.293-296). Departments and agencies in this period submitted their requests for funds to the office of the Under-secretary of Finance, who was responsible for preparing and completing the budget, with no assistance from specialists or budget analysts. The few available accounts of these proceedings show that small incremental increases were normally added when revenues were

sufficient to accommodate rising costs of government. Numerous problems occurred in this system, such as long delays in closing accounts, unrealistic budget estimates, improper classification of receipts and expenditures, and the absence of an appreciation in general of the budgetary process as a tool of planning and management.

By 1960, the need for improvement in the Jordanian fiscal system became imperative, and a RFC to make recommendations for financial reforms in the Kingdom's tax system and budgetary procedures was appointed by the prime minister. Its membership consisted of an unusually distinguished group of Jordanians, ably assisted by consultants from the Ford Foundation (Jordan, Report of the RFC, 1960, PP. 150-160).

The RFC's report was most critical of budget administration in Jordan. It described the purposes of a national budget and made recommendations for a complete restructuring of the budget system. The recommendations of the report drew heavily upon budgeting institutions and processes in the British and American systems. For example, a new agency, similar to the Bureau of the Budget in the USA, was recommended to assist the MOF in budget preparation (Ibid, PP.161-170).

The recommendations were immediately acted upon by the government; and the Department of the Budget (DOB) was added to the MOF in 1962. The DOB was responsible for developing budget policies and for formulating and executing Jordan's annual budget. The RFC's

recommendation that the DOB should seek technical assistance to initiate administrative changes was followed, and consultant services were provided by the United States AID. A number of personnel were also sent to training programmes at the American University of Beirut, and some were even sent to study in the USA (Murrar, 1974, PP.585-589).

As a result of these reforms, the budgetary process in Jordan, which had been confined to a two-man operation in the MOF prior to 1962, became the task of a major staff agency helping the prime minister to formulate a sound budget policy in line with the economic, financial and administrative conditions of the country. Modern budget procedures were introduced into a country which had previously had no experience with budgetary controls. One negative result of greater financial and budgetary controls, however, has been the possibility of increased conflicts between planners (spenders) and budgeters (controllers).

The development of planning and budgeting institutions in Jordan has been a complex task. The process of modernization requires the building of administrative institutions in order for development plans and projects to be formulated. Adequate financial resources are also essential in the process of modernization, but in poor countries like Jordan, domestic revenues are very limited and are dependent on international markets, which are subject to great

fluctuation. Foreign aid and loans must be relied upon, and reliance upon such resources causes further uncertainty. Instability, therefore, plagues the political and economic environment of Jordan (Khatib, 1976, PP. 307-308).

The demands for modernization in Jordan, far exceed the nation's ability and resources to meet these needs. The uncertainty of revenue sources, compounded by the lack of accurate economic data, makes it difficult, if not impossible, to forecast accurately revenues or expenditures (Caiden & Wildavsky, 1974, PP.45-50). As a result of these problems and fluctuations in revenues, finance ministers in Jordan must frequently restrict agencies from spending according to the budget or plan currently in force. Recurrent budgeting to reflect the actual income of the country almost becomes standard operating practice, and this, coupled with the prevailing restrictive rules and regulations on administrative actions, leads to dysfunctional results.

Therefore, there is inevitable tension and conflict between those pressing for improvements under the provisions of the national plan and those responsible for the financial stability of the country. Evidence of this conflict is seen in the fact that actual expenditures for projects under the national plan and the annual budget usually differ considerably from the amounts originally called for in the plan (Khatib, 1976, PP.309-311).

The administrative arrangement separating capital budgeting and budgeting for annual expenditures further exacerbates the tension between planners and controllers. Planners are given the responsibility of planning for development, preparing capital budgets, and seeking funds from foreign sources, while controllers and budgeters are held responsible for ensuring financial stability. The goals of these agencies and the attitudes of their administrators, therefore, are in conflict.

Jordan, like other developing countries, only recently established planning and budgeting institutions. The demand for modernization in the early 1960s made the creation of these administrative institutions essential. The planning agency in Jordan since the early 1960s has been a very powerful institution, as is evidenced by its powers over the capital budgeting process, foreign grant activities, and the implementation of projects under the national plan as well as by its link with the prime minister, who was the official head of the planning agency throughout most of the period under consideration. Furthermore, the involvement of the king's brother in planning and development activities also reflects the status and influence of the planning agency.

8.4.2 Accounting Basis

An important consideration in the design of a government accounting system is the basis. The choices are cash, obligation and accrual. The *cash basis* indicates a system of accounting in which receipts and

expenditures are recorded at the time cash is received or paid out. *Obligation* refers to a system in which recorded transactions represent commitment to acquire materials or services or to make payments under specific conditions and includes orders placed, contracts awarded and related transactions requiring money disbursements usually at a later date. The *accrual* basis is to be seen as a system in which revenues and expenditures are recognised as they are earned. Usually, it means a system of recording receipts and expenditures at the time liabilities are incurred (Enthoven, 1976b, P.48).

Several schools of thought have developed advocating a particular basis as an ideal one for government. Those that advocate cash systems have stressed that they would (a) permit easy identification of the impact of the fiscal transactions on the economy, in that the actual payments made by the government tend to increase money incomes and activate the economy, while payments made to the government decrease the liquidity and the community's demand for goods and services; and (b) facilitate an assessment of the cash position, which the treasury, in its role as banker, should know. Moreover, the cash basis is the simplest approach, especially useful for stewardship or accountability purposes and financial programming, and shows actual cash transactions. The IMF favours this system for its financial statistics, since cash accounts are clear-cut and their results can be made available at frequent intervals.

The *obligational basis* provides a midway base between legislative appropriations and actual payments and indicates at any given stage of budget execution the liabilities incurred and awaiting liquidation, leading to good financial management. The obligational basis is, however, inadequate for the measurement of the performance of departments or their costs.

Accrual accounting is gaining increasing advocacy since it is considered by some to be the best measure of the impact of the budget, in that it indicates the time at which government actually incurs a liability or registers a claim. It can be more easily linked with the social accounts and serves better managerial and economic planning purposes; it is able to reflect more accurately and comprehensively the economic effects of government activities.

In addition, as extensions of the accrual system, the concepts of accrued expenditures, referring to the resources acquired, and programme costs referring to the resources used, also are advanced. These developments to the basic system are intended to facilitate budget formulation and programme management. Critics of this system point out that it is generally difficult to decide the exact point in time at which claims or liabilities can be said to influence the community's economic decisions. Further, accrual-based systems may not provide an adequate framework for certain procedural aspects of financial management, such as purchase

authorizations. Moreover, the implementation of this system involves the development of considerable technically skilled manpower, which is one of the major scarcities in the developing world.

The issue, however, is not the choice of one of three systems but a recognition of basic purpose, and in some cases the distinction between systems may not be significant. In a number of cases, such as services, there is unlikely to be any difference between the incurring of a liability (accrual) and its payment (cash). Similarly, maintenance of information on obligations, besides cash or accrual, would not be difficult if adequate decentralized procedures are followed. It may be preferable for developing countries to adopt a selective approach of supplementing their existing cash systems with features of obligational and accrual accounting in important areas. The immediate requirement is a determination of such areas and the phased introduction of a broad-based accrual-cum-cash system in those areas.

It has been suggested by Enthoven:

"While accounts might be kept either on a cash, obligation or accrual basis, the latter is the most desirable (for integration purposes), although not always feasible and realistic, especially in developing economies." (Enthoven, 1976b, P.17)

Most governments of developing countries have cash-based accounting systems which can usually be traced to former colonial administrations. Unfortunately, these

are now obsolete. There are very few governments in developing countries that employ a double-entry accrual system. Even the cash expenditures and receipts, however, are not kept up to date, and are maintained without detailed records. Many of the government accounts are run on an imprest fund basis, reimbursing whatever funds are expended.

According to Chan and Jones (1988, P.165), the use of accrual accounting in government has returned to prominence following the publication of the *Federal Government Reporting Study* (Office of the Auditor General of Canada and USA General Accounting Office, 1986). The implications for developing countries have been indicated by the United Nations (1984):

"the cash and obligation basis, traditionally employed by developing countries in recording transactions of central government entities are considered in certain cases to be generally insufficient in providing the essential financial information..." (United Nations, 1984, P.57)

The use of the cash basis system for revenues, and the obligation basis for expenditures serves the purposes of accountability and control. However, the cash basis does not provide sufficient financial information for the planning, execution and appraisal of development programmes. It is useful for financial and monetary analysis, as it permits the determination of overall cash receipts and payments.

While the obligation basis has an important relevance to budget appropriation and fund control (which are considered essential elements in budgeting) it has a limited value in project execution and the determination of costs. The obligation basis (which has been used in Jordan with the cash basis since 1963) was not applied properly and effectively. Governmental accountants did not properly understand the new system and did not participate in its installation. Moreover, they did not have sufficient training and background in the field of financial accounting to be able to execute the new system. To overcome these difficulties, the United States AID, with the cooperation of the Jordanian Ministry of Finance gave three workshops in financial accounting during the years 1964-1966 for most of the Jordanian government accountants. Unfortunately, there was a severe shortage of highly qualified staff in accounting activities of the MOF, so the number of employees who could successfully become involved in the development of the new accounting system was limited.

The GAD in the MOF is charged with the responsibility for recording all governmental transactions and bookkeeping, and reporting on the situation of government accounts. Despite the small number of its staff, the Department is performing its task with remarkable speed and satisfactory efficiency.

One of the basic features of the contemporary governmental accounting system in Jordan, in relation to

financial management, is its obligation- oriented system.

The budget instructions state:

"The Budget will be prepared and its accounts will be maintained on an obligation basis in which it is assumed that the estimated expense is confirmed and deducted from the appropriations at the same time of commitment rather than at the time of actual payment."
(Dahmash, 1973, P.140)

Since 1963, Jordan has succeeded in establishing a partial obligation system patterned to procedures of cash recording. This combination is realised because of some flexibility in the accounts required by the legislature. Jordanian financial laws do not prescribe a definite system of accounts. Basically, revenues are booked as they are received, and expenditures are recorded when payments are made. However, to control the availability of funds, as well as for accuracy in commitment, a special aggregative account is created whereby the obligated sums that were contracted are booked.

The Jordanian system of single entry bookkeeping did not lend itself to the application of the accrual basis which can help assess performance. Of course, the introduction of the accrual basis would not be an easy task to undertake at the present time in Jordan, because of the shortage of well- qualified accountants, nor is it essential for the introduction of performance budgeting. However, investment expenditures, by nature, are liable to such a system of accounts. In practice, a modified system of accrual accounting might be used. Under such a

system, the cash basis may be used for general government activities, and the accrual basis may be adopted for quantitatively significant development projects and constructional activities.

8.4.3 Budgeting Processes

A government's budget is a financial plan describing the programmes and activities that the government intends to undertake, and the sources of revenue to pay for them. Since most government policies involve outlays or receipts, the budget reflects the sum of the government's activities (Goode, 1984, PP.9-18). The process of formulating a budget also involves every part of the government and the participation of many different actors. There are a number of phases or steps in the budgeting process, which are usually listed in the budget calendar showing who is to perform the various functions and when each activity must be completed (Waterston, 1979, PP.201-217). The following paragraphs identify Jordanian budgetary institutions, functions, process steps, participants, and participants' roles, functions, and strategies.

As noted earlier, Jordan had only a very primitive budgeting system prior to 1962, but in that year a new Department of the Budget was established as the major staff agency for the MOF. Directed by an Under-secretary, the DOB was given the responsibility for preparing the general budget and appraising all programmes, projects and activities that require

budgetary allocations. While the DOB appraises all programmes financed by government funds, the national planning agency is given authority over projects financed wholly or in part by foreign resources. This administrative arrangement results at times in divergent actions by those desiring to push ahead with development spending (i.e., planners) and those attempting to control the financial aspects of government (i.e., budgeters) (Harrim, 1968, PP. 30-42).

Since budgets are dependent upon the State of the economy, the DOB must consult with all agencies responsible for activities affecting the state of the economy. To facilitate this task, a consultative council for budgetary matters composed of the MOF, the Minister of the National Economy, the Governor of the CBJ, the director-general of the General Accounting Bureau, and the Minister of Planning, was created to consider the financial and economic situation of the country and to forecast future economic conditions for the purpose of budget preparation. To a degree, this council also attempts to coordinate the activities of the planning agency and the DOB.

The general budget in Jordan provides an overview of all revenues and expenditures. Revenues are divided into domestic and external categories. Domestic revenues are derived from direct and indirect taxes and from non-tax resources. External revenues are composed of financial aid and loans from foreign countries (Murrar, 1974,

PP.596-599). Expenditures are divided into the categories of recurrent civil expenditures, defence and public security, capital expenditures for ordinary projects, and expenditures for development projects.

Preparation of the budget involves decision-making regarding future revenues and expenditures. Both of these components must be forecast as a preliminary stage to the formal budgetary process. It would be unrealistic to attempt to determine the total magnitude of expenditures without considering the availability of revenue, and, similarly, the amount of revenue to be raised is influenced by the assessment of needed expenditures as well as the amount of deficit financing to be considered and its consequences. As a result, the preliminary phase of budgeting begins with estimates of the yield of existing taxes and non-tax revenues and the cost of maintaining existing expenditure programmes (Protter, 1966, PP.10-20). Both of these estimates are prepared to forecasts. Econometric models of the economy are sometimes prepared to forecast what the future of the economy will be under various conditions and the implications of these forecasts for governmental revenues and expenditures. One of the problems of a developing nation like Jordan, however, is that the availability of highly trained personnel capable of using such sophisticated techniques is severely limited.

It is the duty of each ministry or department to prepare estimates of needs according to the guide-lines

issued by the DOB. Conferences are held with all of the administrative units responsible for budgeting within their departments, to inform them of the budget guidelines. Within each individual ministry or department, the minister or director is responsible for consolidating budget estimates from the sub-units into a proposed budget for the ministry or department as a whole. After these budget estimates are submitted to the DOB, intensive discussions regarding them take place between each ministry or department head and the DOB. Under the direction of the MOF, the DOB then prepares a draft of the complete executive budget for submission to the cabinet (Murrar, 1974, PP.609-614).

After a draft budget has been prepared, under constitutional mandate the prime minister must present the budget to the Parliament before the first of November of each year. Rarely in the budgetary history of Jordan, however, has the executive succeeded in complying with this requirement, and the Parliament has frequently criticized the executive for this delay. When the budget is not presented on time, the government continues to operate under Article 13 of the constitution, which gives it the right to continue spending at the same level as in the previous budget (Jordan, The Constitution of the HKJ, 1952).

Upon placing the budget before the COD, the prime minister requests that the speaker of the Chamber call a special session to consider it. At this session, the MOF

presents his state of the nation and budget address, explaining the government's fiscal policy and the budget's content. The MOF also clarifies the economic and financial situation of the country and defends the actions taken in the budget. The draft budget is then referred to the Finance Committee for consideration. The Finance Committee is authorized to call on all ministers, under-secretaries, departmental heads, and other bureaucrats, including the director of the budget office, to discuss their budget requests. After due consideration by the Committee, recommendations are made to the entire COD, which has the final authority in enacting the budget (Murrar, 1974, PP.621-622).

One of the problems facing all developing nations is that their legislatures are new and inexperienced bodies. Not all legislators fully understand the complexities of modern budgeting or its relations to the economy generally. Furthermore, in traditional societies legislatures do not function like their counterparts in more modern societies, and, as a result, budget discussions are not as open as formal procedures would indicate. Debates over the budget in Jordan are frequently unrelated to the budget itself and instead deal with problems of corruption and unpopular programmes or personnel. In addition, according to the provisions of the constitution, when debating the general budget or provisional laws related thereto, the Parliament may reduce the expenditures allocated to various programmes

and departments, but it cannot increase expenditures either by amendment or by submitting a separate proposal. This, in effect, restricts the power of individual members of the legislature to represent the constituencies or department they may favour (Khatib, 1976, PP.296-298).

After the budget passes the COD, it is sent to the other house of the legislature, the Chamber of Notables, where the same procedures are followed. The budget is then presented to the King for his approval (Ibid, PP.299-305).

From the viewpoint of the MOF, budget execution involves constant evaluation of both revenues and expenditures to ensure that adequate funds will be available. Should revenues not meet the estimates forecast, expenditures will have to be reduced or postponed; or, if expenditures exceed estimates, they will have to be cut to stay within the available funds. Ministers of Finance in countries like Jordan, where the economic and political environment is uncertain, are constantly faced with the problem of inadequate funds and, therefore, see themselves as controllers, keeping the necessary balance in fiscal matters.

On the expenditure side, budget implementation has the legal purpose of ensuring that the expenditures of agencies are consistent with appropriations in the annual budget law (Hindi, 1971, PP.11-13). Although ultimately each agency is authorized to spend funds called for in

the budget, a number of agencies control fund disbursement. After appropriations are made by the legislature, the DOB is given the responsibility of seeing that funds are expended by the various agencies and departments according to the budget law (Ibid, PP.13-16). In this way, the DOB performs a pre-audit function. Normally, annual appropriations are divided into quarterly payments, and agencies are allowed to withdraw only those funds released for each three-months period. The quarterly payment system is used to prevent agencies from spending their yearly appropriations. Such control over appropriations enables the MOF to monitor expenditures against national income and to reduce them, if necessary. The actual expenditures of agencies, therefore, are not the same as the amounts appropriated in the budgeting process carried out by the MOF (Murrar, 1974, PP.628-632).

Agencies implementing programmes often find it necessary to transfer funds from one account to another in order to complete a project without running out of money. In order to transfer funds, agencies must first obtain the approval of the DOB. In addition, the approval of the council of ministers is necessary to transfer funds from capital or personnel accounts. Funds cannot be transferred between programmes without a legislative decree permitting a budget change (Khatib, 1976, PP.305-307).

At other times, agencies must seek supplementary funds to complete the programmes they have undertaken. Such advances and supplementary funds require a recommendation by the DOB and the MOF to the Council of Ministers, who must finally approve the request (Murrar, 1974, PP.631-632).

In Jordan, operating departments and agencies are severely restricted in their operational and financial affairs by rules and regulations. In part, this is due to the fears of the MOF, the DOB, and others of inefficiency and waste at the executive level. As a result, almost every transaction must be approved by numerous officials before it is finally authorized. Excessive *red tape* reflects the fact that officials attempt to use financial controls as instruments of coordination, as they feel that they must retain this power to maintain accountability. Often, excessive red tape and supervision delay the preparation, authorization, and implementation of programmes.

Countries differ greatly in the degree to which commitments are subject to control by the budget office or other central agencies. In some countries, detailed control is exercised by requiring spending departments to obtain explicit approval before undertaking the programmes authorized by the budget or entering into commitments pertaining to those programmes. Usually such prior approval does not involve a reexamination of the

merits of the expenditures, but only a verification that they have been authorized and the proper procedures have been observed. In other countries, spending departments may make commitments for programmes in their budgets without specific prior approval and are themselves responsible for observing legal requirements. Obviously, prior approval systems tend to be cumbersome and hinder the operation of departments, but they may be expedient when financial discipline is weak.

Weakness in the accounting process is also a major problem of administration in developing countries. In fact, in Jordan an attempt has been made by the Accounting Department in the MOF, which is responsible for recording, bookkeeping, and reporting the government's financial position, to institute a system of accrual accounting which would deduct expenses from appropriations at the time commitments are made for expenditures, rather than at the time of actual payment. Yet, although the obligation and accrual system has officially been in effect since 1963, problems remain, and some agencies and departments still do not understand or follow the system. In part, inability to initiate reforms in the financial system is due to the lack of skilled manpower in developing countries. Although the most sophisticated top administrators are well aware of these modern techniques, the shortage of skilled middle- and lower-level administrators throughout the government severely hinders the implementation of complex new

systems. The weakness of the accounting and controlling systems leads to detailed rules and regulations requiring numerous signatures and routines for supervising the actions of agencies. All of this red tape obstructs effective administration.

The rigidity and complexity of the accounting and supervisory system in Jordan leads to a delay in closing the fiscal year's accounts, and this, in turn, makes data on actual expenditures unavailable during the budget preparation cycle. Moreover, the accounting system does not provide agency managers which needed information to evaluate programmes or to prepare new budgets. One can conclude that attempts to maintain accountability lead to centralization and excessive supervision. The latter problem is exacerbated by the fact that agencies and departments are supervised by more than one entity: the MOF, the DOB, and the AB all duplicate central supervision over agencies. This forces departments and agencies to seek approval on every detail and item for dispensing funds rather than concentrating on improving the financial system, and such rigidity actually damages the system rather than improving it (Ibid, PP. 633-636).

8.4.4 Capital Budget in Jordan

Jordanian officials define the capital budget in at least two ways. First, it is the estimated expenditures that are allocated to execute two types of capital budgets: ordinary capital projects and development

capital expenditures. Second, it refers to allocations to projects other than current and recurrent ordinary expenditures (Hunitie, 1988, P.10). The capital budget includes repayment of domestic and foreign loans as priorities of the government. Jordanian laws did not provide a specific definition of the capital budget until 1960, when the RFC defined it as a political and administrative instrument that reflects the planning policy of executing departments within the boundaries of parliamentary approval. Once the budget is approved, it becomes a public guide-line for financial administration.

Capital budgeting in Jordan as in other developing countries, suffer from deficiencies in the following areas: budgetary characteristics; definition and application of reforms; budget and development planning; equitable distribution of funds among regions; adequate classification of budgetary items; complete implementation of planned projects; financial resources; and performance evaluation.

However, the main differences are that Jordan enjoys a high degree of international credibility because repayment of loans and financial obligations is a priority of its capital budget; only traditional budgetary techniques are used; and Jordan applies rational, incremental, and repetitive- allocative decision- making techniques in allocating its general budget.

Given the capital budget's primary role in the employment of funds for development, it must be precisely and clearly defined to prevent waste and misuse of capital funds. A developing country such as Jordan, with limited domestic resources, and dependent mostly on foreign aid, cannot afford the misuse of financial resources. The capital budget has a two-pronged definition: one aspect is concerned with the allocation of funds, and the other with the planning of capital facilities to maintain capital projects. Capital budgets in developing countries usually aim to facilitate the planning of programmes that increase economic growth.

Effective planning for the capital budget in Jordan stimulates and facilitates the achievement of specific programmes of economic and social development. Therefore, maintaining values of efficiency, and considerations of time, funds and honesty are important factors in improving the performance of the capital budget. To achieve capital budgetary objectives the capital budget should consist of development programmes, cooperative participation of the public and private sectors, and impact of foreign aid and investment.

In Jordan, the capital budget functions as an instrument for achieving economic and social objectives. Under the auspices of the capital budget, economic and social development plans are executed with the participation of both the public and the private sectors. Policy makers in Jordan aim to increase the country's

economic growth through self-reliance as an alternative to dependence on foreign financial and technical assistance to support the capital budget.

Capital budgetary reforms in Jordan have addressed both organisational and technical matters and have passed through two identifiable stages. In the first stage, the period before 1962, the budget document was classified into three sections- current, recurrent, and defense- and each section had autonomous sources of financing. The RFC, established in 1960 to study the budgetary system, assigned responsibility for preparing the budget to the MOF. Since the MOF did not have a budget department, the committee recommended the establishment of a budget department connected to the Prime Ministry. The second stage of budget reform in Jordan began in 1962 with the establishment of a private commission to recommend organisational reforms and new financial laws. These laws provided for a General Budget Department reporting directly to the MOF, thus overriding the recommendation of the RFC, which had assigned this role to the Prime Minister.

Other reforms in the second stage included the establishment of the Budget Advisory Council, which is responsible for providing guidance and suggestions concerning the preparation as well as the allocation of the capital budget. Reforms to organise and classify the budget, including the separation of current and capital expenditures, were introduced.

The capital budget is financed from the general budget, through domestic financing and borrowing, and through foreign borrowing and technical assistance.

In Jordan three types of decision-making techniques are used to allocate the capital budget: rationality, incrementalism, and repetitive budgeting. The decision to allocate funds is controlled by the Budget Advisory Council.

The capital budget is prepared by division managers or by accounting divisions in each ministry and public organisation. The assistant secretary in each ministry and the director of each public organisation are mainly responsible for formulation of budget proposals within their ministry or organisation. Estimated budgetary proposals must be approved by the minister before submission to the General Budget Department.

Technically, the classification system of expenditures in Jordan is designed to serve the traditional budgetary objectives of financial control and accountability. The Audit Bureau is also involved in executing the capital budget. The AB performs an external oversight role by checking public revenues and expenditures of all ministries and public organisations. It then submits a report to Parliament concerning the execution of the budget. The Prime Minister is informed at the AB's report so that he may take whatever corrective measures are necessary.

In the content of capital budget execution, the accounting and auditing procedures in Jordan are primarily designed to fulfil legal requirements and accountability.

Jordan's economic growth and productivity face numerous challenges that negatively affect the development process. These problems include unfair economic competition between Jordan and its neighbouring Arab countries; insufficient financial resources; an increasing rate of recurrent expenditures; an unstable political environment in most of the Middle East, demanding the diversion of financial resources for defence spending; a decline in the rate of remittances from Jordanian working abroad; a reduction in foreign aid to Jordan; and an increasing number of unemployed graduates. All these factors contribute to the weakened role of the capital budget. There is a need to find new ways to make the capital budget more efficient and effective.

8.5 NATIONAL ACCOUNTS OF JORDAN

The Department of Statistics (DOS) which is responsible for compiling the national accounts of Jordan, in 1976 began a move towards adopting the new System of National Accounts (SNA) recommended by the United Nations.

Although the basic principles of national accounting were the same in the two systems, significant modifications were made to certain definitions and

classifications used in the old system. The changes that were incorporated in the new system, in effect made the framework of the national accounts more comprehensive and detailed than the one that characterized the old system of national accounts which was first published in 1953, also by the UN. Moreover, the new SNA clarified the concepts and definitions of many terms used in national accounting with the help of the expanded framework, so as to provide a uniform basis for reporting national accounts statistics.

The switch from the old to the new system of national accounting was not effected quickly in many developing countries. The main reason for the delay in adopting the new system in full, at least in the case of Jordan, was the shortage of statisticians familiar with all the modifications and clarification introduced in it. Moreover, the implementation of the new system entailed expanding the capacities and strengthening the capabilities in the field of data collection and processing. Concerted efforts towards easing these constraints have been made by the DOS in the past few years (Jordan, National Accounts, 1989).

In this regard, it is relevant to note that the present SNA recommended by the UN in 1968 is being reviewed currently by international experts and the World body is expected to recommend further modifications to it in the near future.

8.5.1 Structure of the Jordanian National Accounts

There are three groups of accounts in the SNA which are described briefly below:

Group I: This group is concerned with the consolidated accounts of Jordan, which are designed to summarize the transactions that take place in the economy in such a manner as to highlight the main features and the main relationships between various facets of the economy. The three basic accounts of the system concerned with the production and final expenditures, income and outlay, and capital finance are summarily portrayed in this group and the system to which these accounts are integrated is closed by the fourth account on the external transactions of Jordan.

These four accounts are:

1. Gross domestic product and expenditure;
2. National disposable income and its appropriation;
3. Capital finance; and
4. External transactions.

Group II: This group is concerned with the production, consumption expenditure and capital formation accounts. The accounts on the supply and disposition of goods and services are divided into accounts on commodities and on other goods and services. The production accounts included here are in respect of each class of producers: industries, producers of government services, producers of private non-profit services to households and domestic services of households.

Group III: The accounts in this group are of the institutional sectors in which all resident transactors are classified in the system. In the SNA, the recommended institutional sectors are non-financial corporate and quasi-corporate enterprises, financial institutions serving households, including non-financial private unincorporated enterprises. In principle, for each of the above institutional sectors, the income and outlay accounts as well as the capital finance accounts can be compiled. However, this would require considerable financial data at the enterprise level, which as stated before is difficult to assemble even in many advanced countries.

8.6 SUMMARY

The lack of a governmental accounting system has been a major weakness in many countries (especially developing ones) hindering the carrying out of more sophisticated forms of budgeting.

The government accounting system and auditing procedures in Jordan are traditionally conservative. They concentrate primarily on legal requirements and accountability, and ignore the role of accounting as a management tool to provide useful financial information of governmental transactions for planning and economic analysis purposes.

Like most developing countries, Jordan suffers from a scarcity of well-qualified staff in the fields of

financial administration, accounting and budgeting. The shortage of capable, trained accountants and budget-makers is the greatest single obstacle to government budgeting and accounting in Jordan. Although the obligation and cash system has officially been in effect since 1963, problems remain, and some agencies and departments still do not understand or follow the system.

Since 1976, Jordan has been moving towards adopting the new system of national accounts recommended by the UN. The main reason for the delay in adopting the new system in full was the shortage of Jordanian statisticians who able to understand and apply it.

CHAPTER NINE
EMPIRICAL STUDY I:
ENTERPRISE VIEW

9.1 Introduction

The purpose of this chapter is to describe the research methodology used to conduct the survey of financial managers or chief accountants in industrial shareholding companies (ISCs) quoted in AFM and to present the analysis of the results of the survey. Following the introduction, the choice of the mail questionnaire as the principal data collection technique is explained, followed by a discussion of the actual questionnaire used in the study. This section also includes a discussion of the research sample; the problems of assessing questionnaire validity; the procedures used to collect data; and the treatment of the problem of nonresponse. This section concludes with a presentation of the statistical techniques employed in analysing data.

The third section of the chapter is devoted to an analysis of the respondents' characteristics, and those of the enterprises for which they work, obtained from part I of the questionnaire.

Views regarding cooperation between the accounting profession and other entities are discussed in section four, which also includes an analysis of the major factors affecting the development of accounting practices in Jordan; and the major accounting problems in the country.

The next section discusses the accounting profession's image as perceived by Internal Accountants

(IAs), the current needs of the accounting profession, and IAs' opinions regarding existing accounting standards, the certification test and the adoption of a Code of Ethics.

IAs' awareness of national accounting needs are discussed in section six, while section seven is devoted to the recommendations which are made with the aim of improving accounting practices in Jordan. The chapter concludes with a summary.

9.2 RESEARCH METHODOLOGY

In view of the lack of literature on the development of accounting practices in Jordan, and in order to cover a large area at minimum cost, the decision was made to collect the needed data through the use of a mail questionnaire. More specifically, the questionnaire was designed to achieve the following:

- 1) To solicit IAs' opinions regarding accounting practices and recent developments affecting such practices.
- 2) To isolate empirically the key factors affecting the development of accounting practices.
- 3) To identify the needs of the accounting profession as perceived by IAs.
- 4) To determine the problems facing accounting practice and education in Jordan, as seen by IAs, and the relative importance of each of these problems.

9.2.1 The Questionnaire

For the purpose of gathering the empirical data desired in this study, a questionnaire was devised based upon a review of the literature and a study of previous similar research. The questions are classified according to the type of information they reveal as follows: (Table 9.1).

- 1) General information about the respondent and the company he/she works for.
- 2) Financial reporting.
- 3) National accounting.
- 4) Accounting profession.
- 5) Accounting problems and proposed recommendations.

TABLE 9.1
DESIGN OF THE ENTERPRISE QUESTIONNAIRE:
CLASSIFICATION OF QUESTIONS BY TOPIC

No.	Information Type	Questions No.
1	Company and respondent information	1 to 7
2	Financial reporting	8 to 27 31 to 48 50 to 62
3	National accounting	28 to 30
4	Accounting profession	68 to 72 49, 82, 83
5	Accounting problems and recommendations	63 to 67 73 to 81

The questionnaire was first designed in English, and then translated into Arabic, which is the language spoken and written in Jordan. Before the final typing of the

questionnaire, its early drafts were reviewed by 5 Arabic speaking persons in order to reduce bias as well as to correct for any possible mis-translation.

Approximately three months were spent in the preparation and pretesting of the questionnaire. The aim of the pretesting was to determine the approximate time needed for respondents to complete the questionnaire. Copies of the questionnaire were distributed to a small number of subjects. Every effort was made in the selection of the pretesting group to ensure that enterprises of various sizes were represented. The result of the pretesting did not affect the English version of the questionnaire. As to the Arabic version, certain questions were restated to ensure a better understanding on the part of the respondents. Also, the pretesting resulted in more detailed instructions being given in the Arabic version, after it was realised that the participants in the pretest experienced some difficulty in understanding the rating scale attached to some questions in part III of the questionnaire. Participants in the pretest completed the questionnaire in an average of 25 minutes, with a maximum time of 30 minutes. The pretest did not become a part of the actual survey results.

9.2.2 Research Sample

The target population consisted of a chief accountant or financial manager in each ISC listed in

AFM. At the time of conducting the survey, there were 43 ISCs in AFM. 38 companies were included in the survey; the remaining 5 companies constituted the pretesting group.

The researcher travelled to Jordan on July 1990 and stayed there for about four months. This period was spent in administering questionnaires.

9.2.3 The Validity of the Research Instrument

Survey research is one of the most widely used techniques, and mailed questionnaires are the most commonly used method (Isaac & Michael, 1983). When dealing with numerous members of a particular group, the survey method is effective and inexpensive (Iman & Conover, 1983). The questionnaire for this study was divided into three main parts; the complete questionnaire and covering letters are presented in Appendix 9.A.

In the first part of the questionnaire, which was concerned with demographic information, respondents were asked to respond to questions about their qualifications, location of the university from which they received their degree, years of experience in accounting and auditing, membership of an accounting society and name, date of establishment and sales volume of the company for which the participant works.

The second part included accounting information about the accounting system and financial reporting of the company. The third part comprised accounting

information about the country as a whole, together with accounting image and importance of financial corporate disclosure, accounting problems and proposed recommendations. A Likert scale of one to seven was used, with each respondent being asked to rate whether he/she agreed with a statement given. A rating of one to three represents *Strongly Disagree* with the statement; the respondent thinks that the statement is not valid. A rating of *four* represents *Undecided* about the statement presented; the respondent has no strong opinion about it. A rating of *five to seven* represents *Strongly Agree* with the statement presented; the respondent believes that the statement is valid.

An important step in conducting research is establishing the validity of the research instrument. Validity in research reflects the extent to which a research instrument provides an accurate representation of what one is trying to measure. Accordingly, validity includes both systematic and variable error components. However, researchers have tended to limit the concept of validity to refer to the degree of consistent or systematic error in a measurement. Accordingly, validity is defined as:

"the extent to which a measurement is free from systematic error." (Tull & Hawkins, 1976, P.225)

Validity in research, then, is related to the qualities of soundness and effectiveness. These qualities would be achieved if research design is

adequate, hypotheses are properly stated, data analysis is done properly, and results are interpreted in a proper way.

