The impact of adopting IFRS on profitability and stock performance in listed firms at Abu Dhabi and Dubai stock exchanges

Ihab Alsaqqa

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Author's declaration

I declare that this thesis has been done completely through my own work unless there is a quotation or citation which has been acknowledged to the specific author/s. I also declare that this thesis has not been submitted for any other degree.

Signature

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ABSTRACT

This study aimed to investigate the main impact of adopting the International Financial Report Standards (IFRSs) on the users of financial reports in both the Dubai Financial Market (DFM) and the Abu Dhabi stock exchange (ADX). The study has also examined the impact of adopting the IFRS on profitability of firms and stock performance in the two stock markets. In addition, the study has investigated the different challenges that adopting the IFRS had in both Dubai and Abu Dhabi markets following the compulsory adoption of IFRS and whether the implementation of IFRS would have different impacts on the DFM from those in the ADX.

One of the most important developments in the literature related to accounting and finance at the beginning of this century is concerned with the compulsory adoption of International Financial Reporting Standards (IFRSs) in Europe. With the introduction of IFRSs, there is the promise of the provision of financial statements that are more accurate and transparent and, therefore, the expectation of more value-relevance to investors when compared to local GAAP. Following the announcement that IFRSs were to be adopted by listed firms in the European Union in 2005, the accounting systems in developing countries have been affected, with countries, such as the United Arab Emirates (UAE), also announcing their desire to adopt the IFRS. However, as the nature of the business environment in the UAE is significantly different from that in western countries, serious argument arose between the users of financial reports in the UAE over whether the adoption of IFRSs was appropriate for their financial statements.

The study has used two main methods to collect and analyse the primary data. Firstly, questionnaires were used to gauge how the preparers and users of financial reports view the adoption of IFRSs, in both DFM and ADX, and how this transition to IFRSs has affected their decision making. SPSS was used to analyse the collected data of the questionnaires using different tests such as t-test, ANOVA test, and Correlation test. Secondly, this study used the secondary data analysis to investigate the primary effects of adopting IFRS upon share performance and profitability of listed firms in the two stock exchanges. For the second data collection method, several multiple regression models were used based on the Ohlson and modified Ohlson models.

The main findings of the study from the questionnaire indicate that most of users of the financial reports were in favour of the adoption of IFRSs in the UAE, however many of the users argued that the transition to IFRSs ought to be given careful consideration as it had negative effects on the accounting system of companies and raised the issue of lack of readiness and lack of competence of employees who are ill prepared for IFRSs. The findings of the questionnaire have also showed that the preparers at the banking sector were more satisfied with the adoption of IFRSs than was the case in other sectors. The results from the analysis of secondary data showed that the adoption of IFRSs had value-relevance for both the DFM and the ADX, with the greater relative impact being at the former. In addition, the analysis of results showed that the adoption of IFRSs had an impact on some financial indicators and this impact was higher in the ADX than it was in the DFM. The analysis also indicated that the adoption of IFRSs had a great impact on the trading volume of shares in both of the stock markets, with the impact being significantly higher in the ADX.

In conclusion, as the main focus of the study was to examine the challenges and the impact of the recent adoption of IFRSs in one of the countries of the Middle East, this study has made a contribution to the literature on value-relevance in terms of stock performance and financial indicators. It has also shed light on an area of research which has been overlooked particularly in the Middle East.

Abbreviations

IASC	International Accounting Standards Committee
IASB	International Accounting Standards Board
IOSCO	International Organisation of Securities Commissions
IFAC	International Federation of Accounting
IASs	International Accounting Standards
IFRSs	International Financial Reporting Standards
GAAP	General Accepted Accounting Principles
US GAAP	United States General Accepted Accounting Principles
SEC	Securities and Exchange Commission
EU	European Union
FRS	Financial Reporting Standards
MVPS	Market Value Per Share
EPS	Earnings Per Share
APB	Accounting Principles Board
FASB	Financial Accounting Standards Board
FIFO	First In First Out
LIFO	Last In First Out
CR	Current Ratio
DTER	Debt To Equity Ratio
GP%	Gross Profit Ratio
ROE	Return On Equity
ROIC	Return On Invested Capital
ADX	Abu Dhabi Stock Exchange
DFM	Dubai Financial Market
UAE	United Arab Emirates
GCC	Gulf Cooperation Council
FDI	Foreign Direct Investment
ADSM	Abu Dhabi Securities Market
DIFX	Dubai International Financial Exchange
CESR	Commission of European Securities Regulators
GATT	General Agreement on Tariffs and Trade
CGA-Canada	Certified General Accountants Association of Canada
NPV	Net Present Value
IMF	International Monetary Fund
OECD	Organization for Economic Co-operation and Development
DIFX	Dubai International Foreign Exchange
DFSA	Dubai Financial Services Authority
DIG	Derivatives Implementation Group
AOCI	Accumulated Other Comprehensive Income