In empirical research, it has been suggested that determination of the validity of a measurement involves comparison with some ideal concept of what it should measure. In this sense, there is no completely objective procedure for determining the validity of research instruments. Ebel, however, has agreed that the lack of such objective procedure will not be overly restrictive since the validity of a research instrument is subject to the judgement of its creator and other professionals (Ebel, 1965, P.386).

The validity of the questionnaire in this study was achieved by careful construction by the test creator and through the judgement of competent professionals. Several professors and other individuals were asked to examine the questionnaire in order to eliminate the following: unclear instructions, ambiguous questions, unnecessary questions, difficult vocabulary, and poor question arrangement. All suggestions from those individuals were taken into consideration in the design and the translation of the final questionnaire.

Furthermore, a pretest was conducted to improve the validity of the questionnaire, because its reliability affects the consistency of the results. Clear and understandable questions add to the reliability of the instrument. Also, according to Gronlund (1985), as

validity improves, there is reason to believe that reliability also improves.

9.2.4 Data Collection

The primary source of information for this study was a mail questionnaire employed to gather data regarding accounting practices in Jordan, and how to improve them. The decision to use a mail questionnaire was based on several factors. First, a review of previous similar research suggested that the mail survey had been utilized in the majority of past studies, thus suggesting the suitability of the mail questionnaire for this kind of research. The mail questionnaire also appeared to be as efficient as interview techniques, but would also be faster and less expensive. According to Gay (1981) and Selltiz, Wrightsman and Cook (1976), the questionnaire has several advantages over the interview technique. It is more efficient, requires less time and less cost, and permits collection of data from a larger sample.

Furthermore, the use of mail surveys has other advantages over personal interviews, according to Hackler and Bourgette (1973): (a) greater ease in establishing contact with respondents, (b) more uniformity from one measurement situation to another, (c) less pressure on the subject to promote responses due to greater privacy, (d) possible gain in validity as a result of respondents having greater confidence in their anonymity.

However, Selltiz, Wrightsman, and Cook (1976) suggest the following weaknesses: low response rate, no assurance that the questionnaire is understood, and difficulty of construction. The pretest aimed to overcome these potential disadvantages.

After the pretest, the final questionnaire was mailed to all ISCs, Each company was sent a large size envelope containing a covering letter, the questionnaire, and a self-stamped envelope for returning the questionnaire. In the typing and mailing of the questionnaire, every effort was made to make the envelope and its contents appear personal and distinctive in order to increase the probability of obtaining a reasonable response rate.

To improve participation in the study, the researcher contacted all the participants by phone one week after sending the questionnaire, in order to be sure that the questionnaire had been received and directed towards the right person. Another copy of the questionnaire was sent to any company which had not received or had lost the original, and in some cases the researcher delivered the questionnaire to the office of the respondent in person. To guarantee having an acceptable return, the researcher reminded participants about the questionnaire from time to time and in some cases collected the questionnaires in person.

The overall response to the final questionnaire of 55.3% with a usable response rate of 51.4%, seems

adequate in view of typical rates of 40 - 60% reported for survey research (Simon, 1969, P.118). 21 questionnaires were returned out of 38, while one company was excluded from the survey since it was discovered that it had gone out of business by the time of the survey. 19 questionnaires were included in the survey; two questionnaires were excluded, since they contained too many unanswered questions.

9.2.5 Nonresponse

The use of a mail survey in conducting a research project is subject to the serious problem of a large degree of nonresponse. While it is easy for a researcher to overcome the problem of poor responses to his survey by sending out more questionnaires, there is always the possibility of bias. This possibility exists where the returns are not representative of the intended sample. The steps taken to minimise nonresponse are described in the following paragraphs.

According to Selltitz, there are several factors regarding the preparation and administration of the questionnaires that might have an impact on the individual's decision as to whether or not to return a questionnaire. Among the significant factors are: (a) the length of the questionnaire, (b) the sponsorship of the questionnaire, (c) the nature of the accompanying letter requesting cooperation with the survey, (d) the attractiveness of the questionnaire format, (e) the ease

of filling out the questionnaire and mailing it back, and (f) the inducements offered to reply (Selltiz et. al, 1976).

In order to minimise nonresponse every effort was made to keep the questionnaire simple, understandable and short. The translation of the questionnaire from English to Arabic was reviewed by several Gaza University professors in order to make sure that the Arabic version of the questionnaire was consistent with the original English version. More detailed instructions were added to the Arabic version after the pretest had revealed the need for such details. The covering letter accompanying the questionnaire explained 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 toward appraising accounting practices in Jordan. The letter also stressed that all responses to the questions 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 Acting Dean of the Faculty of Economics and Administrative Sciences was also obtained and sent with each questionnaire. The Acting Dean's letter indicated the need for and the importance of this study in the process of evaluating accounting practices in the country. His letter also appealed to all concerned parties to facilitate the researcher's job in

every possible way. All communications with potential respondents were typed on official Islamic University of Gaza stationery. For return of their responses, respondents were provided with a pre-addressed, stamped envelope. Individuals were contacted by phone to obtain their cooperation in responding to the questionnaire.

9.2.6 Statistical Analysis Employed

Data obtained from the returned questionnaires were analysed using general descriptive statistics, in order to inquire into the relationships contained in the data. Since the questions in part I of the questionnaire were designed to obtain personal data concerning the participants, a simple frequency distribution of the responses to these questions was considered appropriate.

The questions in parts II and III of the questionnaire sought to obtain data concerning accounting practices in the Jordanian industrial sector. To accomplish that, the usual descriptive statistics, namely means, standard deviations, and frequency distributions were employed.

Descriptive statistics were computed for these items and then used to derive from raw data certain indices that characterized or summarized the entire set of data (Huck et. al, 1974).

**9.3 INTERNAL ACCOUNTANTS' AND
ENTERPRISES' CHARACTERISTICS**

9.3.1 IAs' Characteristics

Four demographic factors characterise the 19 IAs. A brief description of these factors is presented in the following paragraphs:

(1) Higher Degree received..

Table 9.2 presents the educational level of the respondents. As expected, a decisive majority of respondents (94.7%) have at least a bachelor's degree.

**TABLE 9.2
THE EDUCATIONAL LEVEL OF THE
INTERNAL ACCOUNTANTS, 1990**

Educational level	Respondents	
	No.	%
A baccalaureate degree	1	5.3
Bachelor's degree	16	84.2
Master's degree	2	10.5
Doctor's degree	0	0.0
Total	19	100

(2) Country in which most recent degree was received..

10 respondents received their degree in other Arab countries, 7 in Jordan, and 2 in U.K or USA (see Table 9.3).

**TABLE 9.3
FREQUENCY DISTRIBUTION OF IAs BY
COUNTRY OF FORMAL EDUCATION**

Country	Freq- uency	Percent	Cumulative Frequency	Cumulative Percent
Jordan	7	36.8	7	36.8
Other Arab	10	52.6	17	89.5
U.K./USA	2	10.5	19	100.0

(3) *Years of Experience in Accounting and Auditing..*

14 accountants had more than 10 years of experience, 4 accountants had from 5 to 10 years, and only 1 had less than 5 years (see Table 9.4).

TABLE 9.4
FREQUENCY DISTRIBUTION OF IAs BY
YEARS OF EXPERIENCE

Years of Experience	Frequency	Percent	Cumulative Frequency	Cumulative Percent
Less than 5	1	5.3	1	5.3
From 5 to 10	4	21.1	5	26.3
Over 10	14	73.7	19	100.0

(4) *Membership of an Accounting Society..*

18 subjects were not members of any accounting society; only one was a member of the Jordanian Association of Certified Public Accountants (JACPA) and General Federation of Arab Accountants and Auditors.

9.3.2 Enterprises' Characteristics

Table 9.5 presents the sales volume of the companies for which IAs worked; 9 companies had turnover from 5 to less than 15 million Jordan Dinar (JD), 7 companies less than JD 5 million, and 3 over JD 15 million. (A list of companies' names and dates of establishment is provided in Appendix 9.B).

TABLE 9.5
FREQUENCY DISTRIBUTION OF COMPANIES BY
SALES VOLUME

Sales Volume in Million JD	Frequency	Percent	Cumulative Frequency	Percent
Less than 5	7	36.8	7	36.8
From 5 to 15	9	47.4	16	84.2
Over 15	3	15.8	19	100.0

9.4 DEVELOPMENT OF ACCOUNTING PRACTICES (DAP)

IN JORDAN

9.4.1 Contributions of Private Business to the DAP

Questions 68-A, 68-B, and 68-C sought the Internal Accountants' opinions regarding the role of private business in the development of accounting practices. These questions and their answers are the subject of table 9.6.

TABLE 9.6

IAS' OPINIONS REGARDING PRIVATE BUSINESS ROLE IN THE ACCOUNTING PROFESSION

 Ques. 68) In your view, have Private Businesses contributed to the accounting profession in terms of:

A- providing adequate funds for research?

	Strongly Disagree		Undecided	Strongly Agree			Total	
	1	2	3	4	5	6	7	
NOR	4	1	3	4	2	1	2	17
%	23.5	5.9	17.6	23.5	11.7	5.9	11.7	100

B- providing adequate funds for education and training?

	Strongly Disagree		Undecided	Strongly Agree			Total	
	1	2	3	4	5	6	7	
NOR	6	1	3	2	4	1	1	18
%	33.3	5.5	16.7	11.1	22.2	5.5	5.5	100

C- supporting effective accounting legislation?

	Strongly Disagree		Undecided	Strongly Agree			Total	
	1	2	3	4	5	6	7	
NOR	4	1	4	3	3	1	2	18
%	22.2	5.5	22.2	16.7	16.7	5.5	11.1	100

Where NOR: Number of Responses.

As Table 9.6 shows, IAs strongly believed that the contribution of private business to the development process of accounting in Jordan had been insignificant. As to providing adequate funds for research, the majority

(47.0%) indicated that such valuable assistance was yet to be provided. A greater majority (55.5%) disagreed regarding the question of whether these businesses had provided funds for education and training of personnel. The inadequacy of their contribution, if any, could be attributed to many reasons. *First*, there has been the problem of identifying which entity has responsibility for conducting research and providing advanced (or continuing) education and training for accountants. *Second*, there has been the belief that such financial assistance is always provided by the government in the form of grants to the JACPA or sending accountants to further their education abroad. *Third*, the lack of adequate support could have resulted from the belief that the local profession has not done much to earn it. The profession has yet to initiate any professional activities directed toward the problems affecting the local business community.

As to the question of whether these businesses had supported the establishment of effective accounting legislation, 50.0% of the IAs disagreed. While the rapid expansion of private business has pressured the government to provide some minimum level of accounting legislation, together with accounting education at the university level, some social and economic factors have prevented them from playing a positive role in accounting legislation. A good example of these factors has been

the presence of a class elite that prefers loose regulations in order to protect its own interest.

**9.4.2 Contribution of Academic Institutions
to the DAP**

Questions 69-A and 69-B were asked to solicit opinions regarding the involvement of Jordanian academic institutions in the advancement of the local accounting profession. Answers to the two questions are summarized in Table 9.7.

TABLE 9.7

**IAS' OPINIONS REGARDING ACADEMIC
INSTITUTIONS' ROLE IN THE ACCOUNTING PROFESSION**

Ques. 69) In your view, have the Academic Institutions in Jordan contributed to the accounting profession in terms of:

A- providing effective training for personnel?

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	1	0	3	2	4	7	1	18
%	5.5	0.0	16.7	11.1	22.2	38.9	5.5	100

B- providing recommendations and advice on how to develop and advance accounting practices?

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	1	1	2	4	6	4	0	18
%	5.5	5.5	11.1	22.2	33.3	22.2	0.0	100

Responses to question 69-A, surprisingly, show a majority of 66.6% recognising the role of these institutions in educating and training members of the profession. The result could have been significantly influenced by responses from participants who graduated from the local universities and who represented 36.8% of the total questionnaires received. The overall

favourable result could have been also a reflection of the fact that the local universities have been the major supplier of accountants to the profession.

In answering Question 69-B, the majority of IAs (55.5%) indicated the adequacy of technical assistance which accounting educators may be expected to provide for the profession.

9.4.3 Contribution of the Government to the DAP

In order to gather data as to how the profession rates government efforts to advance accounting practices, Questions 70-A, 70-B and 70-C were asked. The responses to these questions are shown in Table 9.8.

TABLE 9.8
IAS' OPINIONS REGARDING GOVERNMENT
ROLE IN THE ACCOUNTING PROFESSION

Ques. 70) In your view, has the Jordanian Government contributed to the accounting profession in terms of:

A- providing effective accounting legislation?

	Strongly Disagree	Undecided	Strongly Agree	Total
	1	2	3	4
NOR	1	3	3	3
%	5.5	16.7	16.7	16.7
	5	6	7	18
	27.8	11.1	5.5	100

B- providing adequate funds for research and training?

	Strongly Disagree	Undecided	Strongly Agree	Total
	1	2	3	4
NOR	3	3	6	3
%	16.7	16.7	33.3	16.7
	5	6	7	18
	16.7	0.0	0.0	100

C- responding positively to the profession's demands to improve accounting practices?

	Strongly Disagree	Undecided	Strongly Agree	Total
	1	2	3	4
NOR	3	1	3	5
%	16.7	5.5	16.7	27.8
	5	6	7	18
	22.2	11.1	0.0	100

As table 9.8 shows, IAs were split on the issue of whether the government had introduced effective accounting legislations. While 44.4% of the accountants agreed, a substantial percentage (38.9%) indicated their disapproval of government laws regulating the profession.

As to the Question 70-B, a majority of 66.7% indicated that the government funds allocated for research and training of accountants had been inadequate. One reason for this lack of funding could have been the lack of adequate research activities to justify the need for the funds.

In answering the question as to whether the government had responded positively to the needs of the profession, a significant percentage (38.9%) stated their disagreement. However, in view of the latest developments in the profession, 33.3% indicated their approval of the way the government had handled the demands of the local profession.

9.4.4 Attitudes Toward Government

Involvement in the DAP

Questions 78 and 79 sought opinions regarding the involvement of the government in the process of advancing local practices. These questions and their answers are listed in Table 9.9.

TABLE 9.9
IAS' OPINIONS REGARDING
GOVERNMENT INVOLVEMENT IN THE DAP

Ques. 78) Do you agree, that the government must play a role in any attempt to improve accounting practices in Jordan?

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	2	1	0	2	8	5	1	19
%	10.5	5.3	0.0	10.5	42.1	26.3	5.3	100

Ques. 79) If you agree, How can the government help?

<i>Item</i>	<i>Ranking</i>
-By providing financial support only	5
-By providing effective accounting legislation only	1
-By providing financial support and effective accounting legislation	3
-By establishing a government agency responsible for advancing accounting practices	4
-By establishing a committee with members drawn from private business, government agencies, and the accounting profession, to advance accounting practices	2

As shown in Table 9.9, 73.7% of the IAs were in favour of involving the government in the improvement process. The high percentage rate is an indication of the accountants' realisation that the political and social climate in the country has forced them to solicit government's support. Such support is needed for several reasons. *First*, an officially backed set of accounting rules and regulations would be more enforceable than those adopted without government approval. *Second*, in the local society, a high level of creditability could be achieved if the government would declare its support for the profession. Government support constitutes creditability in the eyes of the average citizen.

While IAs are in favour of involving the legal authorities in the process of advancing accounting practices, they also wish other parties to participate. It is significant that, as their second choice, they would like to see established an independent committee with proper authority, but free from government pressure, to lead the efforts toward the sought improvement in local practices.

9.4.5 Factors Affecting Accounting Developments

To achieve the second objective of the survey, IAs were asked to indicate the extent to which a number of factors have affected accounting developments at the local level. These factors are the subject of Table 9.10.

TABLE 9.10
FACTORS AFFECTING ACCOUNTING DEVELOPMENTS:
IAs' VIEWS

Ques. 76) Please indicate whether you agree that the following items have affected the development of accounting in Jordan in its present state:

A- The rapid economic development process

	Strongly Disagree		Undecided	Strongly Agree			Total	
	1	2	3	4	5	6	7	
NOR	1	0	0	0	9	4	3	17
%	5.9	0.0	0.0	0.0	52.9	23.5	17.6	100

B- Education for local accountants

	Strongly Disagree		Undecided	Strongly Agree			Total	
	1	2	3	4	5	6	7	
NOR	0	0	0	2	4	7	4	17
%	0.0	0.0	0.0	11.8	23.5	41.2	23.5	100

C- Growth in private business enterprise

	Strongly Disagree		Undecided	Strongly Agree			Total	
	1	2	3	4	5	6	7	
NOR	0	0	1	0	5	5	5	16
%	0.0	0.0	6.3	0.0	31.2	31.2	31.2	100

Table 9.10 (continued)

D- Influence of foreign methods and practices								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	1	3	5	4	4	17
%	0.0	0.0	5.9	17.6	29.4	23.5	23.5	100
E- Amman Financial Market's laws and regulations								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	2	0	5	3	3	3	1	17
%	11.8	0.0	29.4	17.6	17.6	17.6	5.9	100
F- Cooperation with international organisations and international accounting firms								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	1	2	4	6	3	16
%	0.0	0.0	6.3	12.5	25.0	37.5	18.7	100
G- Government laws and regulations								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	1	2	1	7	3	2	16
%	0.0	6.3	12.5	6.3	43.8	18.7	12.5	100
H- Education for the public								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	1	0	3	5	3	4	16
%	0.0	6.3	0.0	18.7	31.2	18.7	25.0	100

As shown in Table 9.10, a decisive majority, 94.1% of the accountants, agreed that the rapid economic development process had affected the development of accounting practices. 88.2% of the participants indicated that education for local accountants had been an influencing factor in the advancement of local practices. A 93.7% majority also affirmed the

significance of the growth in private business enterprises in that process.

As to the influence of foreign methods and practices on local accounting development, 76.4% of the IAs were of the opinion that the local profession had been influenced by the accounting rules that were brought to the country by foreign accounting firms in the mid- 1960s.

As to cooperation with international organisations and international accounting firms, 81.2% of the IAs acknowledged the importance of such cooperation in the development process. Also, 75.0% agreed on the significance of government laws and regulations in the development of Jordan's accounting practices. Finally, when accountants were asked whether education for the public had affected accounting development, 75.0% of them also agreed, implying that a better educated society would have a better image of the accounting profession and a better understanding of the need to improve accounting practices.

Question 77, sought the ranking of these factors according to their importance. IAs were asked to specify in rank order what they considered to be the items that had affected the development of accounting to its present state. The following five items were listed according to their importance:

- 1) A rapid economic development process.
- 2) Education for local accountants.
- 3) Growth in private business enterprise.

- 4) Government laws and regulations.
- 5) Influence of foreign methods and practices.

9.4.6 Major Problems of Accounting Practice

To achieve the fourth objective of the survey, IAs were asked, in Question 63, to evaluate the relative importance of each of fifteen primary accounting practice problems. The suggested problems were based upon knowledge of accounting practices in Jordan and a review of literature regarding accounting problems in developing countries in general. The problems are the subject of Table 9.11.

TABLE 9.11
RELATIVE IMPORTANCE OF MAJOR PROBLEMS OF
ACCOUNTING PRACTICES: IAs' VIEWS

THE PROBLEM	IMPOR- TANCE
Shortage of qualified accountants at all levels and in all areas of accounting.	VI
Accounting information is either not available in the proper form, or is received by users too late to be useful.	VI
Accounting information is either not utilized advantageously for internal management purposes.	VI
Lack of adequate financial reporting and auditing standards.	VI
Lack of strong national associations of accountants.	VI
Lack of adequate accounting in government agencies and government-owned businesses.	VI

Table 9.11 (continued)

Low status of accountants and accounting profession compared with other professions.	VI
Lack of adequate inflation accounting, currency translation techniques and financial disclosure requirements.	VI
The weakness and underdevelopment of the accounting curricula which are adopted in local colleges and universities in Jordan as well as the inadequacy of these curricula in relation to the development of accounting and auditing; and the lack of teaching staff sufficiently qualified to teach such subjects to the satisfaction of the local society.	VI
The lack of legislation relating to accounting and auditing standards and procedures.	I
Accounting practices are viewed and utilized primarily as a means for helping companies evade taxes and manipulate financial reporting.	I
Accounting practice tends to be procedures-oriented.	I
Accountants and accounting do little to improve government tax collection.	I
Conflict between national and international accounting firms.	I
Some accountants try to apply concepts and techniques imported from developed countries, regardless of their suitability for the local conditions and immediate needs.	MI

Where VI: Very Important, MI: Moderately Important, I: Important.

The IAs were asked to indicate whether they believed each problem to be Very Important, Important, Moderately Important, Slightly Important, or Unimportant and responses were classified accordingly in the summaries.

For the purposes of summarization and analysis, the importance level of each problem was determined by finding where the simple median of the number of responses falls among the five categories of importance, i.e., into which category the median falls. Thus, if this category was Very Important, the problem was ranked as Very Important, and so forth.

Table 9.11 shows the importance of the primary problems as seen by the IAs in industrial shareholding companies. The problems evaluated as Very Important are placed first in the table. Of all fifteen problems, only one was ranked *Moderately Important* and none was ranked *Unimportant* or even *Slightly Important*.

Question 64, then, sought the ranking of these problems according to their importance. IAs were asked to specify in rank order what they considered to be the most important problems that had affected the current accounting practices in Jordan. The following top five problems were listed according to their importance:

- 1) Shortage of qualified accountants at all levels and in all areas of accounting;
- 2) Low status of accountants and accounting profession compared with other professions;
- 3) Lack of strong national association of accountants;
- 4) The lack of legislation relating to accounting and auditing standards and procedures;
- 5) The weakness and underdevelopment of the accounting curricula which are adopted in local colleges and universities in Jordan and the lack of teaching staff sufficiently qualified to teach these subjects.

Question 65 solicited opinions about how to help resolve these problems in order to improve the current accounting practices in the country concerned. The following recommendations were made by the IAs:

- (1) Strengthening the power of the JACPA to regulate financial corporate disclosure;
- (2) Improving the effectiveness of training for accountants;
- (3) Developing accounting principles suitable to the country's environment;
- (4) Developing professional rules relevant to Jordanian society;
- (5) Organising and improving the local accounting profession;
- (6) Establishing an active accounting organisation;
- (7) Greater support from the government and the private sector;
- (8) Effective educational programmes;
- (9) Effective accounting legislation and financial support.

9.5 DEVELOPMENT OF THE ACCOUNTING PROFESSION IN JORDAN

9.5.1 The Image of Accounting

Questions 49 and 50 sought to determine internal accountants' appraisal of the accounting profession and the auditor's job. Table 9.12 shows the participants' responses to Question 49 which asked IAs to assess the public accounting profession's achievement in establishing effective accounting practices needed to improve accounting.

TABLE 9.12
IAS' IMPRESSIONS OF THE ACCOUNTING PROFESSION

Rating	Respondents	
	No.	%
Excellent	0	0.0
Good	12	63.2
Fair	3	15.8
Poor	3	15.8
No opinion	0	0.0
No answer	1	5.3
Total	19	100

As shown in table 9.12, over 63% of the IAs rated the performance of the accounting profession as good, while the rest of them were split between fair and poor for the activities of the profession. No respondent gave the rating, Excellent.

Regarding the question of how well the auditors do in attesting the fairness of the company's financial statements, Table 9.13 indicates that 63.1% of IAs rated the performance of auditors as excellent or good, while 31.6% indicated a Fair rating for the performance of auditors.

TABLE 9.13
IAS' IMPRESSIONS OF AUDITORS

Rating	Respondent	
	No.	%
Excellent	5	26.3
Good	7	36.8
Fair	6	31.6
Poor	1	5.3
No opinion	0	0.0
No answer	0	0.0
Total	19	100

9.5.2 Attitudes Regarding Accounting Profession and Economic Development

Question 72 was asked to gather opinions regarding accounting profession development and its relation with the economic development of the country. The responses to this question are summarized in Table 9.14.

TABLE 9.14
IAS' OPINIONS REGARDING ACCOUNTING PROFESSION DEVELOPMENT AND ITS RELATION WITH ECONOMIC DEVELOPMENT IN JORDAN

Ques.72) With respect to the developing accounting profession and its relation with economic development in Jordan; please indicate whether you agree with the following statements:

A- One of the obstacles to economic development in Jordan is the failure and inability of the accounting profession to provide government agencies with relevant information for planning. This is due to lack of professional efficiency.

	Strongly Disagree			Undecided	Strongly Agree		Total	
	1	2	3	4	5	6	7	
NOR	3	2	2	2	8	1	1	19
%	15.8	10.5	10.5	10.5	42.1	5.3	5.3	100

B- One of the obstacles to economic development in Jordan is the weakness in the accounting systems employed, since they derived from accounting systems applied in developed countries, regardless of the differences in circumstances; as well as the fluctuation in these systems and controlling standards due to the instability in the region and the government control of the profession.

	Strongly Disagree			Undecided	Strongly Agree		Total	
	1	2	3	4	5	6	7	
NOR	2	2	4	3	4	1	1	17
%	11.8	11.8	23.5	17.6	23.5	5.9	5.9	100

C- One of the obstacles to development of the accounting profession in Jordan is that most of its weaknesses are deeply- rooted in the nature of the Jordanian social environment.

	Strongly Disagree			Undecided	Strongly Agree		Total	
	1	2	3	4	5	6	7	
NOR	3	2	4	5	3	0	1	18
%	16.7	11.1	22.2	27.8	16.7	0.0	5.6	100

Table 9.14 (continued)

D- A comprehensive reform of curricula and educational techniques and training is needed, especially with respect to accounting and management; this is considered a major step towards the development of the accounting profession in Jordan.

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	1	1	0	0	10	4	2	18
%	5.6	5.6	0.0	0.0	55.6	22.2	11.1	100

E- To develop professional rules relevant to Jordanian society, there is a need to establish a special professional body as well as to continue transferring modern professional rules issued by the international professional associations, International Federation of Accountants and International Accounting Standard Committee.

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	0	0	0	1	10	5	2	18
%	0.0	0.0	0.0	5.6	55.6	27.8	11.1	100

F- It is necessary for the government to organise and improve the accounting profession, because any deficiency in it will be reflected in the Jordanian economy as a whole.

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	0	0	0	0	8	5	5	18
%	0.0	0.0	0.0	0.0	44.4	27.8	27.8	100

While there was overall support (52.7%) for the first statement, which concerned the failure and inability of the accounting profession to provide government agencies with relevant information as one of the obstacles to economic development in the country, a considerable percentage (36.8%) disagreed.

As to Question 72-B, 47.1% of the accountants disagreed that weakness in the employed accounting systems is one of the obstacles to economic development

in the country concerned. However, 35.3% of them agreed with this suggestion. 50.0% of the IAs disagreed that the nature of the Jordanian social environment constitutes an obstacle to development of the accounting profession, while 22.2% of them agreed.

Internal accountants' views regarding the suggested recommendations appear in Table 9.14 (Question 72-D to 72-F). Based on these views, the following conclusions seem to be appropriate:

- 1) There is a need for the government to organise and improve the accounting profession. All the IAs indicated their agreement with this recommendation.
- 2) A decisive majority of the IAs (94.4%) were of the opinion that it is necessary to develop professional rules relevant to Jordanian society, and to establish a special professional body for this purpose. No respondent opposed this idea.
- 3) A large majority of the IAs (88.9%) indicated their support for a comprehensive reform of curricula and educational techniques and training.

9.5.3 Opinions Regarding the Activities of the Accounting Profession

Questions 71-A to 71-E were asked to solicit attitudes relating to the activities of local accounting profession. These questions and related responses are presented in table 9.15.

TABLE 9.15
IAS' OPINIONS REGARDING THE ACTIVITIES
OF THE ACCOUNTING PROFESSION

Ques. 71) In your opinion, has the accounting profession been active in terms of:

A- studying and providing solutions to the problems facing accounting firms?

	Strongly Disagree			Undecided	Strongly Agree			Total
	1	2	3	4	5	6	7	
NOR	3	1	3	3	5	3	1	19
%	15.8	5.3	15.8	15.8	26.3	15.8	5.3	100

B- developing a code of ethics?

	Strongly Disagree			Undecided	Strongly Agree			Total
	1	2	3	4	5	6	7	
NOR	2	1	2	3	7	3	1	19
%	10.5	5.3	10.5	15.8	36.8	15.8	5.3	100

C- developing accounting principles that are suitable to Jordan?

	Strongly Disagree			Undecided	Strongly Agree			Total
	1	2	3	4	5	6	7	
NOR	3	1	3	5	4	2	1	19
%	15.8	5.3	15.8	26.3	21.1	10.5	5.3	100

D- developing effective auditing procedures?

	Strongly Disagree			Undecided	Strongly Agree			Total
	1	2	3	4	5	6	7	
NOR	2	0	4	1	6	5	1	19
%	10.5	0.0	21.1	5.3	31.6	26.3	5.3	100

E- conducting effective research programmes in accounting?

	Strongly Disagree			Undecided	Strongly Agree			Total
	1	2	3	4	5	6	7	
NOR	2	1	3	3	3	5	2	19
%	10.5	5.3	15.8	15.8	15.8	26.3	10.5	100

Responses to questions 71-A to 71-E indicate that the local profession is seen as being active in taking responsibility for advancing accounting practices. In terms of studying and providing solutions to the major problems affecting the practices of public accountants,

the majority of IAs (47.4%) had positive views. However, it is interesting to see that 36.8% of them believed that the profession was unable to fulfil this function.

In responding to Question 71-B, 57.9% of the accountants indicated that there were activities directed toward the establishment of a code of ethics. In contrast, 26.3% of them indicated that the local profession had not been active in the development of such a code.

As to the question of whether the local profession had been active in developing suitable accounting principles, IAs were split on the issue; while 36.8% of the accountants agreed, another 36.8% indicated their dissatisfaction with the local profession's role in developing suitable accounting principles.

Regarding the role of the accounting profession in conducting accounting research programmes, 52.6% stated their approval of the amount of activity in this area, while 31.6% of IAs felt that performance in this respect had not been significant.

9.5.4 Opinions Regarding Needs

of the Accounting Profession

One objective of the survey was to identify empirically the essential items needed to support the improvement process. Question 73 sought to determine whether existing accounting practices need to be improved. 15 accountants (88.2%) replied in the affirmative, while only 2 (11.8%) indicated their

satisfaction with current practices. Question 74 was then asked to identify the prerequisites to improvement.

TABLE 9.16
PREREQUISITES TO ACCOUNTING PROFESSION IMPROVEMENT:
IAS' VIEWS

Ques. 74) Please indicate whether the establishment of each of the following items is essential to the improvement of accounting practices in Jordan?

A- Active accounting organisation								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	0	5	3	6	14
%	0.0	0.0	0.0	0.0	35.7	21.4	42.9	100
B- Accounting principles suitable to the local environment								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	0	3	2	8	13
%	0.0	0.0	0.0	0.0	23.1	15.4	61.5	100
C- Official auditing pronouncements								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	0	5	1	7	13
%	0.0	0.0	0.0	0.0	38.5	7.7	53.8	100
D- Code of professional conduct								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	1	3	1	8	13
%	0.0	0.0	0.0	7.7	23.1	7.7	61.5	100
E- A test for certification								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	1	4	2	6	13
%	0.0	0.0	0.0	7.7	30.8	15.4	46.2	100
F- Greater support from the government								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	0	3	3	7	13
%	0.0	0.0	0.0	0.0	23.1	23.1	53.8	100

Table 9.16 (Continued)

G- Support from the private sector								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	0	4	2	8	14
%	0.0	0.0	0.0	0.0	28.6	14.3	57.1	100
H- Effective educational programmes								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	0	3	2	7	12
%	0.0	0.0	0.0	0.0	25.0	16.7	58.3	100
I- Cooperation with international organisations (such as IASC)								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	1	5	1	7	14
%	0.0	0.0	0.0	7.1	35.8	7.1	50.0	100
J- Postgraduate training of accountants								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	0	6	1	7	14
%	0.0	0.0	0.0	0.0	49.9	7.1	50.0	100

Analysis of responses to question 74 shows that there are many items that must be established if a satisfactory level of improvement in the practices is to be achieved. First, an active accounting profession needs an active accounting organisation to direct the activities of the profession. Not surprisingly, all the IAs in the sample recognized the need for such an organisation. All accountants also strongly agreed that there was a need for accounting principles that were developed to suit the local business environment. As to auditing, all of them stressed the necessity of official auditing pronouncements in the advancement of local

practices. This finding is a clear indication that a specific set of authoritative auditing standards is needed to remove the discrepancies in auditing procedures and financial reporting methods that have resulted from the application of different accounting principles. There was also general agreement on the need for a Code of Ethics and for a test for certification, to improve the work of registered accountants. All the IAs recognised the significance of the Code, while 92.3% stated their strong approval of the certification test. These results suggest that accountants are aware of some of the questionable practices committed by some members and that the Code of Ethics, together with the certification test, would help eliminate such unacceptable practices.

All IAs stated the need for greater support from both the government and the private sector. These findings seem to be in line with the general belief within the profession that, without government approval, little can be done to improve local practices. Participants also recognised the need for effective accounting education and the importance of post-graduate training of accountants. As to cooperation with international accounting organisations, there was a clear agreement that such cooperation would be of great importance to the local profession.

However, when IAs were asked to specify in rank order what they considered to be the most important items

needed to advance accounting practices, they ranked the following items in order of importance:

- 1) Active accounting organisation;
- 2) Official auditing pronouncements;
- 3) Accounting principles suitable to the local environment;
- 4) Code of professional conduct;
- 5) Effective educational programmes.

9.5.5 Attitudes Regarding Existing Accounting Standards

Questions 58-A and 58-B were asked to gather opinions regarding the suitability of existing accounting principles and auditing procedures to the local business environment. The responses to these questions are summarized in Table 9.17.

TABLE 9.17

IAS' OPINIONS REGARDING EXISTING ACCOUNTING STANDARDS

Ques. 58) With respect to the suitability of the existing accounting principles and auditing procedures, please indicate whether you agree with the following statements:

A- The existing accounting principles and auditing procedures, although derived from the practices of the USA and U.K, are suitable to the local environment

	Strongly Disagree		Undecided		Strongly Agree	Total		
	1	2	3	4	5	6	7	
NOR	2	0	0	3	9	3	2	19
%	10.5	0.0	0.0	15.8	47.4	15.8	10.5	

B- The existing accounting principles and auditing procedures need to be modified to make them suitable and acceptable to the local environment.

	Strongly Disagree		Undecided		Strongly Agree	Total		
	1	2	3	4	5	6	7	
NOR	2	0	1	2	7	3	2	17
%	11.8	0.0	5.9	11.8	41.2	17.6	11.8	100

As table 9.17 shows, though 73.7% of the IAs indicated general satisfaction with current accounting and auditing standards , 70.6% stated their desire for some modification to make these practices in more applicable to the local environment.

9.5.6 Attitudes Towards the Certification Test

Question 81 sought opinions regarding the establishment of a test for certification as a prerequisite for the licensing of registered accountants. The question also sought to identify which party should be entrusted with the administration of such tests. The summary of these results is found in Table 9.18.

TABLE 9.18
IAs' OPINIONS REGARDING CERTIFICATION TEST

Ques. 81) Do you believe that all accountants working in accounting firms in Jordan should take qualifying examinations before obtaining a licensed position?			
	Yes	No	Total
No. of Responses	15	2	17
%	88.2%	11.8%	100
If your answer is Yes, which organisation should be responsible for these examinations?			
		No.	%
* JACPA.		4	30.8
* A committee, with members selected from the JACPA, Audit Bureau, Jordanian universities, and accounting firms.		4	30.8
* Effective accounting organisation.		3	23.1
* Special governmental agency.		1	7.7
* Arab Society of Certified Accountants.		1	7.7
Total		13	100

Responses to question 81 clearly indicate the accountants' desire to limit the granting of licenses to those who pass a certification test. The opinions of the 88.2% majority could be viewed as a rejection of the old

licensing system that considered the university degree as the most important requirement. Also, it could be interpreted as indicating the accountants' realization that there is a need to tighten licensing procedures to permit only those who are qualified to practice.

9.5.7 Attitudes Regarding the Adoption of a Code of Ethics

Questions 82, 82-A, and 82-B were asked to gather opinions regarding the adoption of a Code of Ethics and the extent to which accountants regard such a Code to be legally or morally binding. Also regarding the same issue, Question 83 sought to determine the appropriate sanctions in case of violation of the Code. Responses to these questions are shown in Table 9.19.

**TABLE 9.19
IAs' OPINIONS REGARDING ADOPTION OF A CODE OF ETHICS**

Ques. 82) Would you like the profession in Jordan to adopt a code of ethics?			
	Yes	No	Total
No. of Responses	15	2	17
%	88.2	11.8	100

If Yes, Please indicate whether the code should be:

A- Legally binding:

Strongly Disagree		Undecided	Strongly Agree		Total			
1	2	3	4	5	6	7		
NOR	0	0	1	0	3	6	6	16
%	0.0	0.0	6.2	0.0	18.8	37.5	37.5	100

B- Morally binding:

Strongly Disagree		Undecided	Strongly Agree		Total			
1	2	3	4	5	6	7		
NOR	0	0	0	2	5	8	15	
%	0.0	0.0	0.0	0.0	13.3	33.3	53.4	100

Table 9.19 (Continued)

Ques.83) In your view, an accountant violating the code of ethics should be punished by:

A- Losing his license

	Strongly Disagree			Undecided	Strongly Agree			Total
	1	2	3	4	5	6	7	
NOR	0	0	0	2	4	4	5	15
%	0.0	0.0	0.0	13.3	26.7	26.7	33.3	100

B- A fine

	Strongly Disagree			Undecided	Strongly Agree			Total
	1	2	3	4	5	6	7	
NOR	0	0	1	3	3	3	3	13
%	0.0	0.0	7.6	23.1	23.1	23.1	23.1	100

C- No punishment

	Strongly Disagree			Undecided	Strongly Agree			Total
	1	2	3	4	5	6	7	
NOR	8	2	3	0	0	0	0	13
%	61.5	15.4	23.1	0.0	0.0	0.0	0.0	100

As in table 9.19, a concern over the issue of loose practising rules is reflected in the high percentage (88.2%) supporting the adoption of a Code of Ethics, which, it is hoped, would eliminate questionable accounting practices and, therefore, increase the quality of services offered by registered accountants. As to the question of whether the Code should be legally or morally binding, a 93.8% majority indicated the need to enforce the Code by legal means. In addition, all participants wanted members of the profession to accept the Code also as a moral obligation to society. The message there is clear. In a developing society like Jordan, social pressure alone cannot enforce the Code; only a legal obligation could make such a Code fully effective.

The same message can also be deduced from the responses to Question 83. With regard to the violation of the Code by an accountant, respondents stressed the need for a severe penalty to ensure compliance. 86.7% of them supported the view that an appropriate punishment would be to deprive the offending accountant of his licence, therefore, not allowing him to practise. Also, a smaller majority (69.2%) of the IAs stated the need to impose a fine. No respondent felt that an offender should be allowed to escape punishment.

9.6 IAs' AWARENESS OF NATIONAL ACCOUNTING NEEDS

Question 28 sought to determine whether internal accountants were aware of national accounting needs. 14 accountants (87.5%) replied in the affirmative, while only 2 (12.5%) indicated their lack of awareness. Question 29 then asked whether the company in which the IA works, prepare any accounting reports for national accounting purposes. The majority of accountants 70.6% gave a negative answer while only 5 accountants (29.4%) prepared such reports.

When IAs were asked to specify the reports the company prepares, they mentioned the following:

- (1) Year budget plan;
- (2) Year cash flow plan;
- (3) Report to department of statistics and the higher council of science and technology. The report includes information about exports and imports and local sales.

9.7 IAs' VIEWS REGARDING

THE SUGGESTED RECOMMENDATIONS

In order to gather data needed to determine IAs' opinion concerning specific recommendations suggested for the purpose of advancing accounting practices in Jordan, Question 66 asked IAs to state the extent to which they agreed or disagreed with the following recommendations:

TABLE 9.20
IAs' OPINIONS REGARDING SUGGESTED
RECOMMENDATIONS

Ques. 66) Please indicate the extent to which you agree or disagree with the following recommendations which are proposed to advance accounting practices at the local level:

A- The establishment of an agency responsible for the development of accounting principles and auditing procedures.

	Strongly Disagree	Disagree	Undecided	Strongly Agree	Total			
	1	2	3	4	5	6	7	
NOR	1	0	0	3	5	3	6	18
%	5.6	0.0	0.0	16.7	27.8	16.7	33.3	100

B- Audit Committee.

	Strongly Disagree	Disagree	Undecided	Strongly Agree	Total			
	1	2	3	4	5	6	7	
NOR	3	3	0	5	0	5	2	18
%	16.7	16.7	0.0	27.8	0.0	27.8	11.1	100

C- Providing Laws which can eliminate manipulation in financial reporting and prevent insider dealing.

	Strongly Disagree	Disagree	Undecided	Strongly Agree	Total			
	1	2	3	4	5	6	7	
NOR	0	0	0	1	5	6	6	18
%	0.0	0.0	0.0	5.6	27.8	33.3	33.3	100

A- The establishment of an agency responsible for the development of accounting principles and auditing procedures. The members of the agency are to be

chosen from members of the security exchange, accounting firms and academic institutions.

B- **Audit Committee.** Its main purpose would be to recommend to shareholders the accounting firms that should be considered for the audit job, to intervene in any dispute between the auditor and management, and to be responsible for the preparation of the annual report. The members of the committee are to be selected from the security exchange, the accounting profession and a member of the board of directors in each company.

C- Providing Laws which can eliminate manipulation in financial reporting and prevent insider dealing.

IAS' views regarding these recommendations appear in table 9.19. Based on these views, the following conclusions seem to be appropriate.

1) There is a need for the government to provide laws designed to eliminate manipulation in financial reporting and prevent insider dealing. Overall, 94.4% of the IAs indicated their agreement with the recommendation.

2) A decisive majority of the IAs (77.8%) were of the opinion that the establishment of an agency responsible for the development of accounting principles and auditing procedures is needed.

3) While there was considerable support for the creation of an audit committee in each company (38.9%), a significant percentage (33.3%) opposed the idea.

Question 67 then sought the ranking of these recommendations in order of priority. IAs were asked to specify in rank order what they considered to be the measures that would most advance accounting practices in Jordan. The following ranking was listed as being the most needed requirements:

- A. Agency;
- B. Laws;
- C. Committee.

9.8 SUMMARY

The first purpose of this chapter was to describe the research methodology used to conduct the current study of developing accounting practices in Jordan. The decision was made to collect the needed data through the use of mail questionnaire. The questionnaire was developed after careful review of the accounting literature and was pretested before the initial mailing in summer 1990. 43 questionnaires were sent to all industrial shareholding companies quoted in AFM. Replies from these companies resulted in an overall 55.3% and a usable 51.4% response rate.

The assessment of the validity of the research instrument was favourable. As to the analysis of data,

general descriptive statistics were chosen for that purpose.

The second purpose of this chapter was to present the results of a mail survey conducted to collect data regarding the accounting practices and accounting profession in Jordan. The local profession is still in its early stages of professional development. To fulfil its duties, the profession needs the following:

- 1- Active accounting organisation.
- 2- Official auditing pronouncements.
- 3- Accounting principles suitable to the local environment.
- 4- Code of professional conduct.
- 5- Effective educational programmes.

The study identified a number of social and economic factors affecting the development of local accounting practices. Among others, the following five were considered by internal accountants as most significant:

- 1- A rapid economic development process.
- 2- Education for local accountants.
- 3- Growth in private business enterprise.
- 4- Government laws and regulations.
- 5- Influence of foreign methods and practices.

However, while, the majority of the accountants are aware of national accounting needs, they do not prepare any accounting reports for this purpose.

In general, IAs have supported the researcher's view that the suggested alternative approach to the development of local accounting practices, rather than the current approach imposed by the government, would offer more practical solutions to the problems facing the accounting profession in Jordan.

CHAPTER TEN

EMPIRICAL STUDY II: ACADEMIC, PROFESSIONAL, AND OFFICIAL VIEWS

10.1 INTRODUCTION

Chapter 9 presented the enterprise view regarding the evolution of accounting practices in Jordan. The purpose of this chapter is to present the academic, professional and official views regarding the same matter; the research methods used to collect data regarding accounting practices in Jordan will be described and the analysis of the results of the research will be presented. Following the introduction, the choice of the mail questionnaire as the principal data collection technique is explained, followed by an analysis of the respondents' characteristics, obtained from part I of the questionnaire.

Users of Jordanian financial reports are identified in section four. The fifth section of this chapter is devoted to the development of accounting practices in Jordan, followed by section six which will deal with the development of the accounting profession in the country.

The next section will be devoted to the recommendations which are proposed with the aim of improving accounting practices in Jordan. The last section consists of a summary of the chapter.

10.2 THE EMPIRICAL SURVEY

The choice of the mail questionnaire as the principal data collection technique is explained in this section, followed by a discussion of the actual questionnaire used in the research. This section also

includes, a presentation regarding sample selection and size; questionnaire validity; and interviews conducted. This section will conclude with a presentation of the procedures used to collect data.

10.2.1 The Questionnaire

In order to cover a large area at minimum cost it was decided to use questionnaires to gather empirical data desired in this study. The design of the questionnaire was based upon a review of the literature and a study of previous similar research. The questions are classified according to the type of information they reveal as follows: (Table 10.1)

- 1) General information about the respondent and the organisation he/she works for.
- 2) Financial reporting.
- 3) Accounting profession.
- 4) Accounting problems and proposed recommendations.

TABLE 10.1
THE QUESTIONNAIRE DESIGN:
CLASSIFICATION OF QUESTIONS BY TOPIC

No.	Information Type	Questions No.
1	Organisation and respondent information	1 to 8
2	Financial reporting	9 to 12 14 to 26
3	Accounting profession	32 to 36 13, 46, 47
4	Accounting problems and proposed recommendations	27 to 31 37 to 45

The questionnaire was first designed in English, and then translated into Arabic. Before the final typing of the questionnaire, its early drafts were reviewed by 5 Arabic speaking persons in order to reduce bias as well as to correct for any possible mis-translation.

Approximately three months were spent in the preparation and pretesting of the questionnaire. The aim of the pretesting was to determine the approximate time needed for respondents to complete the questionnaire. Copies of the questionnaire were distributed to a small number of subjects. Every effort was made in the selection of the pretesting group to ensure that all types of respondents were represented. The result of the pretesting did not affect the English version of the questionnaire. As to the Arabic version, certain questions were restated to ensure a better understanding on the part of the respondents. Also, the pretesting resulted in more detailed instructions being given in the Arabic version, after it was realized that the participants in the pretest experienced some difficulty in understanding the rating scale attached to some questions in part II of the questionnaire. Participants in the pretest completed the questionnaire in an average of 20 minutes, with a maximum time of 25 minutes. The pretest did not become a part of the actual survey results.

10.2.2 Sample selection and size

The target population consisted of all accounting educators in Jordanian universities, main officers of governmental organisations, and the main accounting firms in the country. In Jordan there are three main universities where accounting is taught: the University of Jordan, Yarmouk University, and Mut'h university. All the accounting educators in the three universities were included in the study. There were 21 professors teaching different accounting subjects. 18 of them were included in the final survey, while 3 professors were included in the pretesting group.

A list of licensed auditors was obtained from JACPA. At the time of conducting the research, there were 283 licensed auditors working in the country. During an interview with the manager of a major accounting firm working in Jordan, the researcher was advised by him to send a copy of the questionnaire only to the main accounting firms and the researcher was given a list of them.

Questionnaires were distributed in the main governmental agencies: mainly AFM, Audit Bureau, Central Bank of Jordan and other related governmental departments.

10.2.3 Questionnaire Validity

The questionnaire for this study was divided into three main parts; the complete questionnaire and covering letters are presented in Appendix 10.A.

In the first part of the questionnaire, which was concerned with demographic information, respondents were asked to respond to questions about their qualifications, location of the university from which they received their degree, years of experience in accounting and auditing, membership of an accounting society and name of the organisation for which the participant worked.

The second part included accounting information about the country as a whole, including accounting image and importance of financial corporate disclosure, accounting problems and proposed recommendations. The third part included open-ended questions. A Likert scale of one to seven was used, with each respondent being asked to rate whether he/ she agreed with a given statement. A rating of *one to three* represents *Strongly Disagree* with the statement; the respondent thinks that the statement is not valid. A rating of *four* represents *Undecided* about the statement presented; the respondent has no firm opinion about it. A rating of *five to seven* represents *Strongly Agree* with the statement presented; the respondent believes that the statement is valid.

The validity of the questionnaire in this study was achieved by careful construction by the test creator and through the judgement of competent professionals.

Several professors and other individuals were asked to examine the questionnaire in order to eliminate unclear instructions, ambiguous questions, unnecessary questions, difficult vocabulary, and poor question arrangement. All suggestions from those individuals were taken into consideration in the design and the translation of the final questionnaire.

Furthermore, a pretest was conducted to improve the validity of the questionnaire, because its reliability affects the consistency of the results. Clear and understandable questions add to the reliability of the instrument. Also, according to Gronlund (1985), as validity improves, there is reason to believe that reliability also improves.

10.2.4 Interviews

To provide in-depth follow up to the survey of the evolution of accounting in Jordan, interviews were carried out with various individuals, such as officials in the AFM, accounting educators, auditors, and government officials, to find out their perceptions of the accounting practices and suggestions for improvements. A list of the 7 individuals interviewed is given in Appendix 10.B.

No standard interview format was adopted; general views were sought on current accounting practices, and ways of improving the situation in general. Interviews

were conducted in Jordan by the researcher during September and October 1990.

The interviews indicated that none of the individuals interviewed were satisfied with the status of accounting, and all would like more effort to be made to develop accounting practices.

10.2.5 Field Data Gathering

The primary source of information for this study was a mail questionnaire employed to gather data regarding accounting practices in a developing country, Jordan, and how to improve them. Each respondent was given a large size 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 some cases collected the questionnaires in person.

The overall response to the final questionnaire of 61.4%, with a usable response rate of 57.1%, seems adequate in view of typical rates of 40 - 60% reported for survey research (Simon, 1969, P.118). 43 questionnaires were returned out of 70. 40 questionnaires were included in the survey; three

questionnaires were excluded, since they contained too many unanswered questions.

TABLE 10.2
POPULATION AND SAMPLE BY
TYPE OF ORGANISATION

Type of Organisation	No. of Organisations Sampled	No. of Subjects in Sampled Organisations	No. of Subjects Who Responded	%
Educational	3	18	13	72.2
Professional	12	12	7	58.3
Governmental	4	40	20	50.0
Total	19	70	40	57.1

In order to minimize nonresponse, every effort was made to keep the questionnaire simple, understandable and short. The translation of the questionnaire from English to Arabic was reviewed by several Gaza University professors in order to make sure that the Arabic version of the questionnaire was consistent with the original English version. More detailed instructions were added to the Arabic version after the pretest had revealed the need for such details. The covering letter accompanying the questionnaire explained 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 toward appraising accounting practices in Jordan. The letter also stressed that all responses to the questions 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 Acting Dean of the FEAS was also obtained and sent with each questionnaire. The Acting Dean's letter indicated the need for and the importance of this study in the process of evaluating accounting practices in the country. His letter also appealed to all parties concerned, to facilitate the researcher's job in every possible way. All communications with potential respondents were typed on official Islamic University of Gaza stationery. For return of their responses, respondents were provided with a pre - addressed, stamped envelope. Individuals were contacted by phone to obtain their cooperation in responding to the questionnaire.

Data obtained from the returned questionnaires were analysed using general descriptive statistics, in order to inquire into the relationships contained in the data.

10.3 ACCOUNTING EXPERTS' CHARACTERISTICS

Four demographic factors characterise the 40 academic, professional and official accountants (Accounting Experts). A brief description of these factors is presented in the following paragraphs:

(1) Higher Degree received..

Table 10.3 presents the educational level of the Accounting Experts (AEs). As expected, all the AEs had at least a bachelor's degree. 10 AEs have a Ph.D. while 7 have a Master. Those respondents, with high qualifications, mainly teach in Jordanian universities.

TABLE 10.3
THE EDUCATIONAL LEVEL OF THE AEs, 1990

Educational level	Respondents	
	No.	%
A baccalaureate degree	0	0.0
Bachelor's degree	22	55.5
Master's degree	7	17.5
Doctor's degree	10	25.0
Other (Chartered Accountant)	1	2.5
Total	40	100

(2) *Country in which most recent degree was received..*

16 respondents received their degree in other Arab countries, 11 in Jordan, and 11 in U.K or USA, while one respondent got his degree from France. Most of the AEs who had at least Master degree, received their degree from U.K. or USA (see Table 10.4).

TABLE 10.4
FREQUENCY DISTRIBUTION OF AEs BY
COUNTRY OF FORMAL EDUCATION

Country	Frequency	Percent	Cumulative Frequency	Cumulative Percent
Jordan	11	28.2	11	28.2
Other Arab	16	41.0	27	69.2
U.K./USA	11	28.2	38	97.4
Other (France)	1	2.6	39	100.0

(3) *Years of Experience in Accounting and Auditing..*

15 subjects had more than 10 years of experience, another 15 subjects had less than 5 years, and 9 had from 5 to 10 years (see Table 10.5).

TABLE 10.5
FREQUENCY DISTRIBUTION OF AEs BY
YEARS OF EXPERIENCE

Years of Experience	Frequencies	Percent	Cumulative Frequencies	Cumulative Percent
Less than 5	15	38.5	15	38.5
From 5 to 10	9	23.1	24	61.5
Over 10	15	38.5	39	100.0

(4) Membership of an Accounting Society..

31 subjects were not members of any accounting society; only 9 were members of at least one accounting society.

10.4 USERS OF FINANCIAL REPORTS IN JORDAN

In view of the lack of previous research in this area, and because of the need to determine the needs of different groups of users in Jordan, the decision was made to identify these groups. Accounting experts were asked to indicate in what capacity they used the audited report. Table 10.6 summarises the responses to the question.

TABLE 10.6
USERS OF FINANCIAL REPORTS IN JORDAN

Users	Responses	
	No.	%
Shareholders	2	5.9
Stockbrokers	0	0.0
Business Analysts/ Newspaper Economic Analysts	2	5.9
Government Officers	17	50.0
Educators/ Researchers	11	32.3
Auditors	2	5.9
Total	34	100

10.5 DEVELOPMENT OF ACCOUNTING PRACTICES IN JORDAN

Views regarding cooperation between the accounting profession and other entities will be discussed in this section, followed by the analysis of the major factors affecting the development of accounting practices in Jordan, and the major accounting problems in the country.

10.5.1 Contribution of Private Business to the DAP

Questions 32-A, 32-B, and 32-C sought the accounting experts' opinions regarding the role of private business in the development of accounting practices. These questions and their answers are the subject of table 10.7.

TABLE 10.7
AEs' OPINIONS REGARDING
PRIVATE BUSINESS ROLE IN THE ACCOUNTING PROFESSION

Ques. 32) In your view, have private businesses contributed to the accounting profession in terms of:

A- providing adequate funds for research?

	Strongly Disagree		Undecided	Strongly Agree			Total	
	1	2	3	4	5	6	7	
NOR	6	8	12	4	7	2	1	40
%	15.0	20.0	30.0	10.0	17.5	5.0	2.5	100

B- providing adequate funds for education and training?

	Strongly Disagree		Undecided	Strongly Agree			Total	
	1	2	3	4	5	6	7	
NOR	5	4	12	10	6	2	1	40
%	12.5	10.0	30.0	25.0	15.0	5.0	2.5	100

C- supporting effective accounting legislation?

	Strongly Disagree		Undecided	Strongly Agree			Total	
	1	2	3	4	5	6	7	
NOR	5	3	12	9	8	3	0	40
%	12.5	7.5	30.0	22.5	20.0	7.5	0.0	100

As Table 10.7. shows, the accounting experts strongly believed that the contribution of private business to the development process of accounting in Jordan has been insignificant. As to providing adequate funds for research, the majority (65.0%) indicated that such valuable assistance was yet to be provided. A smaller majority (52.5%) disagreed regarding the question of whether these businesses had provided funds for education and training of personnel.

As to the question of whether these businesses had supported the establishment of effective accounting legislation, 50.0% of the AEs disagreed. While the rapid expansion of private business has created pressure on the government to provide some minimum level of accounting legislation, together with accounting education at the university level, some social and economic factors have prevented them from playing a positive role in accounting legislation.

10.5.2 Contribution of Academic Institutions to the DAP

Questions 33-A and 33-B were asked to solicit opinions regarding the involvement of Jordanian academic institutions in the advancement of the local accounting profession. Answers to the two questions are summarized in Table 10.8.

TABLE 10.8

**AEs' OPINIONS REGARDING ACADEMIC INSTITUTIONS' ROLE
IN THE ACCOUNTING PROFESSION**

Ques. 33) In your view, have the Academic Institutions in Jordan contributed to the accounting profession in terms of:

A- providing effective training for personnel?

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	1	2	8	5	17	6	1	40
%	2.5	5.0	20.0	12.5	42.5	15.0	2.5	100

B- providing recommendations and advice on how to develop and advance accounting practices?

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	3	2	12	8	10	2	1	38
%	7.9	5.3	31.6	21.1	26.3	5.3	2.6	100

Responses to question 33-A, surprisingly, show a majority of (60.0%) recognising the role of these institutions in educating and training members of the profession. The result could have been significantly influenced by responses from participants who teach in the local universities and who represented 32.5% of the total questionnaires received. The overall favourable result could also have been a reflection of the fact that the local universities have been the major supplier of accountants to the profession.

In answering Question 33-B, the largest group of AEs (44.8%) indicated the inadequacy of the technical assistance which accounting educators may be expected to provide for the profession, although a considerable number, 34.2%, gave a positive answer to the question.

This mixed response is an indication of the lack of adequate participation of those educators in professional activities within the local profession; the inadequacy of research activities that demand the involvement of these research-oriented educators might also have had some significant bearing on the overall results.

10.5.3 Contribution of the Government to the DAP

In order to gather data as to how the profession rates government efforts to advance accounting practices, Questions 34-A, 34-B and 34-C were asked. The responses to these questions are shown in Table 10.9.

TABLE 10.9
AEs' OPINIONS REGARDING
GOVERNMENT ROLE IN THE ACCOUNTING PROFESSION

Ques. 34) In your view, has the *Jordanian Government* contributed to the accounting profession in terms of:

A- providing effective accounting legislation?

	Strongly Disagree	Undecided	Strongly Agree	Total
	1	2	3	4
NOR	3	2	6	11
%	7.5	5.0	15.0	27.5
				35.0
				10.0
				0.0
				100

B- providing adequate funds for research and training?

	Strongly Disagree	Undecided	Strongly Agree	Total
	1	2	3	4
NOR	3	6	16	7
%	7.5	15.0	40.0	17.5
				15.0
				2.5
				2.6
				100

C- responding positively to the profession's demands to improve accounting practices?

	Strongly Disagree	Undecided	Strongly Agree	Total
	1	2	3	4
NOR	3	3	12	11
%	7.9	7.9	31.6	28.9
				18.4
				2.6
				2.6
				100

As table 10.9 shows, 45.0% of the AEs stated that the government had introduced effective accounting legislation, while 27.5% of them indicated their dissatisfaction with government laws regulating the profession.

As to the Question 34-B, a majority of 62.5% indicated that the government funds allocated for research and training of accountants had been inadequate.

In answering the question as to whether the government had responded positively to the needs of the profession, a significant percentage (47.4%) stated their disagreement. However, in view of the latest developments in the profession, 23.6% indicated their approval of the way the government had handled the demands of the local profession.

10.5.4 Attitudes Toward Government

Involvement in the DAP

Questions 42, 43 and 44 sought opinions regarding the involvement of the government in the process of advancing local practices. These questions and their answers are listed in Table 10.10.

TABLE 10.10
AEs' OPINIONS REGARDING
GOVERNMENT INVOLVEMENT IN THE DAP

Ques. 42) Do you agree, that the government must play a role in any attempt to improve accounting practices in Jordan?

	Strongly Disagree			Undecided	Strongly Agree			Total
	1	2	3	4	5	6	7	
NOR	1	1	1	2	17	11	6	39
%	2.6	2.6	2.6	5.1	43.6	28.2	15.4	100

Table 10.10 (Continued)

Ques. 43) If you agree, How can the government help?	
<i>Item</i>	<i>Ranking</i>
-By providing financial support only	5
-By providing effective accounting legislation only	1
-By providing financial support and effective accounting legislation	3
-By establishing a government agency responsible for advancing accounting practices	2
-By establishing a committee with members drawn from private business, government agencies, and the accounting profession, to advance accounting practices	4
 Ques. 44) If you do not agree, would the formation of an independent professional organisation with proper authority lead to improvement in the practices of accounting in the country?	
No. of Responses with YES answer	8
No. of Responses with NO answer	0

As shown in Table 10.10, 87.2% of the AEs were in favour of involving the government in the improvement process. This high percentage is an indication of the accounting experts' realization that the political and social climate in the country has forced them to solicit government support. Furthermore, AEs were asked in question 43 to specify in rank order what they considered to be the most appropriate form of government assistance. Their *first preference* was for effective accounting legislation to be provided by the government. The implication of this result is that, while the accounting profession wants to involve the government in the process of advancing local accounting practices for the reasons discussed earlier, the perceived role of the government is preferred to be of a secondary nature: to supervise

and to provide legal support only, rather than to decide arbitrarily what the profession should do.

10.5.5 Factors Affecting Accounting Developments

One objective of the survey was to solicit accounting experts' opinions regarding accounting practices and recent developments affecting such practices; and to isolate empirically the key factors affecting the development of accounting practices. AEs were asked to indicate the extent to which a number of factors have affected accounting developments at the local level. These factors are the subject of Table 10.11.

TABLE 10.11
FACTORS AFFECTING ACCOUNTING DEVELOPMENTS:
AEs' VIEWS

Ques. 40) Please indicate whether you agree that the following items have affected the development of accounting in Jordan in its present state:

A- The rapid economic development process								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	1	5	4	18	10	1	39
%	0.0	2.6	12.8	10.3	46.2	25.6	2.6	100
B- Education for local accountants								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	1	2	2	4	22	7	1	39
%	2.6	5.1	5.1	10.3	56.4	17.9	2.6	100
C- Growth in private business enterprise								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	2	1	3	18	10	3	37
%	0.0	5.4	2.7	8.1	48.6	27.0	8.1	100

Table 10.11 (continued)

D- Influence of foreign methods and practices								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	1	2	1	6	16	7	5	38
%	2.6	5.3	2.6	15.8	42.1	18.4	13.2	100
E- Amman Financial Market's laws and regulations								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	3	5	5	11	12	1	1	38
%	7.9	13.2	13.2	28.9	31.6	2.6	2.6	100
F- Cooperation with international organisations and international accounting firms								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	2	4	5	9	13	5	2	40
%	5.0	10.0	12.5	22.5	32.5	12.5	5.0	100
G- Government laws and regulations								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	2	1	6	7	13	6	0	35
%	5.7	2.9	17.1	20.0	37.1	17.1	0.0	100
H- Education for the public								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	1	2	8	7	10	5	0	33
%	3.0	6.1	24.2	21.2	30.3	15.2	0.0	100

As shown in Table 10.11, a great majority, 74.4% of the AEs, agreed that the rapid economic development process had affected the TAP. 76.9% of the participants indicated that education for local accountants had been an influencing factor in the advancement of local practices. A 83.7% majority also affirmed the significance of the growth in private business enterprises in that process.

As to the influence of foreign methods and practices on local accounting development, 73.7% of the AEs were of the opinion that the local profession has been influenced by the advanced accounting rules that were brought to the country by foreign accounting firms in the mid- 1960s. However, when asked about the role of the AFM in the improvement process, AEs were split on the issue. While 36.8% of them agreed, a substantial percentage (34.3%) indicated their disagreement, perhaps indicating the inadequacy or ineffectiveness of the laws and regulations of the AFM. One reason for the level of disagreement could have been the general belief that the AFM has yet to develop its own set of rules and regulations, instead of relying on loose or unspecific government regulations. Another reason could be the Exchange's lack of power to enforce the laws and rules governing the trading of stocks on the AFM. Such power is currently in the hands of the Ministry of Trade and Industry.

As to cooperation with international organisations and international accounting firms, 50.0% of the AEs acknowledged the importance of such cooperation in the development process. Also, a majority of 54.3% agreed on the significance of government laws and regulations in the development of Jordan's accounting practices. Finally, AEs were split when asked whether education for the public had affected accounting development. 45.5% of them agreed, while a substantial percentage (33.3%) disagreed on the issue, implying that a better educated

society would have a better image of the accounting profession and a better understanding of the need to improve accounting practices.

Question 41 sought the ranking of these factors according to their importance. AEs were asked to specify in rank order what they considered to be the items that have most affected the DAP as they stand at present. The following were the top five items, listed in the rank order assigned to them by AEs:

- 1) A rapid economic development process;
- 2) Education for local accountants;
- 3) Growth in private business enterprise;
- 4) Influence of foreign methods and practices;
- 5) Government laws and regulations.

These results indicate that the internal accountants and accounting experts agree on the same variables to be considered as the first five important factors affecting the development of accounting practices in Jordan.

10.5.6 Factors Affecting Accounting

Development: An Analysis

The present status of the accounting profession in Jordan emerges from the interplay of many economic and social factors. As indicated earlier, local accounting practices have evolved as a positive response to the changes which have taken place in the business environment since the early 1960s.

(1) Rapid Economic Growth

The significant growth in the Jordanian economy since Independence has demanded a wide range of accounting services. The pressure on the government and the profession led to a considerable increase in the number of accountants and accounting laws regulating the practices of professional accountants. The economic growth also demanded greater cooperation between the government and the local accounting society, which later proved to be essential to the accounting improvement process. Also, as the demand for local accountants continued to rise as a result of this accelerated economic development, the government decided in 1965 to start an accounting educational programme at the university level, in order to meet the needs of local businesses for an increasing number of accountants.

(2) Influence of Foreign Methods and Technology

The development of accounting practices in Jordan has been markedly influenced by foreign accounting practices, especially those of the USA and the U.K. Early accounting rules were borrowed from neighbouring Arab countries. However, with the growing number of professional accounting firms working in the country, accounting and auditing standards of western countries were followed in carrying out the audit function.

The influence of foreign methods, mainly from the USA, has also been influential in the education process.

As a result of the limited amount of accounting literature written by Arabic-speaking authors, students were forced to rely on foreign text books, written in English, or to use translations of such texts.

One significant result of the presence of foreign firms working in Jordan has been the application of different accounting rules and auditing procedures as applied in their native countries. This diversity of accounting methods, coupled with the nonexistence of binding authoritative statements at the local level, has had some adverse effects on accounting practices. The lack of uniformity, or at least some form of it, has led to inconsistency in the application of accounting principles.

(3) Education for Accountants

Education in Jordan leading toward a university degree in accounting began in the late 1960s, as a result of the pressure on the government to provide sufficient Jordanian accountants to meet the needs of local business. The accounting education programme, however, has not been effective for the following reasons:

1. There has been a lack of locally authored accounting textbooks and other accounting literature concerning the local environment.
2. The inadequacy of translated accounting text books and accounting literature of advanced nations have

alienated students from current developments and modern practices.

3. Accounting educators have suffered from the lack of professional development opportunities.
4. There has been an emphasis on accounting theory, rather than its application in real world.
5. There has been very little emphasis on accounting research and empirical work associated with accounting education.

Another disadvantage of the education system has been the little consideration given to the auditing function. No emphasis has been placed on promoting auditing as an essential service with significant economic and social implications. In addition to these problems, the current educational programme is not tailored to preparing accountants for the latest professional requirement, stipulating a qualifying exam for entrance to the profession.

The problems mentioned above have undermined the quality of the accounting educational programme which was designed to produce a sufficient number of accountants, with little emphasis on the quality of such accountants. Furthermore, the education system resulted in the graduation of Jordanian accountants who, for the most part, are unaware of the real problems facing professional accountants. This, in turn has led to an accounting society that has been inactive and unable to

pressure the government for positive changes during the last two decades.

(4) Government legislation

As in the case in most of the developing countries, where accounting bodies lack the authority or the ability to issue authoritative pronouncements, government legislation in Jordan provides the legal framework within which professional accountants operate while performing the audit function. Furthermore, such legislation specifies the degree to which financial information must be reported to shareholders and governmental agencies, indicates the extent to which such accounting data must be audited, and finally, lists disciplinary actions to be taken against those who violate the rules of conduct as specified by the legislator.

As to the impact of this legislation on accounting development, the laws have provided some basic guidelines for the auditors, together with other regulations that have improved the efficiency and reliability of the evaluation of accounting data. However, these laws have been of a general nature and lacked specificity. Also, the government legislator's unawareness of the real problems in the profession, in addition to the lack of prior consultation with the profession and the inadequacy of prior research, led to incomplete treatment of accounting matters.

The authority to issue accounting rules has been vested in the hands of the Ministry of Trade and

Industry. This prevents the profession from working on its problems as they arise and taking immediate action. This shortcoming, coupled with the fact that professional accountants have been excluded from the regulation process, has resulted in legislation which neither provided timely solutions, nor did it address the actual problems that impeded the effectiveness of the audit function.

(5) Social factors

One socially-related factor which hindered accounting development for many years was the lack of recognition by the society of accounting as an essential professional body. Accountants were regarded as bookkeepers with a low social class. Families directed their sons and daughters towards engineering, and medicines and other prestigious occupations, rather than accountancy.

(6) Level of Organised Professional Accounting

Public accounting in Jordan as a profession has been unable to organise itself effectively in a way that would facilitate the improvement process. While it was hoped that the JACPA would be instrumental in unifying the profession and directing its activities toward the desired level of uniformity in practices and the reliability of accounting regulations, the newly-formed Society proved to lack not only the knowledge and resources but also, and most importantly, the authority to lead the profession. The society is one of the three

main ingredients composing the local profession, the others being mainly accounting firms and accounting departments at Jordanian universities. However, it has failed to unite the three to put pressure on the government, tailor accounting education programmes to fit the needs of the profession, and change the status of accountants in the minds of average Jordanians.

10.5.7 Major Problems of Accounting Practice

Another objective of the survey has been to determine the accounting practice and education problems in Jordan, as seen by accounting experts. Question 27 sought to evaluate the relative importance of each of fifteen primary accounting practice problems. The suggested problems were based upon knowledge of accounting practices in Jordan and a review of literature regarding accounting problems in developing countries in general. The problems are the subject of Table 10.12.

TABLE 10.12
RELATIVE IMPORTANCE OF MAJOR PROBLEMS OF
ACCOUNTING PRACTICES: AEs' VIEWS

THE PROBLEM	IMPORTANCE
Shortage of qualified accountants at all levels and in all areas of accounting.	VI
The weakness and underdevelopment of the accounting curricula which are adopted in local colleges and universities in Jordan, as well as the inadequacy of these curricula in relation to the development of accounting and auditing; and the lack of teaching staff sufficiently qualified to teach such subjects to the satisfaction of the local society.	VI

Table 10.12 (continued)

Lack of adequate accounting in government agencies and government- owned businesses.	VI
Accounting information is either not available in the proper form, or is received by users too late to be useful.	I
Accounting information is not utilised advantageously for internal management purposes.	I
Lack of adequate financial reporting and auditing standards.	I
Lack of strong national associations of accountants.	I
Low status of accountants and accounting profession compared with other professions.	I
Lack of adequate inflation accounting, currency translation techniques and financial disclosure requirements.	I
The lack of legislation relating to accounting and auditing standards and procedures.	I
Accounting practices are viewed and utilised primarily as a means for helping companies evade taxes and manipulate financial reporting.	I
Accounting practice tends to be procedures- oriented.	I
Accountants and accounting do little to improve government tax collection.	I
Some accountants try to apply concepts and techniques imported from developed countries, regardless of their suitability for the local conditions and immediate needs.	I
Conflict between national and international accounting firms	MI

Where VI: Very Important, MI: Moderately Important,
I: Important

The AEs were asked to indicate whether they believed each problem to be *Very Important*, *Important*, *Moderately Important*, *Slightly Important*, or *Unimportant*, and responses were classified accordingly in the summaries.

For the purposes of summarization and analysis, the importance level of each problem was determined by finding where the simple median of the number of responses falls among the five categories of importance, i.e., into which category the median falls. Thus, if this category was *Very Important*, the problem was ranked as *Very Important*, and so forth.

Table 10.12 shows the importance of the primary problems as seen by the AEs. The problems evaluated as *Very Important* are placed first in the table. Of the fifteen problems, only one was ranked *Moderately Important* and none was ranked *Unimportant* or even *Slightly Important*.

Question 28, then, sought the ranking of these problems according to their importance. AEs were asked to specify in rank order what they considered to be the most important problems that have affected the current accounting practices in Jordan. The following top five problems were listed according to their importance:

- 1) Shortage of qualified accountants at all levels and in all areas of accounting;
- 2) Lack of adequate financial reporting and auditing standards;

- 3) Accounting information either not available in the proper form, or received by users too late to be useful;
- 4) The weakness and underdevelopment of the accounting curricula which are adopted in local colleges and universities in Jordan and the lack of teaching staff sufficiently qualified to teach these subjects;
- 5) Accounting information not utilized advantageously for internal management purposes.

These results indicate that the internal accountants and accounting experts agree on the following variables to be considered as the first three important problems affecting the accounting practices in Jordan. These are: shortage of qualified accountants and weakness and underdevelopment of the Jordanian accounting curricula and the lack of teaching staff sufficiently qualified.

Question 29 solicited opinions about how to help resolve these problems in order to improve the current accounting practices in the country concerned. The following recommendations were made by the AEs:

- (1) to create suitable means for linking enterprise accounting with national accounting;
- (2) to develop governmental agencies and provide them with highly qualified accountants;

- (3) to enhance the role of the Audit Bureau as an effective controlling body;
- (4) to establish a committee responsible for the development of accounting principles and auditing procedures, as well as studying the international accounting and auditing standards and selecting those it considers relevant to the Jordanian environment;
- (5) to reform accounting curricula and educational techniques and provide accountants with post-graduate training;
- (6) to strengthen the power of the JACPA to regulate financial corporate disclosure;
- (7) to organise and improve the local accounting profession;
- (8) to establish an active accounting organisation;
- (9) effective accounting legislation and financial support.

10.6 DEVELOPMENT OF THE ACCOUNTING

PROFESSION IN JORDAN

The accounting profession's image as perceived by AEs will be discussed first, followed by the current needs of the accounting profession, and opinions regarding existing accounting standards, certification test and the adoption of a Code of Ethics.

10.6.1 The Image of Accounting

Questions 13 and 14 sought to determine accounting experts' appraisal of the accounting profession and the auditor's job. Table 10.13 shows the participants' responses to Question 13, which asked AEs to assess the public accounting profession's achievement in establishing effective accounting practices needed to improve accounting.

TABLE 10.13

AEs' IMPRESSION OF THE ACCOUNTING PROFESSION

Rating	Respondents	
	No.	%
Excellent	1	2.5
Good	8	20.0
Fair	13	32.5
Poor	12	30.0
No opinion	4	10.0
No answer	2	5.0
Total	40	100

As shown in table 10.13, 62.5% of the AEs rated the performance of the accounting profession as fair or even poor, while only 20.0% of them indicated a good rating for the activities of the profession.

Regarding the question of how well the auditors do in attesting the fairness of the company's financial statements, Table 10.14 indicates that 50.0% of AEs rated the performance of auditors as fair and 15.0% indicated a rating of poor. However, 22.5% of respondents indicated a good rating for the performance of auditors.

TABLE 10.14
AES' IMPRESSION OF AUDITORS

Rating	Respondent	
	No.	%
Excellent	3	7.5
Good	9	22.5
Fair	20	50.0
Poor	6	15.0
No opinion	1	2.5
No answer	1	2.5
Total	40	100

**10.6.2 Attitudes Regarding Accounting Profession
and Economic Development**

Question 36 was asked to gather opinions regarding accounting profession development and its relation with the economic development of the country. The responses to this question are summarized in Table 10.15.

TABLE 10.15
**AES' OPINIONS REGARDING ACCOUNTING PROFESSION DEVELOPMENT
AND ITS RELATION WITH ECONOMIC DEVELOPMENT IN JORDAN**

Ques. 36) With respect to the developing accounting profession and its relation with economic development in Jordan; please indicate whether you agree with the following statements:

A- One of the obstacles to economic development in Jordan is the failure and inability of the accounting profession to provide government agencies with relevant information for planning. This is due to lack of professional efficiency.

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	3	2	5	5	17	5	2	39
%	7.7	5.1	12.8	12.8	43.6	12.8	5.1	100

Table 10.15 (continued)

B- One of the obstacles to economic development in Jordan is the weakness in the accounting systems employed, since they derived from accounting systems applied in developed countries, regardless of the differences in circumstances, as well as the fluctuation in these systems and controlling standards due to the instability in the region and the government control of the profession.

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	5	2	6	12	11	3	1	40
%	12.5	5.0	15.0	30.0	27.5	7.5	2.5	100

C- One of the obstacles to development of the accounting profession in Jordan is that, most of its weaknesses are deeply- rooted in the nature of the Jordanian social environment.

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	5	7	9	9	8	0	0	38
%	13.2	18.4	23.7	23.7	21.1	0.0	0.0	100

D- A comprehensive reform of curricula and educational techniques and training is needed, especially with respect to accounting and management; this is considered a major step towards the development of the accounting profession in Jordan.

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	1	0	6	1	13	5	13	39
%	2.6	0.0	15.4	2.6	33.3	12.8	33.3	100

E- To develop professional rules relevant to Jordanian society, there is a need to establish a special professional body as well as to continue transferring modern professional rules issued by the international professional associations, International Federation of Accountants and International Accounting Standard Committee.

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	0	0	2	0	16	8	13	39
%	0.0	0.0	5.1	0.0	41.0	20.5	33.3	100

Table 10.15 (continued)

F- It is necessary for the government to organise and improve the accounting profession, because any deficiency in it will be reflected in the Jordanian economy as a whole.

	Strongly Disagree	Undecided	Strongly Agree	Total				
	1	2	3	4	5	6	7	
NOR	0	0	0	0	20	11	9	40
%	0.0	0.0	0.0	0.0	50.0	27.5	22.5	100

As shown in Table 10.15, 61.5% of AEs regarded the failure and inability of the accounting profession to provide government agencies with relevant information as one of the obstacles to economic development in the country. In contrast 25.6% of them disagreed.

As to Question 36-B, 37.5% of the participants agreed that weakness in the employed accounting systems is one of the obstacles to economic development in the country concerned. However 32.5% of them disagreed with this suggestion.

55.3% of the AEs disagreed that, the nature of the Jordanian social environment constitutes an obstacle to development of accounting profession, while 21.1% of them agreed.

Accounting experts' views regarding the suggested recommendations appear in Table 10.15 (Question 36-d to 36-f). Based on these views, the following conclusions seem to be appropriate.

- 1) There is a need for the government to organise and improve the accounting profession. All the AEs indicated their agreement with this recommendation.

- 2) A decisive majority of the AEs (94.8%) were of the opinion that it is necessary to develop professional rules relevant to Jordanian society, and to establish a special professional body for this purpose.
- 3) A large majority of the AEs (79.5%) indicated their support for a comprehensive reform of curricula and educational techniques and training.

10.6.3 Opinions Regarding the Activities of the Accounting Profession

Questions 35-A to 35-E were asked to solicit attitudes relating to the activities of local accounting profession. These questions and related responses are presented in table 10.16.

TABLE 10.16
AEs' OPINIONS REGARDING THE ACTIVITIES OF THE
ACCOUNTING PROFESSION

Ques. 35) In your opinion, has the accounting profession been active in terms of:

A- studying and providing solutions to the problems facing accounting firms?							
	Strongly Disagree			Undecided	Strongly Agree		Total
	1	2	3	4	5	6	7
NOR	4	4	12	11	7	2	0 40
%	10.0	10.0	30.0	27.5	17.5	5.0	0.0 100
B- developing a code of ethics?							
	Strongly Disagree			Undecided	Strongly Agree		Total
	1	2	3	4	5	6	7
NOR	3	5	14	8	8	2	0 40
%	7.5	12.5	35.0	20.0	20.0	5.0	0.0 100

Table 10.16 (continued)

C- developing accounting principles that are suitable to Jordan?								
	Strongly Disagree			Undecided	Strongly Agree		Total	
	1	2	3	4	5	6	7	
NOR	4	5	16	6	7	2	0	40
%	10.0	12.5	40.0	15.0	17.5	5.0	0.0	100

D- developing effective auditing procedures?								
	Strongly Disagree			Undecided	Strongly Agree		Total	
	1	2	3	4	5	6	7	
NOR	4	6	14	7	8	1	0	40
%	10.0	15.0	35.0	17.5	20.0	2.5	0.0	100

E- conducting effective research programmes in accounting?								
	Strongly Disagree			Undecided	Strongly Agree		Total	
	1	2	3	4	5	6	7	
NOR	5	6	12	9	4	4	0	40
%	12.5	15.0	30.0	22.5	10.0	10.0	0.0	100

Responses to questions 35-A to 35-E indicate that the local profession is seen as being inactive in taking responsibility for advancing accounting practices. As regards studying and providing solutions to the major problems affecting the practices of public accountants, the majority of AEs (50.0%) stated that the profession was unable to fulfil this function. However, it is interesting to see that 22.5% of the AEs had some positive views on the same issue.

In responding to Question 35-B, 55.0% of the AEs indicated that the local profession had not been active toward the development of a code of ethics. In contrast 25% of them believed that there were activities directed toward the establishment of such a code.

As to the question of whether the local profession has been active in developing suitable accounting principles, a 62.5% majority of the AEs indicated their dissatisfaction with the local profession's role in developing suitable accounting principles. A breakdown of answers to question 35-C indicates that there was a general agreement on the issue, with only 22.5% of the total replies being favourable. The implication of this result is that the profession has yet to develop such local accounting rules and procedures to suit the needs of the local business community.

In responding to Question 35-D, a majority of 60.0% of the AEs indicated that the local profession has not been active in developing effective auditing procedures.

Regarding the role of the accounting profession in conducting accounting research programmes, 57.5% indicated their disagreement, with only 20% of AEs stating their approval of the amount of activity in this area. The overall negative result is an indication of the need to organise effective accounting research studies that will help to improve local practices.

10.6.4 Opinions Regarding Needs of the Accounting Profession

One objective of the survey was to identify empirically the essential items needed to support the improvement process. Question 37 sought to determine whether existing accounting practices need to be improved. 33 respondents (84.6%) replied in the

affirmative, while only 6 (15.4%) indicated their satisfaction with current practices. Question 38 was then asked to identify the prerequisites to improvement.

TABLE 10.17
PREREQUISITES TO ACCOUNTING PROFESSION IMPROVEMENT:
AEs' VIEWS

Ques. 38) Please indicate whether the establishment of each of the following items is essential to the improvement of accounting practices in Jordan?

A- Active accounting organisation								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	0	7	9	15	31
%	0.0	0.0	0.0	0.0	22.6	29.0	48.4	100
B- Accounting principles suitable to the local environment								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	1	8	7	15	31
%	0.0	0.0	0.0	3.2	25.8	22.6	48.4	100
C- Official auditing pronouncements								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	1	6	8	16	31
%	0.0	0.0	0.0	3.2	19.4	25.8	51.6	100
D- Code of professional conduct								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	1	1	2	3	8	14	29
%	0.0	3.4	3.4	6.9	10.3	27.6	48.3	100
E- A test for certification								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	2	8	5	15	30
%	0.0	0.0	0.0	6.7	26.7	16.7	50.0	100
F- Greater support from the government								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	1	1	7	9	12	30
%	0.0	0.0	3.3	3.3	23.3	30.0	40.0	100

Table 10.17 (continued)

G- Support from the private sector								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	1	0	0	3	8	3	14	29
%	3.4	0.0	0.0	10.3	27.6	10.3	48.3	100
H- Effective educational programmes								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	1	5	8	15	29
%	0.0	0.0	0.0	3.4	17.2	27.6	51.7	100
I- Cooperation with international organisations (such as IASC)								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	1	10	5	14	30
%	0.0	0.0	0.0	3.3	33.3	16.7	46.7	100
J- Postgraduate training of accountants								
	Strongly Disagree		Undecided	Strongly Agree		Total		
	1	2	3	4	5	6	7	
NOR	0	0	0	0	7	4	19	30
%	0.0	0.0	0.0	0.0	23.3	13.3	63.3	100

Analysis of responses to question 38 shows that there are many elements that must be established if a satisfactory level of improvement in practices is to be achieved. First, an active accounting profession needs an active accounting organisation to direct the activities of the profession. Not surprisingly, all the participants in the sample recognised the need for such an organisation, thus indicating their dissatisfaction with the level of professional activity carried on by the Society.

The majority of AEs also strongly agreed on the need for accounting principles to be developed to suit the

local business environment. No respondent disagreed. As to auditing, 96.8% of AEs stressed the necessity of official auditing pronouncements in the advancement of local practices. Again, there was no firm disagreement. This finding is a clear indication that a specific set of authoritative auditing standards is needed to remove the discrepancies in auditing procedures and financial reporting methods that have resulted from the application of different accounting principles. 86.2% of the AEs recognised the significance of a Code of Ethics. As regards the certification test, no respondent rejected this idea, 93.3% expressing strong approval. These results suggest that AEs are aware of some of the questionable practices committed by some members and that the Code of Ethics, together with the certification test, would help eliminate such unacceptable practices.

93.3% and 86.2% of the AEs stated the need for greater support from the government and the private sector respectively. These findings seem to be in line with the general belief within the profession that without government approval, little can be done to improve local practices. AEs also recognized the need for effective accounting education and the importance of post-graduate training of accountants. There was also general agreement that cooperation with international accounting organisations would be of great importance to the local profession.

However, when AEs were asked to specify in rank order what they considered to be the most important items needed to advance accounting practices, they ranked the following items in order of importance:

- 1) Active accounting organisation;
- 2) Accounting principles suitable to the local environment;
- 3) Official auditing pronouncements;
- 4) Code of professional conduct;
- 5) A test for certification.

These results indicate that the internal accountants and accounting experts agree on the following variables to be considered as the first four important items needed to advance accounting practices in Jordan. These are: active accounting organisation, accounting principles suitable to Jordan environment, official auditing pronouncements and code of professional conduct.

10.6.5 Attitudes Regarding Existing Accounting Standards

Questions 22-A and 22-B were asked to gather opinions regarding the suitability of existing accounting principles and auditing procedures to the local business environment. The responses to these questions are summarized in Table 10.18.

TABLE 10.18
AEs' OPINIONS REGARDING EXISTING ACCOUNTING
STANDARDS

Ques. 22) With respect to the suitability of the existing accounting principles and auditing procedures, please indicate whether you agree with the following statements:

A- The existing accounting principles and auditing procedures, although derived from the practices of the USA and U.K., are suitable to the local environment

	Strongly Disagree		Undecided		Strongly Agree		Total	
	1	2	3	4	5	6	7	
NOR	4	1	5	7	17	4	0	38
%	10.5	2.6	13.2	18.4	44.7	10.5	0.0	100

B- The existing accounting principles and auditing procedures need to be modified to make them suitable and acceptable to the local environment.

	Strongly Disagree		Undecided		Strongly Agree		Total	
	1	2	3	4	5	6	7	
NOR	3	3	0	1	14	6	12	39
%	7.7	7.7	0.0	2.6	35.9	15.4	30.8	100

As table 10.18 shows, though 55.2% of all AEs indicated general satisfaction with current accounting and auditing standards, 82.1% stated their desire for some modification to make these practices more applicable to the Jordanian environment.

This result seems to be in line with the general belief among accounting researchers that accounting development must integrate and interact with other developments within the boundaries of the socio-economic environment of any nation. Enthoven, for example, stated that since this environment differs from one country to another, it follows that any profession that ignores its environment is heading for trouble or, at least, hampering its ability to best fulfil the needs of the local society (Enthoven, 1973a, P.380). He added to that

this does not mean, that the local profession have to start from scratch, but rather that methods and procedures working in one country cannot be enforced arbitrarily in another.

10.6.6 Attitudes Towards the Certification Test

Question 45 sought opinions regarding the establishment of a test for certification as a prerequisite for the licensing of registered accountants. The question also sought to identify which party should be entrusted with the administration of such tests. The summary of these results is found in Table 10.19.

TABLE 10.19
AEs' OPINIONS REGARDING CERTIFICATION TEST

Ques. 45) Do you believe that all accountants working in accounting firms in Jordan should take qualifying examinations before obtaining a licensed position?			
	Yes	No	Total
No. of Responses	32	4	36
%	88.9%	11.1%	100
If your answer is Yes, which organisation should be responsible for these examinations?			
	No.	%	
- No definite opinion	4	11.1	
- JACPA	9	25.0	
- The Government (Audit Bureau or APC)	7	19.4	
- Special Committee	16	44.5	
Total	36	100	

Responses to question 45 clearly indicate the accounting experts' desire to limit the granting of licenses to those who pass a certification test. The opinions of the 88.9% majority could be viewed as a rejection of the old licensing system that considered the university degree as the most important requirement.

Also, they could be interpreted as indicating the AEs' realization that there is a need to tighten licensing procedures to permit only those who are qualified to practice.

As to the question of who should administer these tests, there was another indication that, in the eyes of the AEs, neither the government nor the JACPA are sufficiently qualified enough to do the job. A substantial percentage of the AEs (44.5%) wanted the test to be the responsibility of a special certification committee. Members of the committee, in the AEs' opinions, should be chosen from accounting educators, accounting firms, and the JACPA. As to the relationship with the government, AEs indicated that the Certification Committee should be free of any government influence and routine. However, some links between the desired committee and the government must be established, since without official approval, the committee would not have the power to do its job.

10.6.7 Attitudes Regarding the Adoption of a Code of Ethics

Questions 46, 46-A, and 46-B were asked to gather opinions regarding the adoption of a Code of Ethics and the extent to which respondents regard such a Code to be legally or morally binding. Also regarding the same issue, Question 47 sought to determine the appropriate sanctions in case of violation of the Code. Responses to these questions are shown in Table 10.20.

TABLE 10.20
AES' OPINIONS REGARDING
ADOPTION OF A CODE OF ETHICS

Ques. 46) Would you like the profession in Jordan to adopt a code of ethics?							
	Yes			No		Total	
No. of Responses	37			1		38	
%	97.4			2.6		100	
If Yes, Please indicate whether the code should be:							
A- Legally binding:							
	Strongly Disagree			Undecided	Strongly Agree		Total
	1	2	3	4	5	6	7
NOR	0	1	0	0	11	10	14 36
%	0.0	2.8	0.0	0.0	30.6	27.8	38.9 100
B- Morally binding:							
	Strongly Disagree			Undecided	Strongly Agree		Total
	1	2	3	4	5	6	7
NOR	2	2	0	1	10	4	18 37
%	5.4	5.4	0.0	2.7	27.0	10.8	48.6 100
Ques. 47) In your view, an accountant violating the code of ethics should be punished by:							
A- Losing his license							
	Strongly Disagree			Undecided	Strongly Agree		Total
	1	2	3	4	5	6	7
NOR	0	2	3	2	10	5	12 34
%	0.0	5.9	8.8	5.9	29.4	14.7	35.3 100
B- A fine							
	Strongly Disagree			Undecided	Strongly Agree		Total
	1	2	3	4	5	6	7
NOR	2	0	2	2	11	3	11 31
%	6.5	0.0	6.5	6.5	35.5	9.7	35.5 100
C- No punishment							
	Strongly Disagree			Undecided	Strongly Agree		Total
	1	2	3	4	5	6	7
NOR	17	2	5	1	0	0	1 26
%	65.4	7.7	19.2	3.8	0.0	0.0	3.8 100

As in table 10.20, a concern over the issue of loose practicing rules is reflected in the high percentage (97.4%) supporting the adoption of a Code of Ethics, which, it is hoped, would eliminate questionable

accounting practices and, therefore, increase the quality of services offered by registered accountants. As to the question of whether the Code should be legally or morally binding, a 97.3% majority indicated the need to enforce the Code by legal means. In addition, 86.4% of the AEs wanted members of the profession to accept the Code also as a moral obligation to the society. The message there is clear. In a developing society like Jordan, social pressure alone cannot enforce the Code; only a legal obligation could make such a Code fully effective.

The same message can also be deduced from the responses to Question 47. With regard to the violation of the Code by an accountant, AEs stressed the need for a severe penalty to ensure compliance. 79.4% of them supported the view that an appropriate punishment would be to deprive the offending accountant of his license, thereby preventing him from practicing. Also, a greater majority (80.7%) of the AEs stated the need to impose a fine. A great majority (92.3%) of the AEs felt that an offender should not be allowed to escape punishment. In addition to the above penalties, AEs suggested following other sanctions:

- 1) suspension for a period of time according to the seriousness and circumstances of each individual incident;
- 2) warning and fine; and
- 3) after a warning, an accountant who continued to offend would lose his license.

**10.7 AEs' VIEWS REGARDING THE
SUGGESTED RECOMMENDATIONS**

In order to gather data needed to determine accounting experts' opinion concerning specific recommendations suggested for the purpose of advancing accounting practices in Jordan, Question 30 asked AEs to state the extent to which they agreed or disagreed with the following recommendations:

**TABLE 10.21
AEs' OPINIONS REGARDING THE
SUGGESTED RECOMMENDATIONS**

Ques.30) Please indicate the extent to which you agree or disagree with the following recommendations which are proposed to advance accounting practices at the local level:

A- The establishment of an agency responsible for the development of accounting principles and procedures.

	Strongly Disagree	Undecided	Strongly Agree	Total
	1	2	3	4
NOR	1	2	2	1
%	2.5	5.0	5.0	2.5
				25.0
				27.5
				32.5
				100

B- Audit Committee.

	Strongly Disagree	Undecided	Strongly Agree	Total
	1	2	3	4
NOR	6	2	6	6
%	15.0	5.0	15.0	15.0
				22.5
				10.0
				17.5
				100

C- Providing Laws which can eliminate manipulation in financial reporting and prevent insider dealing.

	Strongly Disagree	Undecided	Strongly Agree	Total
	1	2	3	4
NOR	2	1	0	1
%	5.0	2.5	0.0	2.5
				37.5
				20.0
				32.5
				100

A- The establishment of an agency responsible for the development of accounting principles and auditing procedures. The members of the agency are to be

chosen from members of AFM, accounting firms and academic institutions.

B- Audit Committee. Its main purpose would be to recommend to shareholders the accounting firms that should be considered for the audit job, to intervene in any dispute between the auditor and management, and to be responsible for the preparation of the annual report. The members of the committee are to be selected from AFM or Audit Bureau, the accounting profession and a member of the board of directors in each company.

C- Providing Laws which can eliminate manipulation in financial reporting and prevent insider dealing.

Accounting experts' views regarding these recommendations appear in table 10.21. Based on these views, the following conclusions seem to be appropriate.

- 1) There is a need for the government to provide laws designed to eliminate manipulation in financial reporting and prevent insider dealing. Overall, 90.0% of the AEs indicated their agreement with the recommendation.
- 2) A decisive majority of the AEs (85.0%) were of the opinion that the establishment of an agency responsible for the development of accounting principles and auditing procedures is needed.

3) While there was considerable support for the creation of an audit committee in each company (50.0%), a significant percentage (35.0%) opposed the idea.

Question 31 then sought the ranking of these recommendations in order of priority. AEs were asked to specify in rank order what they considered to be needed measures that would most advance accounting practices in Jordan. The following ranking were listed as being the most needed requirements:

- A. Agency;
- B. Laws;
- C. Committee.

10.8 SUMMARY

The first purpose of this chapter was to describe the research methods used to conduct the survey of all accounting educators in Jordanian universities, main accounting firms and the related governmental agencies in Jordan. The decision was made to collect the needed data through the use of mail questionnaire with support of some interviews. The questionnaire was developed after careful review of the accounting literature and was pretested before the initial mailing in summer 1990. 70 questionnaires were distributed to the following three groups of participants: (a) Accounting Educators, (b) Professional Accountants, (c) Governmental Accountants.

Replies from these groups resulted in an overall 61.4% and a usable 57.1% response rate.

The second purpose of this chapter was to present the results of the survey and the interviews conducted to collect data regarding the accounting practices in Jordan. The local accounting profession is still in its early stages of professional development. To fulfil its duties, the profession needs the following:

- 1- Active accounting organisation.
- 2- Accounting principles suitable to the Jordanian environment.
- 3- Official auditing pronouncements.
- 4- Code of professional conduct.
- 5- A test for certification

The study identified a number of social and economic factors affecting the development of accounting practices. Among others the following five were considered by accounting experts as most significant;

- 1- A rapid economic development process.
- 2- Education for local accountants.
- 3- Growth in private business enterprise.
- 4- Influence of foreign methods and practices.
- 5- Government laws and regulations.

Finally, the majority of AEs indicated the need for laws designed to eliminate manipulation in financial reporting and prevent insider dealing, as well for establishing an agency responsible for the development of accounting principles and auditing procedures.

CHAPTER ELEVEN

COMPARISON BETWEEN THE OPINIONS OF INTERNAL ACCOUNTANTS AND THE ACCOUNTING EXPERTS

11.1 INTRODUCTION

Chapters 9 and 10 presented respectively the enterprise view and the views of academics, professionals and officials regarding the evolution of accounting practices in Jordan. The main purpose of this chapter is to present a comparative analysis of the opinions of the two groups of accountants surveyed; and to discover the participants' views about the following:

- (i) the relative importance attached to auditors' reports in general and to qualifications in auditors' reports in particular;
- (ii) the adequacy of current reporting requirements and practices of Jordanian companies;
- (iii) the usefulness of annual accounting reports for their investment decisions;
- (iv) the government's role in regulating corporate disclosure;
- (v) the shortcomings of current reporting practices, and suggestions to improve the quality of financial reporting.

Following the introduction, the importance of the auditor's report are examined in section two. Section three considers whether current corporate financial disclosure satisfies investors' needs, while the fourth section examines government's role in regulating

corporate disclosure. The fifth section of the chapter is devoted to assessing financial guidelines in order to improve disclosure practices in Jordan. Respondents' views regarding the roles of the major entities- mainly the private sector, academic institutions, and the Jordanian government- in the development of accounting practices in the country, are discussed in section six.

The importance of major accounting problems in Jordan is evaluated in section seven. Section eight of this chapter is devoted to a comparison of respondents' views regarding the main proposals which are put forward with a view to developing accounting practices in Jordan. The chapter concludes with a summary.

11.2 IMPORTANCE OF THE AUDITOR'S REPORT

A conflict of interest may arise between a business preparing financial statements and some of the users of those statements. For example, a company attempting to raise funds by selling its capital stock to the public has an incentive to exaggerate its earning capacity. To protect the users of financial statements against natural bias or misrepresentation, it is important to have an independent professional body (an auditor) to examine the financial statements and supporting evidence prepared by the accounting staff of a company.

Public accountants, as well as the accounting and auditing firms authorized to practise their profession in Jordan, are required to submit to the assessment officer

a memorandum of the names of all clients whose books and accounts they audited, examined, or kept during the year preceding the year of assessment. Such memorandum has to be submitted no later than 31st March of the year of assessment.

Participants were requested to indicate the relative importance they attached to auditors' reports in general and to qualifications in auditors' reports in particular. The following analysis shows the respondents' assessment of the auditors' reports.

TABLE 11.1
RELATIVE IMPORTANCE OF AUDITORS' REPORTS

	1		2		3		4		5		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
IAs	12	66.7	5	27.8	1	5.5	0	0.0	0	0.0	18
AEs	17	43.6	7	18.0	13	33.3	2	5.1	0	0.0	39
Total	29	50.8	12	21.1	14	24.6	2	3.5	0	0.0	57

Where (1) = very important
 (2) = important
 (3) = moderately important
 (4) = of slight importance
 (5) = unimportant.

While 50.8% of the respondents considered the auditor's report very important, 73.7% of the respondents considered the qualifications in such reports very important, as shown below.

A breakdown of the answers shows that the relative importance given by IAs to auditors' reports and their

qualifications, was greater than that attached to them by the AEs.

TABLE 11.2
RELATIVE IMPORTANCE ATTACHED TO
QUALIFICATIONS IN AUDITORS' REPORTS

	1		2		3		4		5		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
IAs	13	83.3	5	16.7	0	0.0	0	0.0	0	0.0	18
AEs	29	74.4	9	23.1	1	2.5	0	0.0	0	0.0	39
Total	42	73.7	14	24.6	1	1.7	0	0.0	0	0.0	57

Where (1) = very important
 (2) = important
 (3) = moderately important
 (4) = of slight importance
 (5) = unimportant.

11.3 ADEQUACY OF THE CURRENT DISCLOSURE PRACTICES

It is generally accepted that the underlying purpose of accounting is to provide financial and non-financial information about the economic entity to those who need such information. Financial reports such as profit and loss accounts, balance sheets, value added statements...etc, are the output of any accounting information system.

Participants were asked whether or not they considered that accounting information currently provided by Jordanian companies is sufficient and meets investors' needs. The responses to this question are given in table 11.3.

TABLE 11.3
ADEQUACY OF CURRENT DISCLOSURE PRACTICES

User Group	Yes		No		No Response		Total	
	No.	%	No.	%	No.	%	No.	%
IAs	12	63.2	5	26.3	2	10.5	19	100
AEs	10	25.0	28	70.0	2	5.0	40	100
Total	22	37.3	33	55.9	4	6.8	59	100

As shown in table 11.3, there was a general agreement among the respondents on the inadequacy of current disclosure practices (55.9%), though internal accountants who are involved in preparing and disseminating companies' news and reports did not acknowledge the inadequacy of information provided to the general public.

The responses of accounting experts, which include academics, professionals and officials, indicate that they are not satisfied with the level of corporate disclosure practices, and would like more information to be released as soon as it becomes available, on a continuous basis. In other words, they wish corporate managements to release greater information of economic value, in shorter periods, on a more continuous basis.

It is also important to examine Jordanian reporting practices from the perspective of the fundamental requirements of relevance, reliability, understandability, timeliness and disclosure.

In Jordan, information provided by financial statements is not comprehensive and does not provide a suitable basis for investors' or other users' decisions.

Time is also an important factor in determining the usefulness of any financial statement. The greater the time interval between the end of the accounting year and the publication of information, the less valuable is the information. In Jordan, the time between the financial year and the publication of annual reports ranges from three to five months. Therefore financial reports become historical documents.

Auditing company accounts and statements usually takes less than two months, whereas the financial report is issued about two months later, but within the mandatory period specified by the law. The average time lag between the accounting year end and the date of the release of financial reports is very long, ranging from 15 to 21 weeks, so that the information is out of date. By way of comparison, only 1.8% of Beaver's (1968) USA companies had a lag of 15 weeks or more.

The information provided by the financial reports should be capable of being trusted by its users. The income statement should provide the true result of the financial period, and the balance sheet should represent the true position of the company.

In Jordan, changes in prices are not accounted for, methods of valuation of inventories and methods of computing depreciation do not take inflation into

consideration and the historical cost method is adopted in preparing and presenting the financial statements. Therefore, the statements do not give a fair and true reflection of the company's position.

Financial statements should include all disclosures and explanatory information which are necessary to meet all users' needs, in order to enable them to understand and evaluate the performance and the financial position of the company.

In Jordan, not only is there a lack of information disclosed in financial statements, but also the information given is not clear. It is vague and subjective and may be misleading. For example, some Jordanian companies do not classify fixed assets according to type, but disclose a global figure for fixed assets, under the heading, *Fixed Assets Less Accumulated Depreciation*. Other companies fail to make a distinction between types of inventories. They disclose inventory as a total under the heading, *Inventory*, which encompasses all types of inventories, such as raw materials, work in progress, finished goods, spare parts and tools, in one figure.

To conclude, as the results indicate, the present financial disclosure is viewed as unsatisfactory, and investors desire the inclusion of additional items such as true and timely disclosures and information about management. Further, they would like to see more

explanation of the financial information in less technical terms.

11.4 IMPORTANCE OF LEGISLATION

When participants were asked to evaluate the government's role in regulating corporate disclosure, virtually all the respondents appeared to agree that the government, via legislation, plays an important role in the disclosure system. 69% of the respondents consider this role to be very important, and 31% consider it to be important. See table 11.4.

TABLE 11.4
THE RELATIVE IMPORTANCE OF
GOVERNMENT ROLE VIA LEGISLATION

	1		2		3		4		5		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	
IAs	14	73.7	5	26.3	0	0.0	0	0.0	0	0.0	19
AEs	26	66.7	13	33.3	0	0.0	0	0.0	0	0.0	39
Total	40	69.0	18	31.0	0	0.0	0	0.0	0	0.0	58

Where (1) = very important
 (2) = important
 (3) = moderately important
 (4) = of slight importance
 (5) = unimportant.

When asked to evaluate this role, 73.7% of internal accountants considered government intervention via legislation to be very important. 66.7% of the AEs considered it to be very important, while 33.3% gave the answer, *important*, as shown in table 11.4.

Respondents were asked to assess the usefulness of recommendations for preparing and adopting financial reporting guide-lines to reform disclosure practices in

Jordan, from legislation (mandatory), professional accounting bodies' announcements (self- regulation) or a combination of both (mandatory and voluntary). The following table shows their responses:

TABLE 11.5
METHODS OF REFORMING DISCLOSURE

Method of Reforming	Relative Importance										Total
	1		2		3		4		5		
	No.	%	No.	%	No.	%	No.	%	No.	%	
Mandatory											
IAS	15	83.3	3	16.7	0	0.0	0	0.0	0	0.0	18
AEs	29	72.5	10	25.0	1	2.5	0	0.0	0	0.0	40
Total	44	75.9	13	22.4	1	1.7	0	0.0	0	0.0	58
Voluntary											
IAS	6	37.5	8	50.0	2	12.5	0	0.0	0	0.0	16
AEs	8	22.9	18	51.4	8	22.9	1	2.8	0	0.0	35
Total	14	27.4	26	51.0	10	19.6	1	2.0	0	0.0	51
Both (Mandatory and Voluntary)											
IAS	12	70.6	5	29.4	0	0.0	0	0.0	0	0.0	17
AEs	19	54.3	14	40.0	2	5.7	0	0.0	0	0.0	35
Total	31	59.6	19	36.5	2	3.9	0	0.0	0	0.0	52

Where (1) = very important
(2) = important
(3) = moderately important
(4) = of slight importance
(5) = unimportant.

While 75.9% of the respondents considered government laws to be very important, 51% considered professional recommendations to be important. On the other hand, 59.6% of the respondents considered the cooperation of the two sources of authority in financial reporting process very important.

Therefore, as indicated by responses to the question on reforming corporate disclosure in Jordan, 75.9% would like the imposition of mandatory disclosure, while 59.6% appreciate cooperation between the government agencies and accountants in the profession, and 27.4% seem to prefer to leave the disclosure to demand for and supply of information to the market forces.

A breakdown of the answers shows that, preference for mandatory disclosure was greater among the IAs (83.3%) than among the AEs (72.5%).

11.5 SOME WAYS OF IMPROVING CORPORATE FINANCIAL DISCLOSURE

Respondents were asked to evaluate some suggestions which seem to be necessary conditions to improve the low level of disclosure in Jordan, in order to ensure the availability of accounting information required to meet investors' needs. The following table shows their responses.

TABLE 11.6
SUGGESTIONS FOR IMPROVING DISCLOSURE LEVEL

Suggestion	Relative Importance										Total
	(1)		(2)		(3)		(4)		(5)		
	No	%	No	%	No	%	No	%	No	%	
a) Provide interim reports	32	57.1	22	39.3	2	3.6	-	-	-	-	56
IAS	11	61.1	7	38.9	-	-	-	-	-	-	18
AEs	21	55.3	15	39.5	2	5.2	-	-	-	-	38
b) Increase disclosure voluntarily	31	55.4	15	26.8	8	14.3	-	-	2	3.6	56
IAS	10	52.6	4	21.1	3	15.8	-	-	2	10.5	19
AEs	21	56.8	11	29.7	5	13.5	-	-	-	-	37
c) Amendment of Companies Act.	32	58.2	18	32.7	1	1.8	1	1.8	3	5.5	55
IAS	8	42.1	8	42.1	-	-	-	-	3	15.8	19
AEs	24	66.6	10	27.8	1	2.8	1	2.8	-	-	36
d) Organising auditing profession	43	76.8	12	21.4	1	1.8	-	-	-	-	56
IAS	15	78.9	4	21.1	-	-	-	-	-	-	19
AEs	28	75.7	8	21.6	1	2.7	-	-	-	-	37
e) Authorize AFM to supervise companies	10	17.9	20	35.7	14	25.0	5	8.9	7	12.5	56
IAS	3	15.8	4	21.1	6	31.5	2	10.5	4	21.1	19
AEs	7	18.9	16	43.3	8	21.6	3	8.1	3	8.1	37
f) Strengthening the JACPA	19	32.2	23	39.0	11	18.6	2	3.4	4	6.8	59
IAS	12	63.2	1	5.3	4	21.0	-	-	2	10.5	19
AEs	7	17.5	22	55.0	7	17.5	2	5.0	2	5.0	40
g) Joining regional & international accounting association	37	62.7	17	28.8	4	6.8	1	1.7	-	-	59
IAS	12	63.2	5	26.3	2	10.5	-	-	-	-	19
AEs	25	62.5	12	30.0	2	5.0	1	2.5	-	-	40

Where (1) = very important (2) = important
(3) = moderately important (4) = of slight importance
(5) = unimportant.

The table shows that the first four suggestions and the last one were considered by the respondents to be very important conditions to improve the low level of disclosure. These suggestions were centred on the content and timing of disclosure (a, b and g), and the laws governing disclosure (c and d). They provide additional evidence in support of the results obtained from the survey of current reporting requirements and practices. The controversial issues, as shown above, were e and f:

- (e) Giving the AFM the power to supervise companies accounts: While this suggestion was considered to be very important by 17.9% of the respondents, the majority of respondents, 35.7% considered it important, 33.9% of moderate or slight importance and 12.5% unimportant. A breakdown of responses indicates that while 21.1% of the IAs did not respond positively to the suggestion, in contrast, there only 8.1% of the AEs gave negative responses. On the other hand, while 36.9% of the IAs considered the suggestion very important or important, 62.2% of the AEs considered it very important or important.
- (f) Strengthening and giving the JACPA the power to regulate the disclosure system without government intervention: While 32.2% considered this to be very important, 39% considered it important, 22% of them considered it either of moderate or of slight importance and 6.8% unimportant. A breakdown of

responses indicates that while 63.2% of the IAs considered the suggestion to very important only 17.5% of the AEs considered it to be very important. In contrast, while only 5.3% of the IAs considered strengthening the JACPA to be important, 55.0% of the AEs considered it to be important.

Moreover, suggestions by the respondents were centred on the following aspects:

- (1) Support for the concept of auditors' independence.
- (2) Development of the accounting principles employed in Jordan to cover all aspects of economic development.
- (3) Establishing professional societies responsible for qualifying accountants practically, controlling their professional behaviour and protecting their independence.
- (4) Enhancing the role of the private sector through JACPA and expanding its membership in order to include the accountants.
- (5) Authorizing the Jordan Audit Bureau to supervise all companies in which the government has more than 50% share and to audit those companies, legally and financially.

Many improvements are needed in the financial reporting environment in Jordan, to produce financial statements that might be able to provide useful and meaningful information to the different groups of users.

Financial statements would better serve users in developing countries if they reported profit information clearly, and revealed the nature of the business enterprise

and the economic function of management, instead of possibly distorting vital financial information.

The current Jordanian accounting practice of using just one year's comparative figures for financial reporting purposes should be changed. Comparative figures for periods of no less than three years should be made compulsory for all industrial shareholding companies, except in cases where the company has not been in operation for such a length of time. If these data cannot be reported in the body of the statement, they should be shown in subsidiary statements. This method of preparing the balance sheet and profit and loss statement has the advantage of disclosing important changes and gives an idea of the enterprise's financial development over the years. In order not to mislead readers, the comparative figures should reflect the consistent application of generally accepted accounting principles from period to period. Any reason for non-comparability of the statements should be disclosed. It is strongly suggested that comparative figures for the same periods of earnings per share, if any, be shown immediately below the reported profit and loss statement. It is also vital that current market value per share and return on equity be shown immediately at the bottom of the reported balance sheet. This is primarily for Jordanian shareholders, who are more interested in the profitability ratio than in the financial analysis ratio.

Improvements in financial reporting could be achieved by improving the legislative requirements to keep pace with the continuous changes in the business world.

**11.6 THE ROLES OF MAJOR ENTITIES IN THE DEVELOPMENT
OF ACCOUNTING PRACTICES IN JORDAN**

11.6.1 PRIVATE BUSINESS CONTRIBUTION

11.6.1.1 Providing Adequate Funds for Research

**TABLE 11.7
ADEQUACY OF FUNDS FOR RESEARCH**

	Disagree		Undecided		Agree		Total	
	NO.	%	NO.	%	NO.	%	NO.	%
IAs	8	47.0	4	23.5	5	29.3	17	100
AEs	26	65.0	4	10.0	10	25.0	40	100
Total	34	59.7	8	14.0	15	26.3	57	100

The above table reveals the perceptions of the two groups of accountants regarding the contribution of private business in the development of accounting practices, in terms of providing adequate funds for research. The majority (59.7%) of all respondents believed that the funds provided are inadequate and insignificant, though, the dissatisfaction among AEs (65.0%) was greater than among IAs (47.0%).

11.6.1.2 Providing Adequate Funds for Education and Training

**TABLE 11.8
ADEQUACY OF FUNDS FOR EDUCATION AND TRAINING**

	Disagree		Undecided		Agree		Total	
	NO.	%	NO.	%	NO.	%	NO.	%
IAs	10	55.5	2	1.1	6	33.2	18	100
AEs	21	52.5	10	25.0	9	22.5	40	100
Total	31	53.4	12	20.7	15	25.9	58	100

Regarding the question of whether private businesses had provided funds for education and training of personnel, a majority of 53.4% of the total respondents disagreed, and only

25.9% agreed. A breakdown of the answers shows that, IAs took a more favourable view than did the AEs.

11.6.1.3 Supporting Effective Accounting Legislation

TABLE 11.9
SUPPORTING EFFECTIVE ACCOUNTING LEGISLATION

	Disagree		Undecided		Agree		Total	
	NO.	%	NO.	%	NO.	%	NO.	%
IAs	9	50.0	3	16.7	6	33.3	18	100
AEs	20	50.0	9	22.5	11	27.5	40	100
Total	29	50.0	12	20.7	17	29.3	58	100

The level of dissatisfaction among the two groups of accountants was similar. When asked whether private businesses had supported the establishment of effective accounting legislation, 50.0% of the total respondents disagreed, while only 29.3% of them agreed. A breakdown of the answers shows that the satisfaction among the IAs (33.3%) was greater than among the AEs (27.5%).

From the above, one can conclude that the respondents in general strongly believed that the private business contribution to the evolution of accounting in Jordan has been inadequate and insignificant.

11.6.2 ACADEMIC INSTITUTIONS' CONTRIBUTION

11.6.2.1 Providing Effective Training for Personnel

TABLE 11.10
EFFECTIVENESS OF TRAINING
PROVIDED BY ACADEMIC INSTITUTIONS

	Disagree		Undecided		Agree		Total	
	NO.	%	NO.	%	NO.	%	NO.	%
IAs	4	22.2	2	11.1	12	66.6	18	100
AEs	11	27.5	5	12.5	24	60.0	40	100
Total	15	25.9	7	12.1	36	62.0	58	100

Regarding the involvement of Jordanian academic institutions in the advancement of the local accounting profession, a majority of 62.0% of all respondents recognised the role of these institutions in educating and training members of the profession. The recognition among the IAs (66.6%) was greater than among the AEs (60.0%).

11.6.2.2 Providing Recommendations and Advice

**TABLE 11.11
ADEQUACY OF TECHNICAL ASSISTANCE
PROVIDED BY ACADEMIC INSTITUTIONS**

	Disagree		Undecided		Agree		Total	
	NO.	%	NO.	%	NO.	%	NO.	%
IAs	4	22.2	4	22.2	10	55.5	18	100
AEs	17	44.7	8	21.1	13	34.2	38	100
Total	21	37.5	12	21.4	23	41.1	56	100

As the above table discloses, respondents were split on the issue of whether Jordanian academic institutions had provided recommendations and advice in order to develop accounting practices. While 41.1% of all respondents indicated the adequacy of technical assistance which accounting educators provide for the profession, a substantial percentage (37.5%) indicated their dissatisfaction and regarded the assistance as inadequate.

A breakdown of the answers shows that satisfaction among IAs (55.5%) was greater than among AEs (34.2%). In contrast, the dissatisfaction among AEs (44.7%) was greater than among the IAs (22.2%).

The above mixed responses are an indication of the lack of adequate participation of the academic institutions in professional activities, particularly in research.

11.6.3 GOVERNMENT CONTRIBUTION

11.6.3.1 Providing Effective Accounting Legislation

TABLE 11.12
EFFECTIVENESS OF ACCOUNTING LEGISLATION
PROVIDED BY GOVERNMENT

	Disagree		Undecided		Agree		Total	
	NO.	%	NO.	%	NO.	%	NO.	%
IAs	7	38.9	3	16.7	8	44.4	18	100
AEs	11	27.5	11	27.5	18	45.0	40	100
Total	18	31.0	14	24.1	26	44.8	58	100

As table 11.12 reveals, while 44.8% of all respondents stated that the government had introduced effective accounting legislation, a substantial percentage (31.0%) indicated their dissatisfaction with government laws regulating the profession. A breakdown of the answers shows that the dissatisfaction among the IAs (38.9%) was greater than that among the AEs (27.5%).

11.6.3.2 Providing Adequate Funds for Research and Training

TABLE 11.13
ADEQUACY OF FUNDS FOR RESEARCH AND TRAINING
PROVIDED BY GOVERNMENT

	Disagree		Undecided		Agree		Total	
	NO.	%	NO.	%	NO.	%	NO.	%
IAs	12	66.7	3	16.7	3	16.7	18	100
AEs	25	62.5	7	17.5	8	20.0	40	100
Total	37	63.8	10	17.2	11	19.0	58	100

It is obvious from the above table that a majority of 63.8% of all respondents indicated the inadequacy of the government funds allocated for research and training of accountants. A breakdown of the answers shows that the dissatisfaction among IAs (66.7%) was slightly greater than that among AEs (62.5%).

11.6.3.3 Responding Positively to the Profession's Demands

When respondents asked whether they agreed, that the government must play a role in any attempt to improve accounting practices in Jordan, a great majority (82.8%) of all respondents indicated their agreement. A breakdown of the answers to the question (Table 11.14) shows that the agreement among the AEs (87.2%) was greater than that among the IAs (73.7%).

TABLE 11.14
RESPONDENTS' OPINIONS REGARDING THE ROLE OF GOVERNMENT IN IMPROVING ACCOUNTING PRACTICES

	Disagree		Undecided		Agree		Total	
	NO.	%	NO.	%	NO.	%	NO.	%
IAs	3	15.8	2	10.5	14	73.7	19	100
AEs	3	7.8	2	5.1	34	87.2	39	100
Total	6	10.3	4	6.9	48	82.8	58	100

TABLE 11.15
RESPONDENTS' OPINIONS OF GOVERNMENT RESPONSE TO PROFESSION'S DEMANDS

	Disagree		Undecided		Agree		Total	
	NO.	%	NO.	%	NO.	%	NO.	%
IAs	7	38.9	5	27.8	6	33.3	18	100
AEs	18	47.4	11	28.9	9	23.6	38	100
Total	25	44.6	16	28.6	15	26.8	56	100

However, a significant percentage 44.6% of all respondents stated their disapproval of the way the government had handled the demands of the local profession, whereas only 26.8% of them indicated their approval (Table 11.15). A breakdown of answers shows that the dissatisfaction among the AEs (47.4%) regarding government actions in response to demands from the profession was greater than that among the IAs (38.9%). In contrast, the satisfaction among the IAs (33.3%) with government handling of such demands was greater than the satisfaction among the AEs (23.6%).

From the above analysis, one can conclude that, the government efforts to advance accounting practices are far short of what is needed and expected in Jordan.

11.7 EVALUATION OF IMPORTANCE OF ACCOUNTING PRACTICE PROBLEMS

The importance of problems facing accounting practice, as seen by the internal accountants, accounting experts, and for the total of all responses, is shown in table 11.16. The problems evaluated as *Very Important* are those which were ranked first in tables (9.11 and 10.12). For table 9.11 these were problems I, II, III, IV, V, VI, VII, VIII, and XV; for table 10.12 they were problems I, VI and XV on the original questionnaire (see appendices 9.A and 10.A). Of all fifteen problems only one was ranked *Moderately Important*. In the case of IAs, it was problem XII; that is, *some accountants try to apply concepts and techniques imported from developed countries, regardless of their suitability for the local conditions and immediate needs*, while in the case of AEs, the

one which was ranked *Moderately Important* was, *conflict between national and international accounting firms* (problem XIV). Moreover, no problem was ranked as *Unimportant*, or even *Slightly Important*, by either group of accountants.

TABLE 11.16
EVALUATION OF IMPORTANCE OF
ACCOUNTING PRACTICE PROBLEMS

THE PROBLEM	IMPORTANCE		
	IAs	AEs	Total Resp- onses
Shortage of qualified accountants at all levels and in all areas of accounting.	VI	VI	VI
The weakness and underdevelopment of the accounting curricula which are adopted in local colleges and universities in Jordan and the lack of teaching staff sufficiently qualified to teach these subjects.	VI	VI	VI
Lack of adequate accounting in government agencies and government-owned businesses.	VI	VI	VI
Accounting information is either not available in the proper form, or is received by users too late to be useful.	VI	I	VI
Accounting information is not utilized advantageously for internal management purposes.	VI	I	VI
Lack of adequate financial reporting and auditing standards.	VI	I	VI
Lack of strong national associations of accountants.	VI	I	VI
Low status of accountants and accounting profession compared with other professions	VI	I	VI
Lack of adequate inflation accounting, currency translation techniques and financial disclosure requirements.	VI	I	VI

Table 11.16 (continued)

The lack of legislation relating to accounting and auditing standards and procedures.	I	I	I
Accounting practices are viewed and utilized primarily as a means for helping companies evade taxes and manipulate financial reporting.	I	I	I
Accounting practice tends to be procedures oriented.	I	I	I
Accountants and accounting do little to improve government tax collection.	I	I	I
Some accountants try to apply concepts and techniques imported from developed countries, regardless of their suitability for the local conditions and immediate needs.	MI	I	I
Conflict between national and international accounting firms.	I	MI	I

Where: (VI) Very Important, (I) Important, and (MI) Moderately Important

As far as the view of the total respondents is concerned, the above table reveals that, all the accounting problems were ranked either *Very Important* or *Important*. A statistical analysis is provided for each problem in appendix 11.A.

The results have been examined to determine whether any accounting problem can be identified as a key factor, the alleviation of which will serve as a catalyst by beneficially affecting other problems. It is believed that the results suggest this critical problem to be accounting education, especially the quality of educators in Jordan and the employment conditions which influence their dedication to teaching. If we can improve these areas, many of the other

problems, such as curriculum problems- are likely to be relieved in due course, whereas attention to some other problems may well have only short- term cosmetic effects, with little or no impact on other problems. Indeed, the primary problem considered by the greatest number of experts to be *Very Important* is that of *Shortage of qualified accountants at all levels and in all areas of accounting* which is, of course, related to deficiencies in accounting education.

**11.8 RESPONDENTS' VIEWS REGARDING THE
SUGGESTED RECOMMENDATIONS**

11.8.1 AGENCY

**TABLE 11.17
OPINIONS REGARDING ESTABLISHMENT OF AN AGENCY**

	Disagree		Undecided		Agree		Total	
	NO.	%	NO.	%	NO.	%	NO.	%
IAs	1	5.6	3	16.7	14	77.8	18	100
AEs	5	12.5	1	2.5	34	85.0	40	100
Total	6	10.3	4	6.9	48	82.8	58	100

A decisive majority of all respondents, 82.8%, were of the opinion that the establishment of an agency responsible for the development of accounting principles and auditing procedures is needed. The support for this proposal was greater among AEs (85.0%) compared with (77.8%) among the IAs.

11.8.2 AUDIT COMMITTEE FOR EACH COMPANY

TABLE 11.18
OPINIONS REGARDING THE AUDIT COMMITTEE PROPOSAL

	Disagree		Undecided		Agree		Total	
	NO.	%	NO.	%	NO.	%	NO.	%
IAs	6	33.4	5	27.8	7	38.9	18	100
AEs	14	35.0	6	15.0	20	50.0	40	100
Total	20	34.5	11	19.0	27	46.5	58	100

Respondents were split regarding the audit committee proposal. While there was a considerable support (46.5%) for the creation of such a committee in each company, a significant percentage, 34.5%, ruled out the idea. The support for this proposal among the AEs (50.0%) was greater than that among the IAs (38.9%).

11.8.3 LEGISLATION

TABLE 11.19
OPINIONS REGARDING THE LAWS PROPOSED

	Disagree		Undecided		Agree		Total	
	NO.	%	NO.	%	NO.	%	NO.	%
IAs	0	0.0	1	5.6	17	94.4	18	100
AEs	3	7.3	1	2.5	36	90.0	40	100
Total	3	5.2	2	3.4	53	91.4	58	100

91.4% of all respondents indicated the need for the government to provide laws designed to eliminate manipulation in financial reporting and prevent insider dealing. The support for the proposal was slightly greater among the IAs (94.4%) than support among the AEs (90.0%).

Regarding the ranking of these recommendations in order of priority, both groups of accountants gave the same ranking for the three proposals.

11.9 SUMMARY

The main purpose of this chapter was to compare the opinions of the two groups of accountants regarding matters raised in the questionnaires.

Based on the responses received the following conclusions were drawn:

- (i) While the majority of respondents consider the auditor's report very important, a greater majority (73.7%) of them consider the qualifications in such reports very important.
- (ii) All the respondents appeared to agree that the government, via legislation, plays an important role in organising the disclosure system. 69% of them consider the role to be very important, and the rest consider it to be important.
- (iii) While 75.9% of respondents would like the imposition of mandatory disclosure, 59.6% appreciate the cooperation between the government agencies and accountants in the profession. 27.5% seem to prefer to leave the disclosure to demand for and supply of information to the market forces.
- (iv) The current financial disclosure is considered to be unsatisfactory, and respondents would like more information to be released as soon as it becomes available on a continuous basis.

(v) The following suggestions were considered by the respondents to be very important conditions to improve the low level of disclosure:

(a) Provision of interim reports.

(b) Increased voluntary disclosure.

(c) Amendment of the Companies Act.

(d) Organisation of the auditing profession.

(e) Joining regional and international accounting associations.

(vi) Regarding the contribution of the private sector to the evolution of accounting in Jordan, there was a broad similarity of attitude between the two groups of accountants. They strongly believed that the contribution of private businesses has been insufficient and unsubstantial.

(vii) As far as the contribution of the Jordanian academic institutions are concerned, the respondents' opinions were mixed. These mixed responses are an indication of the lack of adequate participation of the institutions in professional activities, especially in terms of providing recommendations and advice.

(viii) The great majority of respondents in both groups of accountants acknowledged that the government must play a role in any attempt to develop accounting practices in Jordan, but indicated strongly that the government has done too little in this respect, especially in terms of providing adequate funds for research and training.

- (ix) The study shows that many of the most important accounting problems in Jordan are believed to result from important causes deeply rooted in accounting education.
- (x) Finally, a great majority of respondents, both among the Internal Accountants group and the Accounting Experts group, indicated their support for the suggested proposals to the evolution of accounting practices in Jordan.

CHAPTER TWELVE
COMPARATIVE OUTLOOK

12.1 INTRODUCTION

This chapter aims to compare the accounting profession of Jordan with those of its Arab neighbouring countries, namely Egypt, Saudi Arabia, Iraq and Syria. The selection of these countries was based on the similarity among them in the economic, social, and political environment.

12.2 EGYPT

12.2.1 Regulating the Profession in Egypt

Egypt is the largest Arab country in many respects, including the size of its business and accounting education systems. It provides a large percentage of the practicing accountants in the Arab world and an even higher percentage of the accounting faculties in the region.

The first major national development in Egyptian accounting was the Commerce Decree enacted in 1883. This obliged merchants to keep some accounting records. Little change was made to the legislation from 1883 until 1939, when the Income Taxation Act was passed. The Act did not have any direct effect on the accounting system, but had an indirect impact in the sense that it obliged tax-payers to submit a tax return. This return was to be ratified by a chartered accountant and supported by copies of the final accounts and the balance sheet, which the act stipulated should be extracted from properly kept books.

In 1951, decree No. 133 was issued concerning the regulation of accounting and auditing professional practice. The decree restricted practice to those who had graduated from colleges, universities and business institutions.

Up until 1956, public accounting in business and in government was provided by two sources: (1) chartered accountants and (2) the State Audit Department (Amer & Khairy, 1981, P.309).

The chartered accountants were members of the Egyptian Society of Chartered Accountants and Auditors (ESCAA), which was established in 1946.

Before the government established the public sector, all corporations, partnerships, and individual enterprises whose capital exceeded a certain limited had to engage a chartered accountant to conduct an independent audit annually. Duties and responsibilities of chartered accountants in performing audits in Egypt during the period were similar to those of chartered accountants in England. Needless to say that because of the long British rule of Egypt, the ESCAA was much influenced by the British accounting profession (Ibid, P.310).

The State Audit Department was a public agency similar to the GAO of the USA government. According to the law, any public funds invested in any form of activity had to be audited by this agency. The purpose of this audit was to determine how effectively a

governmental institution discharged its financial responsibilities and to what degree these financial responsibilities complied with the laws regulating the operations of public funds.

However, the national accounting profession was not officially organised until 1958, when the ESCAA was chartered. Its charter required specific academic qualifications and experience, as preconditions for practicing accounting as a profession.

At that time, the prevailing Egyptian accounting system was based primarily on the British system, with enterprises above a certain size being required to appoint a qualified accountant to act as auditor. At the same time, the financial transactions of governmental institutions were audited by the State Audit Department, which was broadly comparable with the Exchequer and Audit Department in the U.K., particularly in its emphasis on financial regularity rather than efficiency (Briston & El-Ashker, 1985, P.131).

Samuels and Oliga (1982, P.83) argued that:

" From 1882 to 1956 the central political and business influence in the country (Egypt) come from the United Kingdom."

The British's political influence until 1956 meant that the organisation of the accounting profession and the financial reporting practices in Egypt closely followed those of the U.K. (Ibid).

The training of accountants, the law regulating companies, and the disclosure standards were all based on those in the U.K.

However, in 1956 Egypt began to move in the direction of being a centrally planned economy. Central planning has need for standardized data, and so a *Uniform Accounting System* (UAS) was introduced affecting both public and private companies.

After nationalization, the Central Accounting Agency (CAA) was assigned to audit the accounts of public companies. As a result of this, many owners of accounting offices were forced to cease their activities and to join the CAA. This, together with the laws applying socialist restrictions to limited companies, reduced the activities of the independent profession and discouraged the founding of private companies in this field.

Since 1974, when decree No. 43 was issued relating to the adoption of an open door economic policy, and the appearance of limited companies in the private sector, a new era began in Egypt. The most important aspect of the new law was the removal of the socialist restrictions. Since then, successive decrees were issued, the last of which was decree No. 157 for the year 1981, through which the income tax law was issued. This law, which is still in force, stipulates that the reports of any company are not to be considered authentic unless they are certified by a certified auditor, whose opinion is based upon

examination of the accounts, in accordance with accepted auditing and accounting standards.

12.2.2 Egyptian Uniform Accounting

The swift break- away from the West to the adoption of socialist ideas was accompanied by a transition to comprehensive planning and closer state control. These changes notably affected accounting practices by emphasising on public sector financial accounting.

Through the nationalization decrees of 1961, the government acquired control of approximately 80% of the country's economic resources. Since that time, the government has taken steps to establish a uniform system of reporting financial statements for the nationalized businesses in the country.

The Egyptian government recognised the need for uniform accounting in order to enable the National Planning Board to control the operations of the different enterprises under its jurisdiction. In this effort, each public organisation established an Accounting Control Board to audit the accounts of its affiliated companies. Furthermore, the Central Accounting Agency was created to supervise the functioning of the different Accounting Control Boards. It was through the efforts of the CAA that a law for uniform accounting was introduced in 1966.

The main reasons behind the establishment of a full UAS in Egypt were to provide the government with a source of information for the process of planning and control of

economic activities, and for measuring the effectiveness of management in utilizing the resources entrusted to it and the contribution of each enterprise to national income and national production (Briston & El- Ashkar, 1985).

Under the Egyptian uniform accounting system, firms must prepare the following financial statements and final accounts: (a) balance sheet; (b) statement of changes in financial position; (c) current operation account; (d) production and trading account; (e) profit and loss account; and (f) cash flow statement.

The Egyptian UAS was the first attempt in the Arab world to establish uniformity in accounting, and was used as a model in formulating the Syrian UAS, the 1973 Arab League Accounting and Statistical Chart, and the Iraqi UAS.

12.2.3 Auditing Organisation

In Egypt, public- sector auditing is performed by the Central Auditing Organisation (CAO). This organisation was formed in 1964 to audit the utilization of the resources allocated to achieve the objectives of the first national five- year plan (1959/60 to 1964/65).

The obvious result of the nationalization programme and the creation of the CAO was a substantial reduction in the amount and quality of work available for private- sector accountants. The Big Eight firms left Egypt in 1965, and the number of professional accounting firms was

greatly reduced. However, the introduction of the open-door policy in 1974 encouraged the investment of foreign capital and this, together with the denationalization programme, provided a major stimulus for private-sector accountants.

The international accounting firms re-established their presence. Two major conferences held in Cairo in 1980 revealed that private-sector accountants were making a strong attempt to encourage Egyptian accounting to adopt the British and American pattern in which they would have a dominant position (Ibid, P.148).

12.2.4 Tax Accounting

The issue of law No. 133 of 1951, signified the importance of the accounting profession. From then onward, auditors examined and legally certified tax declarations.

Law No. 253 of 1953 (amending law No. 14 of 1939) legislated the certification of tax-payers' declarations by a licensed accountant. The auditors' responsibilities were further regulated under articles 85 and 85 (A,B,C) of the aforesaid law, whereby comprehensive penalties were constituted to be imposed on dishonest auditors.

The auditor's qualifications in the Arab countries vary according to the nature and speciality of audits conducted by each country. Some institutions require that the public auditor hold a degree from a university or other institution of higher education; some countries

even specify the kind of degree needed. In Egypt, a university degree in accounting, economics, business administration, or public administration is required.

The executive regulation to tax law 157 of 1981, also contributed in establishing accounting rules applied to the realisation of net profit for tax purposes.

Furthermore, Minister of Finance decree No. 168 of 1982 further regulated the accounting procedures related to the maintenance of accounting documents and the taxation card associated with each taxable account. The foundation of a tax committee within the accounting body (ESCAA), and the promulgation of tax accounting guidelines, were further features of such regulation.

12.3 SAUDI ARABIA

12.3.1 Accounting Education

Prior to the emergence of the oil sector, the relatively insignificant trade and commercial activity was dominated by small, privately- owned firms. To the extent that accounting records were maintained at all, they were rudimentary and on a single- entry basis. The growth of large companies and the separation of management and ownership necessitated a change toward the more informative Western- style accounting practices. This rapid change in accounting emphasis in Saudi Arabia (S.A.) was met first through the use of expatriate labour and subsequently by attempting to educate Saudis, both at home and abroad.

Generally speaking, the level of education, especially the level of accounting education, within the Gulf Cooperation Council (GCC)¹ is so low that it cannot be expected that accountants would exercise mature judgement in accounting matters. For example, the level of literacy in S.A. in the mid- 1970s was estimated to be somewhere between 5 and 15%, according to government sources.

Although foreign education helped reduce the gap at a time when S.A. could offer only limited accounting education facilities, foreign education was not tailored to the unique local conditions. These circumstances and the existing regulations did not motivate enough Saudi to become certified accountants. This lack of qualified Saudi accountants increased the reliance on foreign personnel for accounting services to meet the needs of the rapidly developing Saudi economy.

The development in higher education generally, and in commercial subjects in particular, is a recent phenomenon. Currently, three universities offer business curricula, including undergraduate majors in accounting. The shortage of qualified accounting faculty is exhibited in the nationalities of the teaching staff of those universities. More than half of the faculty members are non- Saudis. At two universities, the dominant teaching group is Egyptian; Americans are the dominant nationality at the third institution. The principal source of both

¹ In addition to Saudi Arabia, GCC includes Kuwait, United Arab Emirates, Bahrain, Qatar and Oman.

the doctorate and master's degree for faculty members has been North American universities. Others were educated in the U.K., France, and Egypt. Thus, the accounting systems, methods and techniques taught are diversified and oriented toward the accounting needs and the environment of these various other countries.

12.3.2 Accounting Regulation

In S.A., the authority to issue professional accountants' licenses is exercised by the Royal government. The first public accountants' licenses were issued in 1955 by the Ministry of Finance. In 1959, the authority to license professions was transferred to the Ministry of Commerce.

The Companies Act of 1965 prescribed regulations for professional accounting and auditing in S.A. Prior to this law, the legal basis for accountants was established only in articles of incorporation which contained rules on the appointment of auditors.

Although the origin of the Act could be traced to the British Companies Act of 1948, it omitted two significant elements of the auditor's report that are required by the British Act: (a) whether the financial statements are in agreement with the accounting records, and (b) whether the financial statements present fairly the financial position and results of operation.

The Companies Act did not discuss such matters as accounting principles, professional ethics, auditing

standards, or the creation of a professional body of accountants in S.A. Instead, the Egyptian Companies Law 26 and other earlier Egyptian laws were adopted without desirable modifications to the needs of S.A.

The accounting profession in Egypt has had, and continues to have, immediate influence on the accounting profession and its status in S.A. In 1968, 35% of the licensed accountants in S.A. were Egyptian, and the majority of their staff were also Egyptian. 45% of these licensed accountants had received their college education in part or entirely from Egyptian universities, because S.A. sent most of its students to Egypt for such training before the establishment of its first school of business in 1957. Egyptian legal advisers and accountants helped formulate the Saudi Companies Act and the interim regulations of the national accounting profession. Thus, it is only natural that many of the provisions and practices of Egypt were transferred to and incorporated in the laws and regulations of S.A.

12.3.3 Saudi Accounting & Auditing Standards

In a country such as S.A., one should not expect auditing services to be homogeneous, or the performance level of accountants to be similar. On the contrary, accounting and auditing practices in S.A. are very heterogeneous. At one extreme, there are a few local accountants and some international firms that perform audit work of exceptional quality in conformity with

auditing standards prevailing in the USA. At the other extreme, there are accountants who do not possess the necessary level of competence to provide services of high quality.

Although there are some guide-lines for existing accounting practices in the Saudi Companies Act and in the tax and *Zakat* (wealth tax) regulations, these guide-lines are not comprehensive, specific, or complete. They do not provide a definitive set of generally accepted accounting standards. Consequently, the probability is high that similar transactions are reported differently or inconsistently.

The professional status of accountants in S.A. is similar to that in other Arab countries. With the exception of one minor case, no incidents of improper accounting practices have ever been publicized in the country. Furthermore, it is the only country in the region that actively supports many programmes to enhance the accounting profession. These activities include the issue of comprehensive auditing standards by the Government Auditing Bureau (GAB), equivalent to the USA Government Accounting Office, as well as current work in process at the Bureau to complete and issue a set of accounting standards. In addition, the Ministry of Commerce has commissioned a public accounting firm to prepare recommendations for regulating the profession.

S.A. has attempted to establish accounting and auditing standards by means of the USA- Saudi Joint

Commission on Economic Cooperation. The standards were officially issued by the president of the GAB in 1982, as a framework for the Bureau and as a contribution toward developing the accounting profession in S.A.

The GAB has begun to use the standards in the Kingdom of S.A., and they are being considered as models for other countries in the region. The first introduction of the standards outside the Kingdom was at a meeting of the Supreme Audit Institutions (SAIs) held by the GCC in October 1982. A committee was formed to evaluate the possibility of using the standards as a model for the countries which participated in this meeting.

Their second presentation was at the third conference of the Arab Working Group (AWG, a group composed of the SAIs in all the Arab countries) held in Tunisia in February 1983. The council formed a committee to evaluate the GAB standards and make all necessary changes to adapt them for use by all member states.

12.3.4 Tax Accounting

The first attempt to develop tax accounting was in 1950 when tax-payers were required to maintain proper accounting records. Tax regulations stipulated that tax returns be certified by a chartered accountant in order to be accepted. However, such legislation was premature in 1950 because it presumed the existence of an effective accounting profession of great competence and high integrity.

The reciprocal relationship of tax and accounting had greater impact on the former than the latter. Among the several ingredients that influenced tax provisions in the Kingdom of S.A. were all the known factors except the role of the accounting profession. Taxable income, for example, was mainly influenced by practices and provisions outside the Kingdom, rather than the contribution of local accounting.

Accountants have always attempted to harmonise taxable and accounting income in order to maintain a sound utilization of accounting principles. This goal has directed Saudi accounting towards conservatism.

The success of S.A. income tax largely depends upon the existence of a competent accounting function. This role has recently been acknowledged by the Saudi Ministry of Finance and national accountants in their cooperation to establish tax accounting standards.

12.4 IRAQ

12.4.1 Accounting Development

From 1920 until 1932, Iraq was under British Mandate. During this period, there was a turning point in accounting thought because many foreign firms, particularly British firms, invested in Iraq. Training by foreign companies had perhaps the greatest impact on accounting development in Iraq. Many accountants gained experience when they were employed and trained by foreign

companies in the skill of Anglo- American accounting (Seidler, 1969, P.40).

Legislation and practices often influence each other in accounting development. In 1922, the first State Accounting System was established to adopt double- entry bookkeeping in the government office.

In 1942, the Government Accounting Law was introduced and applied in all the ministries' headquarters and governmental non- profit making agencies. Records were to be kept on the cash basis by each administration (Razouki, 1980, P.35).

The Government accounting system suffered from many weaknesses and it proved irrelevant to the needs which followed the socialist transformation of the country. This may be the reason why the Iraqi public sector resorted to the Uniform Accounting System.

At the beginning of the 1970's, there was a swing towards the adoption of the UAS, the development of which will be described in the next section.

12.4.2 Iraqi Uniform Accounting System

The growing role of government in planning and control of national resources, as well as the increased size of public sector organisations, led to a need for more comprehensive and uniform information.

The most important development in accounting has been the application of the UAS since 1972, which has made accounting information available to the economic planner.

The original ideas of the Iraqi UAS derived from the Egyptian UAS which was adopted in 1966. Until recently the application of the Iraqi UAS has been supervised by the Central Accounting Agency in Egypt. Indeed, the whole Iraqi economic system has been strongly influenced by the Egyptian systems.

Townsend (1982, P.268) argued that:

"The Egyptian influence was introduced into Iraq at the time of the 1964 nationalisation of Industry; the Iraqi industrial sector was reorganised at that time along the lines of the Egyptian public sector industries, complete with massive bureaucratic controls."

The Egyptian UAS is designed to serve accounting units at the micro level and to satisfy social accounting requirements.

The first attempt in Iraq, at uniformity in accounting was put into practice in April 1970 by the State Trade Organisation in the Ministry of Commerce.

The second attempt at uniformity was put into practice in April 1972 by the State Company of Woollen Textiles in the State Organisation of Textiles at the Ministry of Industry. In 1974, the system was applied to all companies in the State Organisation of Textiles, and the system was derived from the Egyptian method (Msa'ad, 1980, P.143), being prepared by a representative committee of the Statistics and Accounts Code of the Industrial Development Centre in Cairo.

So, uniformity in accounting in Iraq has passed through three stages: the Trade State Organisation UAS,

the State Organisation for Textile and Spinning Industries UAS and the national UAS. The first system was extended to the whole Ministry of Commerce until 1984, when this ministry was required, like other ministries, to change to the national UAS. The application of the second system was first extended to the whole industrial ministry, and later on many industries adopted either all or part of this system. The third system was applied from January 1, 1984.

The main advantage of the UAS is its reliance on the accrual basis and events recognition, which gives a better idea of the activities carried out by an enterprise, in comparison with the cash basis used by the government accounting system.

12.4.3 Accounting Education

There were no accountancy studies in Iraq before 1940. In 1940 a special school of commercial subjects was opened, concentrating on economics, bookkeeping, and management. This school established two branches, one using Arabic and the other English, to teach bookkeeping. The school also served an important function in teaching the double-entry system for the first time in Iraq, evidence of the extent to which accounting education had been delayed. Undergraduate studies were started in 1946 in the College of Commerce and Economics.

In 1972, the government started to open several specialist institutes in accounting, and increased the number of colleges and commerce schools.

12.4.4 Auditing Development in Iraq

Under Law No.17 of 1927, the first Department of Auditing and Control was established in the Ministry of Finance to control public funds. This Department, in addition to its internal tasks in the Ministry, was given the authority to examine the accounts of private firms, as a safeguard against tax evasion.

In the public sector, a chartered accountant had to be appointed by the Board of directors to audit an enterprise's or an organisation's accounts. The audit report which had to be submitted to the Board or to the General Managers of the organisation, usually emphasised that the proper books of accounts had been kept, that the balance sheet and profit and loss accounts agreed with the books, and that it was a true balance sheet and representing the actual financial position with no illegalities (Iraq, Companies law No. 31 of 1957).

The department was expanded by law No.45 of the 1935, to be called the General Control Board and to act as financial controller for the public sector. In practice, this Board had no ability to audit and control all of the public sector, despite it being a very small sector, for it had no authority, being under the supervision and control of the Ministry of Finance.

However, the role of the Board remained poor and weak until the establishment of the Board of Supreme Audit (BSA) by law No.42 of 1968 to satisfy the requirements of the socialist system in carrying through extensive national development plans. The BSA was responsible for auditing the accounts of enterprises and organisations in the socialist and mixed sectors, and was given authority to submit proposals for new required legislation in the accounting field, when they thought it necessary to bring practice into line with modern standards (Ameen, 1979, P.18).

In 1968 when law No.42 was issued, the BSA was separated from the MOF and was linked directly with the Revolutionary Command Council (RCC). This increased its influence and gave more importance to its decisions.

The BSA received more attention through law No. 194 of 1980, which gave the BSA's president ministerial status, and required the BSA to submit an annual report on the socialist sector to the RCC and the President of the Republic to show the financial and economic position of the sector.

As far as the auditing profession in Iraq is concerned, the private accounting firms have no role in advancing accounting practice and procedures.

However, the Iraqi Accountants and Auditors Association (IAAA) which was established by Act. No.185 of 1968, is suggesting rules for organising the accounting and auditing profession in the private sector.

The IAAA is the only national professional organisation of accountants in the country. It was established for the mutual benefit of its members as well as the promotion of the accounting profession. It is backed legally and membership of it is obligatory for all those working in this field. Moreover, it has the authorization to grant licences to those who fulfil certain educational, academic and practical experience conditions.

The IAAA is considered one of the strongest unions in the Arab region in terms of the number of members, and its organisation. This is because all auditors are included under one class, whereas all accountants who work in the different sectors are included in another class. Moreover, it plays an important role in the area of regulation and training.

The Association is also a member of the General Federation of Arab Accountants and Auditors. As far as the work of the Certified Accountants in the Iraqi courts is concerned, they are requested to assist through the IAAA, because it is the Association which has the right to elect whoever is going to do the job in court.

Currently, most large private companies follow a presentation similar to that used in the USA and the U.K., because most of the accountants working in those companies either graduated there or gained their experience working in foreign companies. The financial

reports of these companies must be audited by an auditor who is licensed by IAAA.

It should be emphasised that the IAAA does not have the power available to its British and American counterparts with regard to establishing and enforcing the application of accounting standards.

12.5 SYRIA

12.5.1 Accounting Education

Syria obtained its independence in 1946 after several centuries of domination by the Ottoman Empire and over a quarter of a century of domination by France. The Turks had imposed a commercial code that was a bad imitation of the Napoleonic Code. This law was adopted in 1850 and remained in force in Syria and Lebanon, with some modifications, until 1943.

The effects of the French rule on economic development were of a mixed nature. The French administration played a minimal role in improving certain conditions in security, education, banking, infrastructure and public administration. However, there were no attempts to hurry the pace or affect the pattern of economic development in the long-term interest of the country (Asfour, 1960, P.5).

Since the second language of an ex-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 the Western style of accounting.

Until 1956, when the University of Damascus started a business degree programme, the only educational institutions in Syria that offered any courses in business were secondary commercial vocational schools.

The vocational schools of commerce supplied the country with bookkeepers and accountants, secretaries, and other needed employees in the field of business and finance.

In the 1950s, most of the Syrian accountants had their accounting degrees from Egyptian universities (Abdeen, 1974, P.95).

In 1956 a four- year Institute of Commerce was established as a division of the College of Law. In 1959, the Institute became a separate college and was granted the authority to offer bachelor, master, and doctorate degrees in business (Syrian Arab Republic, 1971, P.89).

Accounting, in Syria, is taught along practical lines, and one may be inclined to call it bookkeeping rather than accounting because of the heavy emphasis on mechanical functions (Abdeen, 1974, P.130).

12.5.2 Development of Accounting Profession

After Syria gained its independence in 1946, the number of industrial corporations increased substantially. Since then, the interest in professional

accounting services also increased. In 1949 the Syrian commercial law provided for the appointment of licensed accountants for the benefit of shareholders and creditors of corporations. In Article 235, the Law directed the general assembly of each corporation to elect a statutory accountant from a list approved by the Ministry of Economy (Sibae & Antaky, 1961, P.180). The Ministry of Economy granted the title Statutory Accountant to experienced accountants and to college graduates with a degree in accounting.

With the passage of the commercial law, the responsibilities and duties of the Statutory Accountants (SAs) in relationship to the stockholders and other parties interested in the welfare of the corporation were officially formalized. The number of SAs increased with the growth of economic activities, but throughout the 1950s there were still no practitioners in the country who devoted their time solely to public accounting services. The first full-time practicing firm was Saba and Company, Accountants and Auditors, which opened an office in Damascus in late 1950s.

In 1958, the Syrian Statutory Accountants Association (SSAA) was established. During the period 1958 to 68, several full-time practitioners opened offices in the major Syrian industrial cities. The SAs offered valuable accounting and auditing services to the increasing number of business organisations during the free enterprise economy era, as well as after the

nationalization of banks and major industrial enterprises.

The major source of revenue of these accountants was from the medium and large size corporations. When these corporations were nationalized in the 1960s, the government assigned a certain number of nationalized corporations to each practitioner and fixed the fee he/she received for his/ her services on the basis of the size of the corporation. A few of the SAs refused to work under conditions which they felt impaired their independence. As a result, some public accounting firms, such as Saba and Company, reduced their staff throughout the 1960s and finally closed their offices. This condition was brought about when the auditing and control functions of the economic public organisations were assumed by the General Organisation of Financial Control and the General Commission for Control and Auditing. These two organisations hired few SAs.

Due to the important role of the SAs in providing independent opinions on the financial conditions of business enterprises, certain restrictions on entry into the profession had to be imposed. Only competent and trusted individuals are admitted to the profession in practically all countries.

The first detailed regulations and procedures for granting licenses to the Syrian accountants were formalized in 1958 by Administrative Decree No. 1109, which was amended in 1961, through which the accounting

profession was organised. This decree specified that the list of SAs which should be prepared by the Ministry of the National Economy every year in accordance with section 235 of the commercial law should include only the persons who applied and were granted the license after meeting certain education and experience standards as stated in the law (Abdeen, 1974, PP.82-85).

12.5.3 The Syrian Statutory Accountants Association

The SSAA was established in order to upgrade the accounting profession and to fulfil the needs of accounting auditing of public and private organisations.

The enlargement of the public economic sector slowed down the growth of the SSAA because in 1968 the function of certification of the nationalized industries was taken away from the SAs and was assumed by the General Organisation for Financial Control.

While the SSAA is concerned about its organisation and auditing activities, it is definitely lacking in the formulation of accounting principles, auditing standards, and rules of professional conduct and ethics. Recognizing the need for formal pronouncements in these areas and the necessity for upgrading the accounting and auditing practices is a vital factor for the survival of the profession (Ibid, P.90).

The SSAA has not been able to organise fully and to make the needed pronouncements. The association has been in existence since 1958 and up to now it has not released

any statement dealing with accounting and auditing principles. The nationalization of the major industries in 1960 aggravated the problem because it created an atmosphere of uncertainty for the future of the profession. This uncertainty became a reality when the audit function of the economic public sector organisations was taken away from the independent auditors by the government in 1968.

Because of the lack of formal pronouncement of generally accepted accounting principles in Syria, the auditor's report has no reference to accounting principles. However, according to section 238 of the commercial law, the report must state that the financial information included in the report is in agreement with the companies' books and is not in violation of the law.

It is true that in Syria there are no formal rules of professional conduct, but some rules similar to those stated in the code of ethics of the AICPA do exist in Syria. These are scattered over the commercial code, the bylaws of the SSAA, and the charters and bylaws of corporations. In other words, these rules are dictated by the government, the owners of corporations, and the members of the accounting profession.

There is also a close similarity between the auditing practices of the Syrian accountants and those followed by accountants in the USA (Ibid, PP.114-124).

12.5.4 Uniformity Accounting in Syria

The adoption of the socialist economic system and the growth of the public sector in Syria placed more emphasis on the collection of accounting data for national economic planning, a situation which led to the adoption of the Standardized Accounting Systems by all economic organisations.

Consistency and uniformity of reporting in enterprise accounting is highly desirable for a country like Syria because of the emphasis on accelerating economic growth through industrialization and because of the central economic control reflected by the massive nationalization of major business enterprises (Ibid, P.140). All of the deficiencies resulting from inconsistency and lack of uniformity in financial data reporting applied to the Syrian enterprises. The lack of proper tools for measuring the efficiency of managers and for enhancing planning and control of their business operations exacerbated the situation and prompted the installation of the Standardized Accounting System (SAS), which was completely formulated and published by the Ministry of Finance in 1972.

The SAS applies primarily to the economic units of the public sector with the exception of banks, postal services, saving funds, insurance companies and the social security administration. However, since national comprehensive planning in Syria requires information from the private sectors of the economy, the scope of the SAS

may be extended to private enterprises and cooperatives at the discretion of the Ministry of Finance (Syrian Arab Republic, P.1).

The *economic unit* referred to in the system was not explicitly defined anywhere in the Syrian SAS. However, the Egyptian UAS, which was used as a guide in formulating the Syrian SAS, referred to the economic unit as:

" Any unit engaged in an economic activity whether in industry, commerce, agriculture, real estate or otherwise, including public organizations and institutions, which are legally asked to prepare commercial balance sheets and income and expenditure accounts, even though it is not engaged directly in any of the indicated activities." (United Arab Republic, 1967, PP.4-5)

The system is mainly limited to financial accounting, and pays comparatively little attention to management and cost accounting. The formulators of the system felt that it would be advantageous to adopt a gradual approach to accounting standardization. The financial accounting system is to be followed by a cost accounting system or systems for different industries.

The SAS is considered a reform step in reporting financial data. The system depends a great deal on other systems used in developing socialist economies, particularly the one used in Egypt (Syrian Arab Republic, P.4). The needs of economic planning, implementation, evaluation, and follow-up were kept in mind. Furthermore, the link between the economic units and the

national economy was considered in the development of the system. It was also emphasised that the system would not only serve the economic units and Syrian national accounting needs, but would also offer statistical and accounting services to other Arab countries with similar economic systems. It was made clear that the system would not satisfy all the requirements for budgeting and cost accounting, but it would play an essential role in the development and implementation of such systems.

The SAS is helping in reforming the existing accounting systems and increases their efficiency and usability. Its present state of development may not serve all the needs of the economic units and the national economy, but it is recognised as a constructive and practical step, subject to development, refinement, and improvement (Ibid, PP.4-5).

Furthermore, the SAS provides uniform accounting terminology, and reports and helps in improving communication between the economic units and the national planners, as well as other government organisations and external parties to the economic unit. The system facilitates the exchange of experience between the accounting personnel and other personnel in the economic units and consequently reduces the time and cost of training accountants. In addition, the system helps in providing essential uniform information to the Central Bureau of Statistics and facilitates the job of the government auditing organisations. The system, however,

provides very little help to management of the economic units, because it does not provide any explanation of the techniques of budgetary control and responsibility accounting.

12.6 REGIONAL ACCOUNTING SYSTEMS:

A COMPARATIVE OUTLOOK

Before making such a comparison, it is worth noting that the origin of each country's accounting system has had a great influence on the accounting policies of these countries. All the Gulf states, Jordan and Iraq were former British colonies and have adopted the English accounting structure. In contrast, Egypt, Syria, Lebanon and the North African states were dominated by the French empire early this century; thus they imported accounting concepts and practices from France. In the case of Egypt, the French influence was followed by British influences. Differences in accounting sources have been reflected in various aspects of accounting in the selected countries.

12.6.1 Tax computation

Tax computation procedures are almost analogous in all legislations. The tax department in each country has established its own rules for examining declared tax liabilities, and gives little weight to the view of the external auditor who examines these declarations.

Accounting firms' views are not recognised in tax disputes. Although such role theoretically exists in all legislations, it is up to the tax authority in each country to determine accountants' role in tax enforcement.

Taxables are obliged to maintain honest accounting books under all legislations. However, it is up to the tax authority to enforce this requirement strictly. This responsibility has been poorly exercised by S.A. compared with the more organised Egyptian and Jordanian systems.

12.6.2 Influence of Legislation

Admission to the profession is a legal matter in most Arab countries. In countries such as Syria, Iraq and Jordan, describing oneself as a public accountant requires a license from the proper government authority. This license is issued provided certain education and experience criteria are met, as stated in the law. Egypt has its own society of accountants admitted to the profession based on results of examinations, education, and experience.

The commercial codes of most Arab countries have provisions for statutory audits. Although Egyptian law did not require the audit of corporate accounts before 1954, the Egyptian accounting profession was developed to the extent that audited statements were expected as part of good business practice. In countries that require the audit of corporate financial statements, the auditor must

be appointed annually in the general meeting of shareholders.

One should not discount the role of the universities and their curricula in accounting. The American University of Beirut has an accounting curriculum comparable with any CPA- oriented curriculum, except for the tax and business law courses. Several other Lebanese educational institutions follow American standards. The majority of the universities in the area are, however, patterned after the Egyptian university system, which in turn is a version of the British model. Graduates of these institutions are well versed in accounting procedures practiced in the USA or U.K. Students in these institutions are also taught certain accounting professional standards to which USA, U.K. or Egyptian accountants adhere.

12.6.3 Types and Scope of Audit

The countries under comparison apply post audit only, except for Iraq, where the Supreme Audit Institution has the right to conduct detailed pre- audits related to expenditures if they contribute to the public benefit. Iraq applies post- audit as a basic, and pre- audit in certain circumstances. The SAI in Iraq usually conducts a pre- audit in cases of tender terms, governmental contracts, or obligations exceeding specific amounts of money.

Arab SAIs conduct different types of audit, depending upon the availability and capability of their staff.

- (a) Audit Format (total or detailed audits)- a detailed audit, which involves the audit of every figure, process or transaction in a detailed manner, is exercised in all of the Arab states, except in Iraq, where the standard procedure is total auditing- to audit total figures without any details- with detailed audit applied in certain circumstances. Jordan, Kuwait and Lebanon apply both total and detailed auditing.
- (b) Comprehensive audit and sampling procedures- Jordan, Syria and Egypt conduct both sampling and comprehensive auditing. S.A. and Iraq are the only Arab countries which utilize sampling auditing in their public audits.
- (c) Financial, compliance, and performance auditing- Performance auditing is conducted to evaluate performance, effectiveness, and efficiency in Egypt and Iraq. This kind of audit needs more technical attention to be useful and to achieve its objectives.

Operational, management or performance auditing means extending the scope and nature of audit one step beyond the traditional criteria of government auditing, which is based upon concepts of legality and compliance

with existing regulations, toward other, broader criteria involving productivity of operations, where the auditors' examination and verification of government transactions are expressed in terms of economy, efficiency and effectiveness. This kind of auditing is needed both in developed and developing countries in order to promote, as well as protect, governmental services by maximizing the effective, economic, and efficient use of scarce resources.

Performance auditing is a new concept in the Arab countries, and is applied on a limited scale in some countries such as Egypt, S.A., Iraq and Syria. In Egypt, this task is carried out through the CAO. Most Arab countries apply financial and compliance auditing.

12.6.4 Supreme Audit Institutions

The creation and development of SAIs in the Arab states as independent and specialized entities were strongly connected with the political, economic, and administrative development stage in each country.

The functions and responsibilities of the SAIs are to audit all units which receive or spend public funds, specifically governmental administrative units (ministries, agencies, and so on), financial statements of the government general budget, financial statements of amended budgets, and financial statements of public enterprises. In addition to these responsibilities, some

SAIs extend their audits to include the financial accounts of the following:

- (1) Financial statements of special budgets: Jordan, Iraq and Libya.
- (2) Public corporations, agencies, organisations, and their subsidiaries: Egypt, Syria, Iraq and Libya.
- (3) All institutions subsidized by the state or for which the state guarantees minimum profits: Jordan, S.A., Syria and Libya.

As far as the kinds of reports are concerned, all Arab SAIs required to prepare and submit annual reports containing the results and findings of their audits, along with comments and suggestions. In Syria, the SAI is required to submit term reports at regular intervals for follow-up purposes, in addition to annual reports.

All Arab SAIs, except for Yemen, may prepare special reports at any time, to call attention to specific matters or issues needing urgent action. Such reports can be submitted on the institution's own initiative or at the request of top authorities in Iraq, Egypt and Libya.

12.6.5 General Evaluation of Accounting Status

The variation in accounting practices in these countries is attributable to the origin of the accounting legislation. A number of internal and competing external forces have shaped the current accounting practices in Jordan, including influences from neighbouring Arab

countries, and from giant multinationals or developed countries such as the USA.

Egyptian tax accounting, which is predominantly continental- and British- oriented, is important for two reasons. First, the Jordanians, who initially studied outside Jordan, were educated in Cairo; many of them now hold ministerial- level positions in Jordan. Second, Egyptians occupy some of the senior positions in the tax administration.

The Jordanian tax policy was set primarily to raise revenue, and secondarily to achieve social objectives. However, such goals have not been completely realised, since government domestic revenues have not grown as fast as government expenditures; domestic revenues accounted for only slightly more than 40% of total government revenues (see ch.4). Political power, as well as the inadequacy of the tax system in arranging direct taxes, were the main causes of this situation. Moreover, many trades and professions are not yet covered by the tax system.

The role of the Jordanian accounting system in tax implementation has been very poor. Tax legislation has been almost silent in this respect, except for a few requirements relating to the keeping of accounts and maintenance of relevant books.

The Jordanian government has tried to encourage the local accounting profession to contribute towards tax enforcement during the last twenty years. In 1975 in

particular, the government established significant communication channels with the accounting profession (leading accounting firms and the academics) before the promulgation of Income Tax law No.57 of 1985. Indeed, such contact has resulted in more responsibilities on the part of accountants.

12.6 SUMMARY

The main purpose of this chapter was to examine the regional aspects of accounting in four of Jordan's Arab neighbours, namely Egypt, Saudi Arabia, Iraq, and Syria. The evolution of accounting in those countries, particularly with regard to the external influences upon them and their impact upon Jordan, was also considered.

The major findings of the chapter may be summarized as follows:

- a. Most large private companies in the region follow a presentation similar to that used in the USA and the U.K., because most of the accountants working in those companies either graduated in these countries or gained their experience working in foreign companies.
- b. The principal source of both the doctorate and master's degree for faculty members has been American universities. Others were educated in the U.K., France and Egypt. Thus, the accounting systems, methods, and techniques taught are

diversified and oriented toward the accounting needs and the environment of these various other countries.

- c. The majority of the universities in the countries concerned are, however, patterned after the Egyptian university system, which in turn is a version of the British model. Graduates of these institutions are well versed in accounting procedures practiced in the USA or U.K.
- d. The accounting profession in Egypt has had and continues to have an impact upon the accounting profession and its status in the region. While the original ideas of the Iraqi UAS derived from the Egyptian UAS, the latter was used as a guide in formulating the Syrian SAS.

From the above, one can conclude that the accounting practices in Jordan have been shaped by a number of internal and competing external forces, including influences from the Arab neighbouring countries, especially Egypt.

CHAPTER THIRTEEN
SUMMARY, CONCLUSIONS AND
RECOMMENDATIONS

The following summary, conclusions, and recommendations are based on the research findings of this study. Directions for further research are also suggested.

13.1 SUMMARY

Accountancy has passed through many stages, from double-entry bookkeeping towards more elaborate forms of financial accounting, management accounting, government accounting and social accounting. The first three are referred to as micro accounting, and the fourth as macro accounting. There has been clear recognition of the need to integrate these areas of accounting into a coherent framework for planning, control and decision-making.

Correspondingly, it can be argued that accounting information and techniques should play an important role in both micro and macro economic activities, and that they can assist planning, control and decision-making at both levels.

Accounting in Jordan, as in any other developing country, is still in its rudimentary stage, and much more is needed to develop this profession to the level required to enable it to function effectively and efficiently.

What developing countries need are systematic and carefully planned accounting systems designed to meet the unique needs of their individual accounting and business environments. Variables to be considered are: type of economy, political system, type of business ownership,

social climate, degree of sophistication of business management and financial community, pace of business innovation, and stages of economic development. Particular accounting systems can be patterned after those of developed countries, such as the U.K. or USA, but they must be modified to suit the unique needs of the accounting and business environment of each country.

Accounting in developing countries- including Jordan- is patterned on the accounting in developed countries. However, what is suitable for developed countries might not be suitable for Jordan. Therefore Jordanian accountants should be responsible for establishing a national accounting system suited to the Jordanian environment requirements. These requirements will depend on the stage of economic development of the country, its accounting information users' needs and its cultural, political and social characteristics.

Jordan, as a developing country, needs accounting information which is based on an integrated body of accounting practices showing both the financial and social costs and benefits generated by the country's economic activities and resources. This information should be relevant to social and economic planning, micro and macro decision- making, and planning and control at both the micro and macro levels.

Thus, this study was conducted with the following aims:

1. To ascertain whether Jordan's accounting systems (enterprise, government, social) provide the necessary information for its socio-economic development planning and to suggest means by which to improve accounting in the country.
2. To study the status of the accounting profession in Jordan and discuss the major historical events that have affected the practice of public accounting nationally.
3. To survey internal accountants' and accounting experts' perceptions of the suggested ways and means to improve present accounting practices.

To achieve these aims, it was necessary first to examine the Jordanian environment with particular reference to social, economic, political and regulatory environments, and foreign influence in the country. It was also necessary to examine some related areas such as accounting education and the accounting profession. Furthermore, it was important to examine the type of information which is provided by accounting systems in Jordan. To this end, the empirical research, which involved two mail surveys, consisted of:

- (i) A survey of internal accountants in all industrial shareholding companies quoted in AFM. The methodology and analysis of the results of this survey were presented in Chapter 9.

(ii) A survey of accounting experts in Jordan. The methodology and analysis of the results were discussed in Chapter 10.

A comparative analysis of the opinions of the two groups of accountants surveyed was discussed in Chapter 11, followed by a comparative outlook of accounting on Jordan and its Arab neighbouring countries, namely Egypt, Saudi Arabia, Iraq and Syria. The evolution of accounting in those countries was considered with respect of their impact upon Jordan.

In this chapter the research findings are consolidated and evaluated. Conclusions are drawn regarding what accounting and reporting practices in Jordan ought to be. These conclusions lead to recommendations for further research.

There has been little published material on the socio-economic, political and regulatory environment in Jordan, and even less data, if any at all, on accounting education, the profession, the systems, and the information needs of the country. Therefore it was necessary for the author to make a long visit to Jordan (summer 1990) in order to collect general data on the Jordanian environment and its needs, and the feasibility of improvement. Some of these data were collected through in-depth interviews or were obtained from publications which had to be translated from Arabic to English by the author.

The theoretical and empirical studies, and analysis thereof have revealed the following accounting problems and deficiencies:

1. One of the most frequently cited problems in the Jordanian educational system is the lack of qualified academic staff in accounting education.
2. Accounting education has an American bias, with only marginal relevance to the Jordanian environment.
3. Accounting education lays emphasis on private sector financial accounting (external reporting) and its subsequent traditional external auditing.
4. Accounting education virtually excludes social accounting and government accounting, and includes very few cost and managerial accounting courses.
5. The private sector orientation of accounting is also emphasised in the non-accounting educational courses, where accounting students are required to take micro economics courses, but are given no chance to take courses in macro economics, economic development or public finance.
6. Accounting education prepares students for routine accounting work with no orientation towards creative and analytical work.

7. Research in general, and that related to Jordanian needs in particular, is very poor in both quantity and quality.
8. The accounting profession is weak and disorganised; its role in improving accounting in Jordan is minimal. Foreign pressure 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 evolution and status of accounting in Jordan.
9. Government accounting in Jordan is based on the traditional UN manual of government accounting.
10. Budgeting is not recognised in Jordan as a profession, nor as an occupation having much prestige.
11. Jordan has adopted the UN national accounts system (New) but only employs one of its five elements, *National Income Accounts*.
12. Delays of anything up to three years occur in the preparation of national accounts as a result of non-receipt of the data needed from micro units, economic and otherwise, and the shortage of qualified manpower.

Accounting in Jordan is bookkeeping rather than accounting. This is because some areas of accounting are not considered; for example management accounting, inflation accounting, research and development accounting ... etc. Generally speaking, much attention is given to financial accounting, but it is considered as merely specific procedures and steps followed by accountants in preparing financial statements.

If the above problems could be solved, then an efficient accounting system may emerge. It is important that such developments take place because efficient accounting is an essential tool, particularly for a developing country such as Jordan.

13.2 THE RESEARCH CONCLUSIONS

In view of this study of evolution of accounting in developing countries, particularly in Jordan, the following conclusions can now be made.

13.2.1 Results of the Literature Review

The investigation of the accounting literature covered two major areas. The first part of the review examined the evolution of the accounting system in developed countries, mainly the U.K. and USA. The second part dealt with the examination of the role of accounting in economic development in developing countries. From the review the following conclusions can be drawn:

1. The traditional accounting system, which has so far been applied in Jordanian organisations, has failed to meet the requirements of economic development. This system is based on the U.K. / USA accounting system which has a tendency towards external financial reporting rather than government and national accounting.
2. The system pays insufficient attention to economic development and integration between the micro and macro levels. Hence, it is unsuitable for developing countries to adopt this system. Moreover, it does not satisfy the information needs of these countries.
3. In the past three decades many developing countries have felt the need for developing their accounting, as discussed in Chapter 3. These countries recognise the role of accounting in economic development planning. However, in practice, the effectiveness of the accounting systems in economic development in these countries has been far from satisfactory, and integration between the accounting and economic development is lacking. To counter these deficiencies, developing countries must continue to give increasing attention to the improvement of their accounting systems in relation to the needs of economic development planning.

4. Generally speaking, a well- educated and competent accounting profession is overdue in most of the developing countries, including Jordan, and it should form an integral part of the continuing efforts towards establishing a more effective profession.
5. Because of the many social, economic, and political problems in many developing countries, accounting does not occupy a position of importance and is not recognised as a profession in the majority of these countries.
6. The accounting practitioners in developing countries tend to be weak and unable to fulfil their expected professional duties. The non- existence of strong accounting organisations has negatively affected the status of the profession in these countries.
7. Jordan's needs in accounting information rely on an integrated body of accounting which produces enterprise accounting, government accounting and social accounting together showing both the financial and social costs and benefits generated by economic activities.
8. The accounting practices in Jordan have been shaped by a number of internal and competing external forces, including influences from the Arab neighbouring countries, especially Egypt.

9. The accounting profession in Egypt has had and continues to have an impact upon the accounting practices in the region as a whole.

13.2.2 Results of the Empirical Research

As indicated earlier, two mail surveys were used to collect the necessary data to achieve the objectives of this study. The descriptions of these surveys and the results of the analysis are summarized below.

I) The Survey of the Internal Accountants

The survey of the IAs, which covered 43 accountants and resulted in a 51.4% usable response rate, were designed to achieve the following aims:

1. Solicit opinions regarding accounting practices and recent developments affecting such practices, and isolate empirically those key factors affecting the development of national accounting practices.
2. Identify the needs of the accounting profession as perceived by the IAs, and
3. Determine the problems facing accounting practices and education in Jordan, as seen by the IAs, and the relative importance of each of these problems.

Results of the Survey

Based on the responses received, the following conclusions appear to be appropriate:

1. The extent of cooperation between the accounting profession and private business, academic institutions and the government was found to be insufficient. If the national accounting profession is to fulfil its professional duties, greater support and assistance from such entities is urgently needed.
2. An effective way of improving national accounting practices would be to establish an independent committee / body whose members belong to private business, government agencies, and the accounting profession.
3. The most important requirements for improving national accounting practices, from the IAs point of view, were ranked as follows:
 - a. An active accounting organisation.
 - b. Official auditing pronouncements.
 - c. Accounting principles suited to the Jordanian environment.
 - d. A code of professional conduct.
 - e. Effective educational programmes.
4. The most important factors affecting the development of accounting practices in its present state, from the IAs point of view, were ranked as follows:
 - a. A rapid economic development process.
 - b. Education for national accountants.
 - c. Growth in private business enterprise.
 - d. Government laws and regulations.
 - e. Influence of foreign methods and practices.

5. The biggest problems affecting the current accounting practices in Jordan, from the IAs point of view, were ranked as follows:

1. Shortage of qualified accountants.
2. Low status of accountants.
3. Lack of a strong national association of accountants.
4. Lack of legislation relating to accounting and auditing standards and procedures.
5. Weakness and underdevelopment of the Jordanian accounting curricula and the lack of teaching staff sufficiently qualified.

6. Accounting practice in Jordan is classified under the British- American Model. It is becoming increasingly investor- oriented, due to the establishment and increasing role of the AFM. Although the disclosure of information was formerly limited to creditors and government, there has been a rapid move towards investor- oriented information as a result of the economic steps taken to increase domestic savings.

II) The Survey of Accounting Experts in Jordan

The overall purpose of this survey was to present the accounting experts' views regarding the same matters discussed earlier from the IAs point of view.

Based on the careful review of the accounting literature, a questionnaire was designed and pretested before being mailed to 70 potential respondents. Responses to the survey resulted in a usable response

rate of 57.1%. The assessment of the validity and reliability of the research instrument was favourable.

In addition, personal interviews were conducted with a number of individuals, such as officials in the AFM, accounting educators, auditors, and government officials, to find out their perceptions of accounting practices and suggestion for improvements.

Results of the Survey

Based on the responses received, the following conclusions can now be made:

1. The most important requirements for improving national accounting practices, from the AEs point of view, were ranked as follows:
 - a. Official auditing pronouncements.
 - b. Active accounting organisation.
 - c. Accounting principles suited to the Jordanian environment.
 - d. A code of professional conduct.
 - e. A test for certification.

2. The most important items affecting the development of accounting practices in its present state, from the AEs point of view, were ranked as follows:
 - a. A rapid economic development process.
 - b. Education for national accountants.
 - c. Growth in private business enterprise.
 - d. Influence of foreign methods and practices.
 - e. Government laws and regulations.

3. The biggest problems affecting the current accounting practices in Jordan, from the AEs point of view, were ranked as follows:
 1. Shortage of qualified accountants.
 2. Lack of adequate financial reporting and auditing standards.
 3. Accounting information either not available in the proper form, or received by users too late to be useful.
 4. The weakness and underdevelopment of the Jordanian accounting curricula and the lack of teaching staff sufficiently qualified.
 5. Accounting information not utilised advantageously for internal management purposes.
4. While the accounting profession wants to involve the government in the process of advancing national accounting practices, the perceived role of the government as perceived by the AEs is preferred to be of a secondary nature: to supervise and to provide legal support only, rather than to decide arbitrarily what the profession should do.
5. The AEs are not satisfied with the level of corporate disclosure practices, and would like more information to be released as soon as it becomes available, on a continuous basis. In other words, they wish corporate managements to release greater information of economic value, with less delay, on a more continuous basis.
6. The interviews indicated that none of the individuals interviewed were satisfied with the status of

accounting, and all would like more effort to be made to develop accounting practices.

The study of accounting evolution in Jordan indicates that public accounting has not reached the stage where it can be recognised as a developed profession. Currently, public accounting in the country can be best described as practices regulated by the government. The analytical results obtained from the surveys of the internal accountants and accounting experts clearly supported the researcher's view regarding the need for an alternative approach to the development of accounting practices and of the profession itself.

13.2.3 Other Results

1. The Jordanian accounting programme and curricula are biased towards financial accounting and external reporting, with more than 77% of the programme devoted to these subjects.
2. 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, too, is unlikely or unwilling to take the responsibility for setting accounting standards. 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.

3. Delays of up to five months occur in the publication of annual reports. Therefore financial reports become historical documents.
4. The current financial disclosure practice is considered to be unsatisfactory and does not provide a suitable basis for investors' or other users' decisions. More information needs to be released as soon as it becomes available, on a continuous basis.
5. The greatest single obstacle to government budgeting and accounting in Jordan is the shortage of capable, trained accountants and budget-makers. Jordan, like most developing countries, suffers from a shortage of well-qualified staff in the fields of financial administration, accounting and budgeting.
6. The Jordanian government accounting system and auditing procedures concentrate primarily on legal requirements and accountability, and ignore the role of accounting as a management tool to provide useful financial information on governmental transactions for planning and economic analysis purposes.

13.3 RECOMMENDATIONS

Based on the research findings and conclusions, the following recommendations are made additional ideas to

those interested in the field of accounting in developing countries:

(I) In order for the accounting educational programmes to be effective, a comprehensive reform of the curricula and educational techniques and training is needed. More specifically, the following recommendations are proposed:

- a. Less emphasis should be placed on accounting for external reporting and financial auditing, and more on managerial accounting, operational auditing, and other courses designed to meet the economic, social, and cultural needs of Jordan.
- b. The number of courses in economics should be increased and the topics should include micro economics, macro economics, economic development, and international economics.
- c. Continuing accounting education for the profession is needed in developing countries, particularly Jordan, where the diverse educational background of practising accountants hinders cooperative effort, and where the current state of inadequate disclosure is an obstacle to economic progress.

(II) In order for the national profession to be effective in fulfilling its professional duties, the following recommendations are proposed:

- a. There should be a comprehensive set of auditing standards that include a strong code of ethics needed to set standards and ensure the quality and reliability of services offered to the public.
- b. The national accounting profession must establish its own rules for the certification of accountants and their admission into the profession.
- c. An effective research programme should be initiated and implemented immediately in order to improve national accounting practices.
- d. A special review must be made of accounting education, since it is vital to the development process that accounting educational programmes at the university level be tailored to fit the needs of the accounting profession.
- e. An independent agency or committee should be established for the purpose of developing accounting and auditing standards that are suited to the Jordanian environment. Members of the agency would be selected from the JACPA, accounting firms, and accounting educators. The agency should be independent of any government influence. However, it is important that the agency have the government's backing and support. A special liaison office must be established to coordinate the improvement process with the work of the government.

f. A strong and effective cooperation must be established between the various groups composing the national accounting profession.

(III) Tighter cooperation between the professional organisations e.g. (APC) and Ministry of Finance, Ministry of Trade and Industry, Amman Financial Market and academics might benefit the development of the accounting profession in the country.

(IV) In order to improve the national reporting practices, the following recommendations are made:

a. The reinforcement of existing reporting practices in order to eliminate the inherited current deficiencies in the standards.

b. The enactment of laws by the government designed to prevent company official and directors from using confidential information for their own benefit.

c. The redesigning of annual reports to include needed qualitative information items as well as quantitative data.

d. Improvement in the timeliness and availability of published accounting data. Quarterly reporting, or at least half- yearly, must be used to provide timely information to investors.

e. Increasing the efficiency and authority of the AFM. This can be done through the following:

- Increasing the AFM's power and authority over the trading of stocks in the country.
 - Making the AFM more independent of the government.
 - Providing qualified personnel to assure the efficiency and quality of services offered by the market.
- f. Standards which are suitable to the Jordanian environment do not exist, because there is no official accounting body responsible for the issuing of such standards. This could be improved by strengthening the JACPA, which would develop the accounting profession. Through the cooperation between this association, the AB, and the MOF, rules and principles to regulate and supervise the profession could be established and developed.
- (V) It is necessary to have an appropriate legal framework and legislation to attract and protect investors. For investors to have confidence in the AFM there need to be adequate disclosure requirements and control of potential inside traders. Interim reports (perhaps half- yearly) might be required, which in turn would reduce the substantial time- lag and increase the frequency of information releases into the market.
- (VI) Consideration should be given to establishing financial reporting guide- lines with more details (in notes attached to the accounts), as well as with information on management and presentation of

additional statements. To achieve this the JACPA would need to be strengthened and be more active in producing guide- lines for a developing countries, and in educating its members.

(VII) A system of reporting should be designed in such a manner as to produce monthly, quarterly and annual reports. Such reports should contain vital information on the progress being made in the implementation of development programmes and projects according to their schedules. Systematic, timely and prompt reports assist by: a) helping in systematic budget execution, b) reviewing efficiency and economy in the use of limited resources, c) identifying deviations between the targets set by programmes and the level of performance actually achieved, d) facilitating timely correction measures by policy- makers on the basis of their programmes and projects operations, and e) permitting adaptation to changing conditions.

(VIII) The Jordan AB should be authorized to supervise all companies in which the government has more than a 50% share and to audit these companies, legally and financially.

(IX) In developing countries in general, and in Jordan in particular, the reform of accounting systems is needed, particularly in view of the lack both of modern accounting techniques and procedures and of

trained and qualified staff for this work. In order for government accounting to serve efficiently the financial needs of programme and performance budgeting and national development plans, the system requires the following improvements:

- a. The system must provide timely and accurate financial information that meets the needs of planning, economic analysis, management and accountability. Such information will help in the control of day-to-day operations and will satisfy the legal requirements for use of legislative appropriations.
- b. The system must maintain enough detail to satisfy the needs of internal control and external auditing. Such a system will help in analysing the effects of government activities on the rest of the economy and, at the same time, it will provide information about these activities to those officials responsible to decide how best the influence of the government should be exerted in the general interest of the economy.
- c. A certain degree of uniformity is needed in order to introduce programme and performance budgeting on a large scale. To satisfy the uniformity requirement, a system of classification of accounts intended to be generally accepted should be developed.

- d. The introduction of modern accounting machines and electronic equipment to accounting systems, where it is possible, should be achieved. Many benefits will arise from such conversions, including the development of more and better financial information and more timely production of such data in relation to the various needs.
- e. Accounting records should be established and maintained on a programme basis, subdivided into performance units; in other words, on a basis of cost accounting.
- (X) The accrual basis provides a superior method of accounting as a useful approach for adoption of programme and performance budgeting. Moreover, it can be applied in government enterprises, in trust and capital projects, and in other areas where it provides complete disclosure of financial activities. In Jordan, because of the lack of skilled accountants, it is advisable to introduce the accrual basis in three steps. The first would be to use the modified cash basis; the second would be to use a modified accrual basis; and the last would be to apply the accrual basis.
- (XI) For the proposed new budgetary reform in Jordan to be effective, well-trained and skilled personnel are needed. In order to overcome the shortage of skilled personnel in the field of budgeting and

accounting and to accelerate the application of a programme and performance budgeting system and other budgetary reforms, training of the budget officials, government accountants and expert assistants is needed. Appropriate types of training can be designed as follows:

- a. The budgetary reform should begin with well- chosen and well- trained budget officials and accountants. Doing this would provide an excellent opportunity to lay the basis for a gradual, but comprehensive, overhauling of the entire budgetary process.
- b. Seminars and training courses should be given to government employees to acquaint them with the new concepts of the budget and accounting systems and to help them overcome their occasional defensive attitudes.
- c. A number of courses should be given in economics, accounting, public administration, public finance, development and planning management and system analysis as part of the basic education of the budget staff.
- d. Special courses in governmental accounting and budgeting should be designed at the university level in order to prepare qualified people in this field in the future.

e. Special arrangements should be made with the University of Jordan and the Institute of Public Administration for training government officials in general and budget staff and accountants in particular.

The progress in adopting these concepts in Jordan or in any developing country would depend upon the country's ability to adjust rapidly to the desired practices and upon the support of governmental top-level officials.

Having made all these recommendations, the author must add that whether or not such suggestions will be useful is a matter for future empirical research and represents an open invitation to future researchers to investigate.

13.4 AREAS FOR FUTURE RESEARCH

Results from this piece of work suggest the need for further research. The following are possible areas for research in the future:

- (i) There is the problem of measuring the impact of social pressure on the work of national auditors and their independence. Such a research is very much needed and could have some significant implications for the national accounting profession.
- (ii) There is a need for further accounting research dealing with existing accounting principles and methods of assets and income evaluation to determine

their suitability to the national business environment.

(iii) The effectiveness of the accounting and economic methods and techniques used in project appraisal. Comparison of the actual results of operations with the planned data may provide evidence as to the validity of the appraising techniques and to the quality of the decisions used for adoption and implementation of projects.

(v) Another type of research effort would be to extend the number of participants in the questionnaire surveys in Chapters 9 and 10 to investigate the issues in detail.

(vi) Other areas of possible research include: (1) the role of accounting in the economic development of Jordan, (2) an evaluation of the implementation of the international accounting standards in Jordan, and (3) a study on the feasibility of adopting uniform accounting systems for the major Jordanian industries.

The above recommended research projects for further investigations of national accounting and reporting practices are not exhaustive, but are indicative of the possible research topics needed in the study of accounting in Jordan.

APPENDICES

APPENDIX 5.A

BACHELOR IN ACCOUNTING- YARMOUK UNIVERSITY, JORDAN

<u>Subject</u>	<u>Hours/ Week</u>
Completion of University requirements	
Arabic	3
Military Science	3
Computer Science	3
Human and Social Sciences	3
Free Elective	6

	18
Completion of the requirements of the faculty of Economics and Administrative Science	
Management	6
Economics	6
Maths	3
Statistics	3
Computer and Information Science	3
English (Communication Skills)	3

	24
Completion of the Department of Accounting requirements of eighty semester hours divided as follows	
Administrative Science Courses	3
Research Methods	3
Marketing	3
Quantitative Analysis	3
Principles and Accounting I and II	3
Principles of Public Finance	3
Organisational Behaviour	3
Buying and Warehouse Management	3

Appendix 5.A (Cont.)

System Analysis	3
Personnel Management	3
Public Administration	3
Introduction to Finance	3

	36
Accounting Requirements	
Partnership Accounting	3
Banking Accounting	3
Specialized Financial Accounting	3
Tax Accounting	3
Managerial Accounting	3
Advanced Managerial Accounting	3
Cost Accounting	3
Auditing	3
Advanced Cost Accounting	3
Seminar and Research	3
Governmental Accounting	3
Accounting Electives	12

	45

	123
	=====

Source: Yarmouk University Prospectus (1985/ 86).

APPENDIX 9.A

QUESTIONNAIRE (MODEL A)

ENTERPRISE VIEW

Model A

NO. : _____

The University of Hull, United Kingdom
And
The Islamic University of Gaza, Gaza Strip

A Doctoral Research Questionnaire
on
EVOLUTION OF ACCOUNTING PRACTICES IN JORDAN

(This Research is Part of the Whole Research on the
Subject of *Evolution of Accounting in Developing Countries:*
The Study of Jordan)

By: Salem A. Helles

Phd Student of Dept. of Accounting,
The University of Hull, U.K.,
and Lecturer at Dept. of Accounting,
The Islamic University of Gaza, Gaza strip

1990

Islamic University Of Gaza

BOX 108
Gaza Strip
051)63554

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



الجامعة الإسلامية - غزة

قطاع غزة - غزة

٠٥١/٦٣٥٥٤ ١٠٨

20 July 1990

الرقم:

التاريخ: ١٩٩٠/٧/٢٠

**The Accounting Practitioner/
Accounting Educator/
Financial Manager/ Responsible Officer,
of the Respondent in Jordan.**

**Re: Research in Accounting on Evolution of
Accounting Practices in Jordan**

Dear Sir,

I am a lecturer at the Islamic University of Gaza, and currently a doctoral programme researcher at the University of Hull, Dept. of Accounting. In conducting scientific research in accounting for my Phd thesis, on the topic of "Evolution of Accounting in Developing Countries: The Study Of Jordan", I am asking for your assistance, as a selected respondent, in providing data or information on accounting practices in Jordan as requested in the questionnaire to be handed over to you by the researcher.

Because of your background, experience, and training, your perceptions regarding accounting practices in Jordan will be of particular value. Your response to the questions contained in the accompanying survey instrument will contribute to possible improvement in the accounting practices in the country.

All data and information collected will be analysed for scientific purposes and treated with the strictest confidentiality. Your support and help in supplying timely information would be greatly appreciated. A summary of my research results will be made available upon request.

Following this letter are recommendations from Dr. M. El-Jafari, Acting Dean for the faculty of Economics and Administrative Sciences, Islamic Univ. of Gaza and from Professor R. J. Briston, Head of Dept. of Accounting, Univ. of Hull, as my supervisor.

Thank you very much for your assistance and kind cooperation,

Yours faithfully,

**Salem A. Helles
Phd Student at the University of Hull
and Lecturer at the Islamic University of Gaza.**

The Islamic University Of Gaza
P.O. BOX 108
Gaza Strip
Tel: (051) 83554

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



الجامعة الإسلامية - غزة
قطاع غزة - غزة
١٠٨ ٠٥١/٦٣٥٥٤

الرقم: _____
التاريخ: _____

الرقم: _____
التاريخ: ١٩٩٠/٨/٧

الى من يهمه الامر

تشهد كلية التجارة في الجامعة الاسلامية بغزة بأن السيد/ سالم عبدالله حلس قد عمل بها معيدا في قسم المحاسبة خلال الفترة ١٩٨٥ - ١٩٨٧ وهو الان مبتعثا من قبل الجامعة للحصول على درجة الدكتوراه في المحاسبة من جامعة هل HULL في المملكة المتحدة .

وقد اختار الاستاذ حلس موضوع " تطور النظام المحاسبي في الدول النامية: تطبيقات على الاردن " ويهدف هذا البحث الى توفير الحلول المناسبة للمشكلات التي تواجه نظام التحليل المالي المحاسبي في القطاعين الخاص والعام .

ان اختيار الباحث لدراسة تطور النظام المحاسبي في الاردن ، يتطلب جمع الكثير من المعلومات والبيانات الاحصائية الخاصة بشركات القطاعين الخاص والعام ، لذا فان تسهيل مهمة الباحث هو الدعم الذي تنتظره منكم الجامعة الاسلامية بغزة حتى تتمكن من توفير الكوادر العلمية من اجل اداء رسالتها تجاه بلادنا في ظل هذه الظروف الصعبة .

شكرا لكم على تعاونكم ، والله ولي التوفيق ،،،

القائم بأعمال عميد كلية التجارة

د. محمود الجفري



The University of Hull

Department of Accounting
Hull, HU6 7RX

Telephone 0482 466221
Telex 592530 UNIHUL G



Head of Department
Richard J. Briston
Leson Impey Professor of Accounting

16 July 1990

TO WHOM IT MAY CONCERN:

Mr. Salem Abdalla HELLES

Mr. Helles is a registered PhD student in Accounting, studying the topic of Evolution of Accounting in Developing Countries: The Study of Jordan.

In order to continue his research, he has compiled a questionnaire and it would be greatly appreciated if you could assist him by completing this questionnaire while he is back in Jordan undertaking further research for his thesis.

A handwritten signature in cursive script that reads 'R.J. Briston'. A horizontal line is drawn underneath the signature.

Professor R.J. Briston

INSTRUCTIONS FOR COMPLETING THE QUESTIONNAIRE

- 1) This questionnaire will be distributed to industrial shareholding companies quoted in Amman Financial Market (AFM). As a chief accountant or financial manager in the company, your opinion is needed as a preliminary step toward appraising accounting practices in Jordan.
- 2) The questionnaire is designed so that most of the questions may be answered by circling the appropriate answer. Certain questions ask for further information which it is thought you will have readily available. Open-ended questions are included to allow you to express your personal opinion in more detail. ~
- 3) Some of the questions are designed to be answered on the scale as follows:

Strongly Disagree	Undecided	Strongly Agree				
1	2	3	4	5	6	7

In answering these questions, please circle the number which most closely indicates your opinion.
- 4) If you require further information in relation to the method and manner in which this questionnaire should be completed, or indeed, to the research project in general, please contact:

Salem A. Helles
The Islamic University of Gaza
Liaison Office, P.O.Box 447
AL- JBAIHA, Amman, Jordan.
Tel. 846203
- 5) It would be most helpful if you would return your completed questionnaire to **Mr. Helles** at the address at paragraph (4) as soon as possible. A stamped addressed envelope is enclosed for the purpose.
- 6) There is no right or wrong answer, so if you are unsure how to answer a particular question, please leave it, and go on to the next.
- 7) It will greatly assist my work, in interpreting your answers to the questionnaire, if you could enclose a copy of your company's latest published accounts when returning the completed questionnaire.

Thank you very much for your assistance and kind cooperation.

Model A

TABLE OF CONTENTS

Part I:

COMPANY AND RESPONDENT INFORMATION.

- (A) Information about the Respondent.
- (B) Information about the Company.

Part II:

- (A) Information About the Accounting System and
Financial Reporting of the Company you Work for.
- (B) Information About Methods and Rules of
Preparation of Financial Reporting of the Company
you Work for.
- (C) Other Variables.

Part III:

ACCOUNTING INFORMATION ABOUT THE COUNTRY AS WHOLE

- (A) Accounting Image and Importance of Financial
Corporate Disclosure.
- (B) Accounting Problems and Proposed Recommendations

PART I: COMPANY AND RESPONDENT INFORMATION

Please circle the response that most closely corresponds to your evaluation of the item in the question.

(A) Information about the Respondent.

1) The highest level of formal education you have completed (please choose one only)

- a- Secondary school
- b- A baccalaureate degree (two years after secondary school)
- c- Bachelor degree majoring in _____
- d- Master degree majoring in _____
- e- Doctoral degree majoring in _____
- f- Other (Please specify) _____

2) The country from which your most recent degree was obtained

- a- Jordan
- b- Another Arab country
- c- U.K. or the USA
- d- Other (Please specify) _____

3) Years of experience in accounting and auditing.

- a- Less than 5
- b- From 5 to 10
- c- Greater than 10

4) Are you a member of an accounting society?

- a- Yes
 - b- No.
- If Yes, what is the name of the accounting society?
- _____
-

(B) Information about the Company

5) Name of Company _____

6) When was the Company you work for, established ?
In 19 ____.

7) Sales volume (turn-over) in Jordan Dinar 000,000

- a- Less than 5
- b- From 5 to less than 15
- c- Over 15

Part II:

(A) Information About the Accounting System and Financial Reporting of the Company you Work for.

8) Accounting systems applied to produce financial reporting tend to adopt (Please choose one only)

- a- Mainly American systems
- b- Mainly British systems
- c- Mainly International Accounting Standards (IAS)
- e- Others (Please specify) _____

9) Books and accounting records included in the system.

- a- General Journal
- b- General Ledger
- c- Inventory Record
- d- Subsidiary Journal
- e- Subsidiary Ledgers
- f- Other books (Please specify) _____

10) Types of financial Statements:

- a- Income Statement (Profit and Loss Account)
- b- Statement of Retained Earning
- c- Financial Position Statement (Balance Sheet)
- d- Cash Flow Statement (Source and Application of Funds Statement)
- e- Others (Please specify) _____

11) Users of financial reporting (Please rank the following users according to their importance)

- () Tax authorities
- () Company's management
- () Shareholders and other potential investors
- () Banks and other fund- providing institutions
- () Others (Please specify) _____

12) Have there been any major changes in the accounting system during the last five years?

- a- Yes
- b- No. (If so, go to question 14)

13) What kind of changes occurred, and why? (Please specify) _____

14) Do you think that the Company you work for helps the Jordanian economy?

a- Yes

b- No.

If the answer is Yes; Please explain how?

15) Does the company you work for employ a special accounting system that is different from what is commonly used in Jordan?

a- Yes

b- No.

16) If your answer to the above question (15) is Yes; Please give some details of the employed accounting policies.

17) Does the accounting system that your company uses conflict with that commonly used in Jordan?

a- Yes

b- No

If Yes; Please explain in detail.

(B) Information About Methods and Rules of Preparation of Financial Reporting of the Company you Work for.

18) Rules

a- Cash base

b- Accrual method

c- Mix of (a) + (b)

19) Criteria for Revenue and Capital Expenditure Classification

a- Productive life

b- Amount of expenditure

c- (a) + (b)

d- Other (Please specify) _____

20) Base of inventory evaluation

- a- Market price
- b- Cost price
- c- Lower of cost or market value

21) Inventory cost method

- a- F.I.F.O.
- b- L.I.F.O.
- c- Simple average
- d- Weighted average
- e- Other (Please specify) _____

22) Depreciation of fixed assets

- a- Straight line method
- b- Decreasing balance
- c- Percentage of use
- d- Others (Please specify) _____

23) Base for valuation of short- term investments

- a- At cost price
- b- At lower of cost or market price
- c- At market price
- d- Other (Please specify) _____

24) Method of classification of fixed assets and accumulated depreciation

- a- Fixed assets - accumulated depreciation
- b- fixed assets at book value
- c- Fixed assets on assets side and accumulated depreciation on liabilities side
- d- Other (Please specify) _____

25) Treatment of long- term loans

- a- At face value - discount
- b- At face value + dividend + interest rate
- c- Other (Please specify) _____

26) Classification of long- term investment between foreign and home- based investment

- a- Yes
- b- No.

27) Classification of purchases between purchased for sale and purchased for use

- a- Yes
- b- No.

28) Are you aware of needs of national accounting?

a- Yes

b- No.

29) Does the company you work for prepare any accounting report for national accounting purposes?

a- Yes

b- No.

30) Please specify what reports the company prepares

31) Disclosure of inventory methods and depreciation methods

a- Yes

b- No.

32) Disclosure of imported raw materials and finished goods

a- Yes

b- No.

33) Disclosure of transfers of money overseas

a- Yes

b- No.

34) Disclosure of extra- ordinary items

a- Within operating revenue and expenses

b- In a separate section

c- Other (Please specify) _____

35) Disclosure of state subsidies

a- Yes

b- No.

(C) Other Variables

36) Are you aware of the impact of change in the purchasing power of money?

a- Yes

b - No.

37) The rate of exchange for converting foreign currency into Jordan Dinar (JD)

a- Average of the period for income statement items and balance sheet

b- Average of the period for income statement items and end of the year for balance sheet items

c- End of the year rate for both statements

d- According to Central Bank of Jordan

e- Other (Please specify) _____

38) Types of external audit you use

- a- Financial and compliance (Statutory Audit)
- b- Value for money audit (Performance Audit)
- c- Others (Please specify) _____

39) Is there a section or department specializing in internal audit?

- a- Yes
- b- No. (If so, skip question 40)

40) Types of internal audit you use

- a- Financial and compliance (Statutory Audit)
- b- Value for money audit (Performance Audit)
- c- Others (Please specify) _____

41) Is budgeting used for the purposes of planning and control?

- a- Yes
- b- No.

42) If Yes, Which kind of budgeting do you use ?

- a- Short- term
- b- Long- term
- c- Others (Please specify) _____

43) Do you use any statistical studies in preparing the budget?

- a- Yes
- b- No.

44) Do you use Standard cost?

- a- Yes
- b- No.

PART III: ACCOUNTING INFORMATION ABOUT THE COUNTRY AS A WHOLE

(A) *Accounting Image and Importance of Financial Corporate Disclosure.*

45) Do you think that there are Generally Accepted Accounting Principles (GAAP) in Jordan?

- a- Yes (If so, go to question 49)
- b- No
- c- To some extent

46) If your answer to the above question (45) is No, In your opinion, why are such accounting principles lacking?

47) Do you think there is a need for such accounting principles in Jordan?

a- Yes

a- No

48) If your answer to the above question (47) is Yes, In your opinion which organisation should take the responsibility for setting General Accepted Accounting Principles (GAAP) in Jordan?

a- Accounting profession council

b- Jordanian Association of Certified Public Accountants (JACPA)

c- Government

d- Universities

e- Others (Please specify) _____

49) What is your opinion, regarding the role of the accounting profession in Jordan in establishing effective accounting practices needed to improve accounting practices?

a- Accounting profession does an excellent job

b- Accounting profession does a good job

c- Accounting profession does a fair job

d- Accounting profession does a poor job

e- No opinion

50) Based on your own knowledge, how effective do you think auditors are in attesting the fairness of the company's financial statements?

a- Auditors do an excellent job

b- Auditors do a good job

c- Auditors do a fair job

d- Auditors do a poor job

e- No opinion.

51) What is your evaluation of the Auditors' report?

a- Very important

b- Important

c- Moderately important

d- Slightly important

e- Unimportant

52) What is your assessment of qualifications in the Auditors' report?

a- Very important

b- Important

c- Moderately important

d- Slightly important

e- Unimportant

53) How important do you think it is to provide current value accounting information in the annual financial reports?

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

54) Do you consider that accounting information currently disclosed by Jordanian companies is sufficient and can meet investors needs?

- a- Yes
- b- No.

55) If your answer to question 54 is No, what accounting information do you consider essential for investors, which the companies do not disclose? (Please specify)

56) Do you consider that accounting information currently disclosed by Jordanian companies is sufficient and can meet government needs in planning and control?

- a- Yes
- b- No.

57) If your answer to question 56 is No, what accounting information do you consider essential for government, which the companies do not disclose? (Please specify)

58) With respect to the suitability of the existing accounting principles and auditing procedures, please indicate whether you agree with the following statements:

A- The existing accounting principles and auditing procedures, although derived from the practices of the USA and U.K., are suitable to the local environment

- | | | |
|-----------------------------|-----------|-----------------------------|
| Strongly Disagree | Undecided | Strongly Agree |
| 1 2 3 | 4 | 5 6 7 |

62) In order to ensure the availability of financial information required to meet the users' needs, what is your assessment of the following suggestions for improving financial reporting?

A- Disclosure of financial information on a regular basis (i.e. half yearly or quarterly)

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

B- Increased information disclosure through the financial reports currently in practice

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

C- Amendment of Companies Act, particularly the articles which deal with disclosure, to increase the level of mandatory disclosure (to specify items of information to be obligatorily disclosed by companies)

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

D- Organisation of the auditing profession

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

E- Authorising the Amman Financial Market (AFM) to supervise the shareholding companies accounting reports

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

F- Strengthening the power of the Jordanian Accountants Association to regulate financial corporate disclosure without government intervention

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

G- What is the significance of the Jordanian Accountants Association joining the International Accounting Standards Committee (IASC) and other international and regional accounting associations?

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

H- Other Suggestions (Please specify)

(B) Accounting problems and proposed recommendations.

63) How do you evaluate the relative importance of each of the following primary accounting practice problems?

(i) Shortage of qualified accountants at all levels and in all areas of accounting

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(ii) Accounting information is either not available in the proper form, or is received by users too late to be useful.

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(iii) Accounting information is not utilized advantageously for internal management purposes

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(iv) Lack of adequate financial reporting and auditing standards

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(v) Lack of strong national associations of accountants

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(vi) Lack of adequate accounting in government agencies and government- owned businesses

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(vii) Low status of accountants and accounting profession compared with other professions

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(viii) The lack of legislation relating to accounting and auditing standards and procedures

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(ix) Accounting practices are viewed and utilized primarily as a means for helping companies evade taxes and manipulate financial reporting

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(x) Accounting practice tends to be procedures-oriented

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(xi) Accountants and accounting do little to improve government tax collection

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(xii) Some accountants try to apply concepts and techniques imported from developed countries, regardless of their suitability for the local conditions and immediate needs

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(xiii) Lack of adequate inflation accounting, currency translation techniques and financial disclosure requirements.

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(xiv) Conflict between national and international accounting firms

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(xv) The weakness and underdevelopment of the accounting curricula which are adopted in local colleges and universities in Jordan as well as the inadequacy of these curricula in relation to the development of accounting and auditing; and the lack of teaching staff sufficiently qualified to teach such subjects to the satisfaction of the local society.

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

64) Please specify in rank order what you consider to be the most important problems (from the above and others) affecting the current accounting practices in Jordan?

- (i) _____
- (ii) _____
- (iii) _____
- (iv) _____
- (v) _____

65) In your opinion, what should be done to help solve these problems and to improve the current accounting practices in Jordan?

66) Please indicate the extent to which you agree or disagree with the following recommendations which are proposed to advance accounting practices at the local level:

A- The establishment of an agency responsible for the development of accounting principles and auditing procedures. The members of the agency are to be chosen from members of the security exchange, accounting firms and academic institutions.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- Audit Committee. Its main purpose would be to recommend to shareholders the accounting firms that should be considered for the audit job, to intervene in any dispute between the auditor and management, and to be responsible for the preparation of the annual report. The members of the committee are to be selected from the security exchange, the accounting profession and a member of the board of directors in each company.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

C- Providing Laws which can eliminate manipulation in financial reporting and prevent insider dealing.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

67) Please specify, in rank order, what you consider to be the measures most needed (from the above and others) to advance accounting practice in Jordan. Please specify in detail if you have other suggestions:

- (A) _____
- (B) _____
- (C) _____

68) In your view, have Private Businesses contributed to the accounting profession in terms of:

A- providing adequate funds for research?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- providing adequate funds for research and training?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

C- supporting effective accounting legislation?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

69) In your view, have the Academic Institutions in Jordan contributed to the accounting profession in terms of:

A- providing effective training for personnel?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- providing recommendations and advice on how to develop and advance accounting practices?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

70) In your view, has the Jordanian Government contributed to the accounting profession in terms of:

A- providing effective accounting legislation?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- providing adequate funds for research and training?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

C- responding positively to the profession's demands to improve accounting practices?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

71) In your opinion, has the accounting profession been active in terms of:

A- studying and providing solutions to the problems facing accounting firms?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- developing a code of ethics?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

C- developing accounting principles that are suitable to Jordan?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

D- developing effective auditing procedures?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

E- conducting effective research programmes in accounting?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

72) With respect to the developing accounting profession and its relation with the economic development in Jordan; please indicate whether you agree with the following statements:

A- One of the obstacles to economic development in Jordan is the failure and inability of the accounting profession to provide government agencies with relevant information for planning. This is due to the lack of the professional efficiency.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- One of the obstacles to economic development in Jordan is the weakness in the accounting systems employed, since they derived from accounting systems applied in developed countries, regardless of the differences in circumstances, as well as the fluctuation in these systems and controlling standards due to the instability in the region and the government control of the profession.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

C- One of the obstacles to development of the accounting profession in Jordan is that most of its weaknesses are deeply-rooted in the nature of the Jordanian social environment.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

D- A comprehensive reform of curricula and educational techniques and training is needed, especially with respect to accounting and management; this is considered a major step towards the development of the accounting profession in Jordan.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

E- To develop professional rules relevant to Jordanian society, there is a need to establish a special professional body as well as to continue transferring modern professional rules issued by the international professional associations, International Federation of Accountants and International Accounting Standard Committee.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

F- It is necessary for the government to organise and improve the accounting profession, because any deficiency in it will be reflected in the Jordanian economy as a whole.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

73) In your opinion, do existing accounting practices need to be improved?

a- Yes

b- No.

If No, please do not answer question number (74)

74) Please indicate whether the establishment of each of the following items is essential to the improvement of accounting practices in Jordan?

	Strongly Disagree	1	2	3	Undecided	4	5	6	Strongly Agree	7
A- Active accounting organisation	1	2	3	4	5	6	7			
B- Accounting principles suitable to the local environment	1	2	3	4	5	6	7			
C- Official auditing pronouncements	1	2	3	4	5	6	7			
D- Code of professional conduct	1	2	3	4	5	6	7			
E- A test for certification	1	2	3	4	5	6	7			
F- Greater support from the government	1	2	3	4	5	6	7			
G- Support from the private sector	1	2	3	4	5	6	7			
H- Effective educational programmes	1	2	3	4	5	6	7			
I- Cooperation with international organisations (such as IASC)	1	2	3	4	5	6	7			
J- Postgraduate training of accountants	1	2	3	4	5	6	7			
K- Others (Please specify) _____	1	2	3	4	5	6	7			
	1	2	3	4	5	6	7			

75) Please specify in rank order what you consider to be the most important items (from the above and others) needed to advance accounting practices in Jordan.

- A. _____
- B. _____
- C. _____
- D. _____
- E. _____

76) Please indicate whether you agree that the following items have affected the development of accounting in Jordan in its present state:

	Strongly Disagree				Unde- cided			Strongly Agree
A. The rapid economic development process	1	2	3	4	5	6	7	
B. Education for local accountants	1	2	3	4	5	6	7	
C. Growth in private business enterprise	1	2	3	4	5	6	7	
D. Influence of foreign methods and practices	1	2	3	4	5	6	7	
E. Amman Financial Market's laws and regulations	1	2	3	4	5	6	7	
F. Cooperation with international organisations and international accounting firms	1	2	3	4	5	6	7	
G. Government laws and regulations	1	2	3	4	5	6	7	
H. Education for the public	1	2	3	4	5	6	7	
I. Others (Please specify) _____	1	2	3	4	5	6	7	
	1	2	3	4	5	6	7	

77) Please specify in rank order what you consider to be the most important items (from the above and others) that have affected the development of accounting practices in Jordan in their present form:

- A. _____
- B. _____
- C. _____
- D. _____
- E. _____

78) Do you agree, that the government must play a role in any attempt to improve accounting practices in Jordan?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

79) If you agree, how can the government help?

(Please rank the following items according to your preference with first preference numbered ONE)

- () By providing financial support only.
- () By providing effective accounting legislation only
- () By providing financial support and effective accounting legislation
- () By establishing a government agency responsible for advancing accounting practices.
- () By establishing a committee with members drawn from private business, government agencies, and the accounting profession, to advance accounting practices

80) If you do not agree, would the formation of an independent professional organisation with proper authority lead to improvement in the practices of accounting in the country?

a- Yes

b- No.

Please indicate why you feel this way.

81) Do you believe that all accountants working in accounting firms in Jordan should take qualifying examinations before obtaining a licensed position?

a- Yes

B- No.

If your answer is Yes, which organisation should be responsible for these examinations? (Please specify)

82) Would you like the profession in Jordan to adopt a code of ethics?

a- Yes

b- No.

If Yes, Please indicate whether the code should be:

A- Legally binding

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- Morally binding

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

83) In your view, an accountant violating the code of ethics should be punished by:

	Strongly Disagree			Undecided	Strongly Agree		
A. Losing his license	1	2	3	4	5	6	7
B. A fine	1	2	3	4	5	6	7
C. No punishment	1	2	3	4	5	6	7
D. Others (Please specify)	1	2	3	4	5	6	7

84) Would you be willing, if necessary, to complete another questionnaire or to grant an interview?

a- Yes

b- No.

If Yes, at what address may I write to you?

APPENDIX 9.B

LIST OF COMPANIES RESPONDING

No.	Name of Company	Establishment
1	Jordan Lime & Silicate Brick Industries Co.	1975
2	Jordan Spinning & Weaving Co.	1974
3	Intermediate Petro- chemical Industries	1980
4	Woollen Industries Co.	1961
5	National Steel Industry	1979
6	Arab Aluminium Industry Co.	1976
7	The Jordan Worsted Mills Co.	1962
8	Jordan Industrial Investments Corp.	1981
9	The Arab Potash Co.	1956
10	The Public Mining Co.	1973
11	Jordan Industries & Match (JIMCO)	1974
12	The Jordan Pipes Manufacturing Co.	1974
13	Jordan Tobacco & Cigarette Co	1931
14	Jordan Wood Industries (JWICO)	1975
15	The Industrial, Commercial & Agricultural Co.	1961
16	The Transjordan Minerals Research Co.	1948
17	The Arab Chemical Detergents Industries Co.	1975
18	Arab Paper Converting & Trading Co.	1978
19	Jordan Phosphate Mines Co.	1953

APPENDIX 10.A

QUESTIONNAIRE (MODEL B)

ACADEMIC, PROFESSIONAL AND OFFICIAL VIEWS

Model B

NO. : _____

The University of Hull, United Kingdom
And
The Islamic University of Gaza, Gaza Strip

A Doctoral Research Questionnaire
on
EVOLUTION OF ACCOUNTING PRACTICES IN JORDAN

(This Research is Part of the Whole Research on the
Subject of Evolution of Accounting in Developing
Countries The Study of Jordan)

By: Salem A. Helles

PhD Student of Dept. of Accounting,
The University of Hull, U.K.,
and Lecturer at Dept. of Accounting,
The Islamic University of Gaza, Gaza strip

1990

Islamic University Of Gaza
Box 108
Gaza Strip
051)63554



الجامعة الإسلامية - غزة
قطاع غزة - غزة
٠٥١/٦٣٥٥٤ ☎ ١٠٨ ✉

20 July 1990

الرقم:

التاريخ: ١٩٩٠/٧/٢٠

**The Accounting Practitioner,
Accounting Educator,
Financial Manager/ Responsible Officer,
of the Respondent in Jordan.**

**Re: Research in Accounting on Evolution of
Accounting Practices in Jordan**

Dear Sir,

I am a lecturer at the Islamic University of Gaza, and currently a doctoral programme researcher at the University of Hull, Dept. of Accounting. In conducting scientific research in accounting for my PhD thesis, on the topic of "Evolution of Accounting in Developing Countries: The Study Of Jordan", I am asking for your assistance, as a selected respondent, in providing data or information on accounting practices in Jordan as requested in the questionnaire to be handed over to you by the researcher.

Because of your background, experience, and training, your perceptions regarding accounting practices in Jordan are of particular value. Your response to the questions contained in the accompanying survey instrument will contribute to possible improvement in the accounting practices in the country.

All data and information collected will be analysed for scientific purposes and treated with the strictest confidentiality. Your support and help in supplying timely information would be greatly appreciated. A summary of my research results will be made available upon request.

Following this letter are recommendations from Dr. M. El-Jafari, Acting Dean for the faculty of Economics and Administrative Sciences, Islamic Univ. of Gaza and from Professor R. J. Briston, Head of Dept. of Accounting, Univ. of Hull, as my supervisor.

Thank you very much for your assistance and kind cooperation

Yours faithfully,

**Salem A. Helles
PhD Student at the University of Hull
and Lecturer at the Islamic University of Gaza.**

The Islamic University Of Gaza
Box 108
Gaza Strip
(051) 63554

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



الجامعة الإسلامية - غزة
قطاع غزة - غزة
١٠٨ ٥١/٦٣٥٥٤

الرقم:

التاريخ: ١٩٩٠/٨/٧ م

الى من يهمه الامر

تشهد كلية التجارة في الجامعة الاسلامية بغزة بأن السيد/ سالم عبدالله حلس قد عمل بها معيدا في قسم المحاسبة خلال الفترة ١٩٨٥ - ١٩٨٧ وهو الان مبتعثا من قبل الجامعة للحصول على درجة الدكتوراه في المحاسبة من جامعة هل HULL في المملكة المتحدة .

وقد اختار الاستاذ حلس موضوع " تطور النظام المحاسبي في الدول النامية: تطبيقات على الاردن " ويهدف هذا البحث الى توفير الحلول المناسبة للمشكلات التي تواجه نظام التحليل المالي المحاسبي في القطاعين الخاص والعام .

ان اختيار الباحث لدراسة تطور النظام المحاسبي في الاردن ، يتطلب جمع الكثير من المعلومات والبيانات الاحصائية الخاصة بشركات القطاعين الخاص والعام ، لذا فان تسهيل مهمة الباحث هو الدعم الذي تنتظره منكم الجامعة الاسلامية بغزة حتى تتمكن من توفير الكوادر العلمية من اجل اداء رسالتها تجاه بلادنا في ظل هذه الظروف الصعبة .

شكرا لكم على تعاونكم ، والله ولي التوفيق ،،،

القائم بأعمال عميد كلية التجارة

د. محمود الجفري





The University of Hull

Department of Accounting
Hull, HU6 7RX

Telephone 0482 466221
Telex 592530 UNIHUL G

of Department
and J. Briston
Hon Impey Professor of Accounting

16 July 1990

TO WHOM IT MAY CONCERN:

Mr. Salem Abdalla HELLES

Mr. Helles is a registered PhD student in Accounting, studying the topic of Evolution of Accounting in Developing Countries: The Study of Jordan.

In order to continue his research, he has compiled a questionnaire and it would be greatly appreciated if you could assist him by completing this questionnaire while he is back in Jordan undertaking further research for his thesis.

Professor R.J. Briston

INSTRUCTIONS FOR COMPLETING THE QUESTIONNAIRE

- 1) This questionnaire will be distributed to knowledgeable accountants and other experts in Jordan. As Accounting Educator, Accounting Practitioner, Government Accountant...etc., your opinion is needed as a preliminary step toward appraising accounting practices in Jordan.
- 2) The questionnaire is designed so that most of the questions may be answered by circling the appropriate answer. Certain questions ask for further information which it is thought you will have readily available. Open-ended questions are included to allow you to express your personal opinion in more detail.
- 3) Some of the questions are designed to be answered on the scale as follows:
Strongly Disagree Undecided Strongly Agree
1 2 3 4 5 6 7
In answering these questions, please circle the number which most closely indicates your opinion.
- 4) If you require further information in relation to the method and manner in which this questionnaire should be completed, or indeed, to the research project in general, please contact:

Salem A. Helles
The Islamic University of Gaza
Liaison Office, P.O.Box 447
AL- JBAIHA, Amman, Jordan.
Tel. 846203
- 5) It would be most helpful if you would return your completed questionnaire to **Mr. Helles** at the address at paragraph (4) as soon as possible. A stamped addressed envelope is enclosed for the purpose.
- 6) There is no right or wrong answer, so if you are unsure how to answer a particular question, please leave it, and go to the next.

Thank you very much for your assistance and kind cooperation.

Model B

TABLE OF CONTENTS

Part I:

Organisation and Respondent Information

Part II:

Accounting Information About the Country as a Whole

(A) Accounting Image and Importance of Financial
Corporate Disclosure

(B) Accounting Problems and Proposed Recommendations

Part III:

Unstructured Questions

PART I: ORGANISATION AND RESPONDENT INFORMATION

Please circle the response that most closely corresponds to your evaluation of the item in the question.

1) The highest level of formal education you have completed (please choose one only)

- a- Secondary school
- b- A baccalaureate degree (two years after secondary school)
- c- Bachelor degree majoring in _____
- d- Master degree majoring in _____
- e- Doctoral degree majoring in _____
- f- Other (Please specify) _____

2) The country from which your most recent degree was obtained.

- a- Jordan
- b- Another Arab country
- c- U.K. or the USA
- d- Other (Please specify) _____

3) Years of experience in accounting and auditing

- a- Less than 5
- b- From 5 to 10
- c- Greater than 10

4) Are you a member of an accounting society?

- a- Yes
 - b- No.
- If Yes, What is the name of the accounting society?
- _____
- _____

5) Name of organisation you work for -----

6) In what capacity do you use the financial statements?

- a- As a shareholder or prospective shareholder
- b- As a stockbroker
- c- As a business analyst/ a newspaper economic analyst
- d- As a government planner / officer
- e- Other (Please specify) _____

13) What is your opinion, regarding the role of the accounting profession in Jordan in establishing effective accounting practices needed to improve accounting practices?

- a- Accounting profession does an excellent job
- b- Accounting profession does a good job
- c- Accounting profession does a fair job
- d- Accounting profession does a poor job
- e- No opinion

14) Based on your own knowledge, how effective do you think auditors are in attesting the fairness of the company's financial statements?

- a- Auditors do an excellent job
- b- Auditors do a good job
- c- Auditors do a fair job
- d- Auditors do a poor job
- e- No opinion.

15) What is your evaluation of the Auditors' report?

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

16) What is your assessment of qualifications in the Auditors' report?

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

17) How important do you think it is to provide current value accounting information in the annual financial reports?

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

18) Do you consider that accounting information currently disclosed by Jordanian companies is sufficient and can meet investors needs?

- a- Yes
- b- No.

19) If your answer to question 18 is No, what accounting information do you consider essential for investors, which the companies do not disclose? (Please specify)

20) Do you consider that accounting information currently disclosed by Jordanian companies is sufficient and can meet government needs in planning and control?

a- Yes

b- No.

21) If your answer to question 20 is No, what accounting information do you consider essential for government, which the companies do not disclose? (Please specify)

22) With respect to the suitability of the existing accounting principles and auditing procedures, please indicate whether you agree with the following statements:

A- The existing accounting principles and auditing procedures, although derived from the practices of the USA and U.K, are suitable to the local environment

Strongly Disagree			Undecided	Strongly Agree		
1	2	3	4	5	6	7

B- The existing accounting principles and auditing procedures need to be modified to make them suitable and acceptable to the local environment.

Strongly Disagree			Undecided	Strongly Agree		
1	2	3	4	5	6	7

23) Do you consider that government legislation to organise the disclosure system in Jordan is necessary?

a- Yes

b- No

24) How significant is that role?

a- Very important

b- Important

c- Moderately important

d- Slightly important

e- Unimportant

25) In preparing and adopting financial reporting guide-lines to reform the corporate disclosure in Jordan, how significant is:

A- Statutory imposition of disclosure requirements (mandatory disclosure)?

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

B- The flow of information from companies to users to be determined by market forces (voluntary disclosure)?

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

C- Cooperation between government agencies through legislation and private accounting professional body recommendations (both A and B)?

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

26) In order to ensure the availability of financial information required to meet the users' needs, what is your assessment of the following suggestions for improving financial reporting?

A- Disclosure of financial information on a regular basis (i.e. half yearly or quarterly)

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

B- Increased information disclosure through the financial reports currently in practice

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

C- Amendment of Companies Act, particularly the articles which deal with disclosure, to increase the level of mandatory disclosure (to specify items of information to be obligatorily disclosed by companies)

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

D- Organisation of the auditing profession

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

E- Authorising the Amman Financial Market (AFM) to supervise the shareholding companies accounting reports

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

F- Strengthening the power of the Jordanian Accountants Association to regulate financial corporate disclosure without government intervention

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

G- What is the significance of the Jordanian Accountants Association joining the International Accounting Standards Committee (IASC) and other international and regional accounting associations?

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

H- Other Suggestions (Please specify)

(B) Accounting problems and proposed recommendations.

27) How do you evaluate the relative importance of each of the following primary accounting practice problems?

(i) Shortage of qualified accountants at all levels and in all areas of accounting

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(ii) Accounting information is either not available in the proper form, or is received by users too late to be useful.

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(iii) Accounting information is not utilized advantageously for internal management purposes

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(iv) Lack of adequate financial reporting and auditing standards

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(v) Lack of strong national associations of accountants

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(vi) Lack of adequate accounting in government agencies and government- owned businesses

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(vii) Low status of accountants and accounting profession compared with other professions

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(viii) The lack of legislation relating to accounting and auditing standards and procedures

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(ix) Accounting practices are viewed and utilized primarily as a means for helping companies evade taxes and manipulate financial reporting

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(x) Accounting practice tends to be procedures oriented

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(xi) Accountants and accounting do little to improve government tax collection

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(xii) Some accountants try to apply concepts and techniques imported from developed countries, regardless of their suitability for the local conditions and immediate needs

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(xiii) Lack of adequate inflation accounting, currency translation techniques and financial disclosure requirements.

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(xiv) Conflict between national and international accounting firms

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

(xv) The weakness and underdevelopment of the accounting curricula which are adopted in local colleges and universities in Jordan as well as the inadequacy of these curricula in relation to the development of accounting and auditing; and the lack of teaching staff sufficiently qualified to teach such subjects to the satisfaction of the local society.

- a- Very important
- b- Important
- c- Moderately important
- d- Slightly important
- e- Unimportant

28) Please specify in rank order what you consider to be the most important problems (from the above and others) affecting the current accounting practices in Jordan?

- (i) _____
- (ii) _____
- (iii) _____
- (iv) _____
- (v) _____

29) In your opinion, what should be done to help solve these problems and to improve the current accounting practices in Jordan?

30) Please indicate the extent to which you agree or disagree with the following recommendations which are proposed to advance accounting practices at the local level:

A- The establishment of an agency responsible for the development of accounting principles and procedures. The members of the agency are to be chosen from members of Amman Financial Market, accounting firms and academic institutions.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- **Audit Committee.** Its main purpose would be to recommend to shareholders the accounting firms that should be considered for the audit job, to intervene in any dispute between the auditor and management, and to be responsible for the preparation of the annual report. The members of the committee are to be selected from Amman Financial Market, the accounting profession and a member of the board of directors in each company.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

C- Providing Laws which can eliminate manipulation in financial reporting and prevent insider dealing.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

31) Please specify, in rank order, what you consider to be the measures most needed (from the above and others) to advance accounting practice in Jordan. Please specify in detail if you have other suggestions:

- (A) _____
 (B) _____
 (C) _____

32) In your view, have *Private Businesses* contributed to the accounting profession in terms of:

A- providing adequate funds for research?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- providing adequate funds for research and training?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

C- supporting effective accounting legislation?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

33) In your view, have the *Academic Institutions* in Jordan contributed to the accounting profession in terms of:

A- providing effective training for personnel?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- providing recommendations and advice on how to develop and advance accounting practices?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

34) In your view, has the *Jordanian Government* contributed to the accounting profession in terms of:

A- providing effective accounting legislation?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- providing adequate funds for research and training?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

C- responding positively to the profession's demands to improve accounting practices?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

35) In your opinion, has the accounting profession been active in terms of:

A- studying and providing solutions to the problems facing accounting firms?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- developing a code of ethics?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

C- developing accounting principles that are suitable to Jordan?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

D- developing effective auditing procedures?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

E- conducting effective research programmes in accounting?

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

36) With respect to the developing accounting profession and its relation with the economic development in Jordan; please indicate whether you agree with the following statements:

A- One of the obstacles to economic development in Jordan is the failure and inability of the accounting profession to provide government agencies with relevant information for planning. This is due to the lack of the professional efficiency.

Strongly Disagree	Undecided	Strongly Agree
1 2 3	4	5 6 7

B- One of the obstacles to economic development in Jordan is the weakness in the accounting systems employed, since they derived from accounting systems applied in developed countries, regardless of the differences in circumstances, as well as the fluctuation in these systems and controlling standards due to the instability in the region and the government control of the profession.

Strongly Disagree			Undecided	Strongly Agree		
1	2	3	4	5	6	7

C- One of the obstacles to development of the accounting profession in Jordan is that most of its weaknesses are deeply- rooted in the nature of the Jordanian social environment.

Strongly Disagree			Undecided	Strongly Agree		
1	2	3	4	5	6	7

D- A comprehensive reform of curricula and educational techniques and training is needed, especially with respect to accounting and management; this is considered a major step towards the development of the accounting profession in Jordan.

Strongly Disagree			Undecided	Strongly Agree		
1	2	3	4	5	6	7

E- To develop professional rules relevant to Jordanian society, there is a need to establish a special professional body as well as to continue transferring modern professional rules issued by the international professional associations, International Federation of Accountants and International Accounting Standard Committee.

Strongly Disagree			Undecided	Strongly Agree		
1	2	3	4	5	6	7

F- It is necessary for the government to organise and improve the accounting profession, because any deficiency in it will be reflected in the Jordanian economy as a whole.

Strongly Disagree			Undecided	Strongly Agree		
1	2	3	4	5	6	7

37) In your opinion, do existing accounting practices need to be improved?

a- Yes

b- No.

If No, please do not answer question number (38)

38) Please indicate whether the establishment of each of the following items is essential to the improvement of accounting practices in Jordan?

	Strongly Disagree		Undecided		Strongly Agree		
	1	2	3	4	5	6	7
A- Active accounting organisation	1	2	3	4	5	6	7
B- Accounting principles suitable to the local environment	1	2	3	4	5	6	7
C- Official auditing pronouncements	1	2	3	4	5	6	7
D- Code of professional conduct	1	2	3	4	5	6	7
E- A test for certification	1	2	3	4	5	6	7
F- Greater support from the government	1	2	3	4	5	6	7
G- Support from the private sector	1	2	3	4	5	6	7
H- Effective educational programmes	1	2	3	4	5	6	7
I- Cooperation with international organisations (such as IASC)	1	2	3	4	5	6	7
J- Postgraduate training of accountants	1	2	3	4	5	6	7
K- Others (Please specify) _____	1	2	3	4	5	6	7
_____	1	2	3	4	5	6	7

39) Please specify in rank order what you consider to be the most important items (from the above and others) needed to advance accounting practices in Jordan.

- A. _____
- B. _____
- C. _____
- D. _____
- E. _____

40) Please indicate whether you agree that the following items have affected the development of accounting in Jordan in its present state:

	Strongly Disagree		Undecided		Strongly Agree		
	1	2	3	4	5	6	7
A. The rapid economic development process	1	2	3	4	5	6	7
B. Education for local accountants	1	2	3	4	5	6	7
C. Growth in private business enterprise	1	2	3	4	5	6	7
D. Influence of foreign methods and practices	1	2	3	4	5	6	7
E. Amman Financial Market's laws and regulations	1	2	3	4	5	6	7
F. Cooperation with international organisations and international accounting firms	1	2	3	4	5	6	7
G. Government laws and regulations	1	2	3	4	5	6	7
H. Education for the public	1	2	3	4	5	6	7
I. Others (Please specify) _____	1	2	3	4	5	6	7
_____	1	2	3	4	5	6	7

41) Please specify in rank order what you consider to be the most important items (from the above and others) that have affected the development of accounting practices in Jordan in their present form:

- A. _____
- B. _____
- C. _____
- D. _____
- E. _____

42) Do you agree, that the government must play a role in any attempt to improve accounting practices in Jordan?

Strongly Disagree Undecided Strongly Agree
 1 2 3 4 5 6 7

43) If you agree, how can the government help?

(Please rank the following items according to your preference with first preference numbered ONE)

- () By providing financial support only.
- () By providing effective accounting legislation only
- () By providing financial support and effective accounting legislation
- () By establishing a government agency responsible for advancing accounting practices.
- () By establishing a committee with members drawn from private business, government agencies, and the accounting profession, to advance accounting practices

44) If you do not agree, would the formation of an independent professional organisation with proper authority lead to improvement in the practices of accounting in the country?

a- Yes

b- No.

Please indicate why you feel this way.

45) Do you believe that all accountants working in accounting firms in Jordan should take qualifying examinations before obtaining a licensed position?

a- Yes

B- No.

If your answer is Yes, which organisation should be responsible for these examinations? (Please specify)

46) Would you like the profession in Jordan to adopt a code of ethics?

a- Yes

b- No.

If Yes, Please indicate whether the code should be:

A- Legally binding

Strongly Disagree	Undecided			Strongly Agree		
1 2 3	4			5 6 7		

B- Morally binding

Strongly Disagree	Undecided			Strongly Agree		
1 2 3	4			5 6 7		

47) In your view, an accountant violating the code of ethics should be punished by:

	Strongly Disagree			Undecided	Strongly Agree		
A. Losing his license	1	2	3	4	5	6	7
B. A fine	1	2	3	4	5	6	7
C. No punishment	1	2	3	4	5	6	7
D. Others (Please specify)	1	2	3	4	5	6	7
	1	2	3	4	5	6	7

48) Would you be willing, if necessary, to complete another questionnaire or to grant an interview?

a- Yes

b- No.

If Yes, at what address may I write to you?

PART III UNSTRUCTURED QUESTIONS

To answer the following questions please use the available blank sheets. Please write down whatever information or opinion you have about the subject matter asked in each question. There is no right or wrong answer for each question.

- 1) What is your opinion of this research topic and the Questionnaire?
- 2) Please indicate any other item(s) of information which you think is important but not included in this questionnaire. What is (are) the reason(s) of inclusion of the item(s)?
- 3) What is your opinion on accounting education in Jordan (its system, curriculum, and syllabi)?

What about *Continuing professional education* for accountants in Jordan?

- 4) What is your opinion of professional accounting organisations?
- 5) Do you have any idea about the accounting standard setting process in Jordan? If you do, what is your opinion and your recommendations?
- 6) If we compare accounting practices in Jordan with International Accounting Standards (IAS), do you think there are important differences? What do you think about harmonisation of accounting standards internationally?

7) What is your opinion of:

- (A) The accounting system in Jordan.
- (B) The code of ethics of accountant in Jordan.

APPENDIX 10.B

LIST OF INDIVIDUALS INTERVIEWED

NO.	NAME	POSITION
1	Dr. Hashim Dabbas	President of Jordan Audit Bureau and President of Accounting Profession Council
2	Mr. Mohammed Salhab	Amman Financial Market, Director of Brokers of Fairs and Department Floor Operation
3	Mr. Nader Azar	Officer Amman Financial Market
4	Dr. Abdelhamed El-Hairy	Ministry of Finance, Director of National Accounts
5	Dr. Y. A. M. El-Issa	Mut'h University, Department of Accounting and Management
6	Dr. Yousif Saadah	The University of Jordan, Head of Accounting Department
7	Mr. Tawfiq Ayoub	Director in Talal Abu-Ghazaleh Co.

APPENDIX 11.A

MAJOR PROBLEMS OF JORDANIAN ACCOUNTING PRACTICE

(I) Shortage of qualified accountants at all levels and in all areas of accounting.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	14	73.7	24	60.0	38	64.4
Important	5	26.3	12	30.0	17	28.8
Moderately Important	0	0.0	3	7.5	3	5.1
Slightly Important	0	0.0	0	0.0	0	0.0
Unimportant	0	0.0	1	2.5	1	1.7
Total	19	100	40	100	59	100
Rating	VI		VI		VI	
Median	1		1		1	

Where VI: Very Important, I: Important

(II) Accounting information is either not available in the proper form, or is received by users too late to be useful.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	10	55.6	18	46.2	28	49.1
Important	8	44.4	19	48.7	27	47.4
Moderately Important	0	0.0	2	5.1	2	3.5
Slightly Important	0	0.0	0	0.0	0	0.0
Unimportant	0	0.0	0	0.0	0	0.0
Total	18	100	39	100	57	100
Rating	VI		I		VI	
Median	1		2		1.5	

(III) Accounting information is not utilized advantageously for internal management purposes.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	11	61.1	17	44.7	28	50.0
Important	6	33.3	19	50.0	25	44.6
Moderately Important	1	5.6	2	5.3	3	5.4
Slightly Important	0	0.0	0	0.0	0	0.0
Unimportant	0	0.0	0	0.0	0	0.0
Total	18	100	38	100	56	100
Rating Median	VI 1		I 2		VI 1.5	

Where VI: Very Important, I: Important

(IV) Lack of adequate financial reporting and auditing standards.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	11	61.1	16	42.1	27	48.2
Important	5	33.3	15	39.5	21	37.5
Moderately Important	1	5.6	6	15.8	7	12.5
Slightly Important	0	0.0	1	2.6	1	1.8
Unimportant	0	0.0	0	0.0	0	0.0
Total	18	100	38	100	56	100
Rating Median	VI 1		I 2		VI 1.5	

(V) Lack of strong national associations of accountants.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	10	58.8	15	39.5	25	45.5
Important	4	33.5	19	50.0	23	41.8
Moderately Important	2	11.8	3	7.9	5	9.1
Slightly Important	1	5.9	1	2.6	2	3.6
Unimportant	0	0.0	0	0.0	0	0.0
Total	17	100	38	100	55	100
Rating	VI		I		VI	
Median	1		2		1.5	

Where VI: Very Important, I: Important

(VI) Lack of adequate accounting in government agencies and government-owned businesses.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	11	61.1	19	50.0	30	53.6
Important	6	33.3	13	34.2	19	33.9
Moderately Important	1	5.6	5	13.2	6	10.7
Slightly Important	0	0.0	0	0.0	0	0.0
Unimportant	0	0.0	1	2.6	1	1.8
Total	18	100	38	100	56	100
Rating	VI		VI		VI	
Median	1		1.5		1.25	

(VII) Low status of accountants and accounting profession compared with other professions.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	11	57.9	18	47.4	29	50.9
Important	8	42.1	11	28.9	27	33.3
Moderately Important	0	0.0	9	23.7	2	15.8
Slightly Important	0	0.0	0	0.0	0	0.0
Unimportant	0	0.0	0	0.0	0	0.0
Total	19	100	38	100	57	100
Rating Median	VI 1		I 2		VI 1.5	

Where VI: Very Important, I: Important

(VIII) The lack of legislation relating to accounting and auditing standards and procedures.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	9	47.3	16	42.1	25	43.9
Important	8	42.1	14	36.8	22	38.6
Moderately Important	1	5.3	8	21.1	9	15.8
Slightly Important	1	5.3	0	0.0	1	1.7
Unimportant	0	0.0	0	0.0	0	0.0
Total	19	100	38	100	57	100
Rating Median	I 2		I 2		I 2	

(IX) Accounting practices are viewed and utilized primarily as a means for helping companies evade taxes and manipulate financial reporting.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	8	44.4	17	43.6	25	43.9
Important	2	11.1	12	30.8	14	24.5
Moderately Important	2	11.1	9	23.1	11	19.3
Slightly Important	3	16.7	1	2.6	4	7.0
Unimportant	3	16.7	0	0.0	3	5.3
Total	18	100	39	100	57	100
Rating	I		I		I	
Median	2		2		2	

Where I: Important

(X) Accounting practice tends to be procedures-oriented.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	5	29.4	5	15.2	10	20.0
Important	4	23.5	18	54.6	2	44.0
Moderately Important	6	35.3	8	24.2	14	28.0
Slightly Important	2	11.8	1	3.0	3	6.0
Unimportant	0	0.0	1	3.0	1	2.0
Total	17	100	33	100	50	100
Rating	I		I		I	
Median	2		2		2	

(XI) Accountants and accounting do little to improve government tax collection.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	7	38.9	9	25.7	16	30.2
Important	5	27.8	9	25.7	14	26.4
Moderately Important	5	27.8	13	37.1	18	34.0
Slightly Important	1	5.5	3	8.6	4	7.5
Unimportant	0	0.0	1	2.9	1	1.9
Total	18	100	35	100	53	100
Rating Median	I 2		I 2		I 2	

Where I: Important, MI: Moderately Important

(XII) Some accountants try to apply concepts and techniques imported from developed countries, regardless of their suitability for the local conditions and immediate needs.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	1	5.3	4	10.5	5	8.8
Important	4	21.0	19	50.0	23	40.3
Moderately Important	9	47.4	8	21.1	17	29.8
Slightly Important	3	15.8	4	10.5	7	12.3
Unimportant	2	10.5	3	7.9	5	8.8
Total	19	100	38	100	57	100
Rating Median	MI 3		I 2		I 2.5	

(XIII) Lack of adequate inflation accounting, currency translation techniques and financial disclosure requirements.

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	10	58.8	11	31.4	21	40.4
Important	1	5.9	12	34.3	13	25.0
Moderately Important	5	29.4	8	22.9	13	25.0
Slightly Important	1	5.9	2	5.7	3	5.8
Unimportant	0	0.0	2	5.7	2	3.8
Total	17	100	35	100	52	100
Rating Median	VI 1		I 2		VI 1.5	

Where VI: Very Important, I: Important

(XIV) Conflict between national and international accounting firms

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	8	42.1	5	13.9	13	23.6
Important	4	21.1	12	33.3	16	29.1
Moderately Important	4	21.1	10	27.8	14	25.5
Slightly Important	2	10.5	7	19.4	9	16.4
Unimportant	1	5.2	2	5.5	3	5.4
Total	19	100	36	100	55	100
Rating Median	I 2		MI 3		I 2.5	

Where MI: Moderately Important

(XV) *The weakness and underdevelopment of the accounting curricula which are adopted in local colleges and universities in Jordan and the lack of teaching staff sufficiently qualified to teach these subjects.*

	Internal Accountants		Accounting Experts		Total	
	No.	%	No.	%	No.	%
Very Important	10	52.6	21	53.8	31	53.4
Important	6	31.6	10	25.6	16	27.6
Moderately Important	3	15.8	3	7.7	6	10.3
Slightly Important	0	0.0	0	2.6	1	1.7
Unimportant	0	0.0	0	10.3	4	7.0
Total	19	100	39	100	58	100
Rating Median	VI 1		VI 1		VI 1	

Where VI: Very Important, I: Important

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