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Chapter 1 : Introduction

1.1. Purpose of the study

This study examines the impact of the compulsory adoption of the International Financial Reporting Standards (IFRSs) on listed firms' profitability and share performance in the UAE stock markets, Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM). Therefore, the study seeks to evaluate the effect of adopting IFRS in emerging economies, focusing on the Gulf region. The study also investigates the share performance pre-adoption and post adoption of IFRS on the two stock exchanges (ADX and DFM). In addition the research assesses the level of awareness of the impact of this adoption on the preparers of the financial statements, Auditors and the investors' investment decisions.

1.2. Background of the study

Over the last decade, a trend has emerged within academic papers related to accounting termed 'value-relevance' literature (Ali and Hwang, 2000; Aboody, et., al. 2002; Hopkins, et. al., 2008; Liu, 2011; Ball, et. al., 2006). These publications have considered the empirical relationship between particular accounting numbers and stock market values (Bartov, et. al., 2005). The main purpose of these studies was either to assess the use of studied accounting numbers, or their proposed use (Boone, 2002). Taken from the point of view of information economics, accounting and financial reporting can be seen as being vitally important to the efficient running of a capital market (Chang, 1998; Chen, et. al., 2001). Such an investor-oriented information usefulness perspective has been adopted by major accounting standard setting bodies, such as the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (Liu, 2011), who have specifically stated that the primary purpose of accounting is to meet the needs of capital markets (FASB

and IASB, 2006). Consequently, the relationship between stock markets and accounting numbers has been the focus of considerable attention, with it likely to be one of the most popular issues in the literature for accounting and finance (Bao, et. al., 1999; Beaver, 2002; Stiglitz, 2002; Kothari, 2001).

It has been suggested by Barthet. al., (2001) that an accounting amount is defined as value relevant if there is a predicted association with the values of the equity market. Most of the studies of value relevance consider the impact of the measures of accounting under different sets of accounting standards using Ohlson or modified Ohlson models (Easton, et. al., 1991; Feltham and Ohlson, 1995; Gietzmann and Ostaszewski, 2003; Taplin, 2004). Thus, this study adopts the same approach in studying a sample of companies listed in two stock exchange markets, namely Abu Dhabi Securities Exchange ADX and Dubai Financial Market DFM. The reason being that is Ohlson's model will help to predict the values of the equity market.

A regulation was proposed by The European Union (EU), in February 2001, that would require all the firms listed on EU exchanges to draft consolidated financial statements in accordance with International Accounting Standards (IASs), updated as International Financial Reporting Standards (IFRSs) (Liu, 2011; Doukakis, 2010; Albu, et. al., 2011). This obligation was to be effective from 1st January 2005 (Doukakis, 2010), implying that around 7000 European listed companies needed to apply IFRSs for their financial reporting (Callao, et. al., 2009). In the hope that foreign investment would continue to come, the UAE (and other developing countries) followed this implementation within the EU soon after the EU announced its implementation of IFRSs (Al-Shammari, et. al., 2007).

With this application of IFRSs, there is an expectation that there would be a significant influence upon the measurement and disclosure of financial statement components (Holger, 2006; Luzi, et. al., 2008), in particular the income statement, the cash flow statement and the balance sheet (Stickney, et. al., 2007;

Horton and Serafeim, 2007; Hung and Subramanyam, 2007). Amendments to the basis of measurement and disclosure are expected to have an influence upon a company's financial performance (Andre et. al., 2008), the movement of share prices and the volume of shares traded (Barth and Clinch, 1996; Omran and Painton, 2004).

Within the context of a pure shareholder model country, capital (equity and debt) is raised by companies directly from the public (Ball, 2004), with the presumption that investors will rely on information that is also public (Elbakry, et. al., 2006). As a result, this system has a tendency towards a high degree of public disclosure and the disclosure needs of active and prospective shareholders largely determine the accounting rules (Ball, 2004; Hope, 2003). The standards for accounting evolve through them being commonly used and accepted and they are generally kept separate from the laws related to tax (Hope, et. al., 2005). Therefore, accounting standards arise in such a context through the accounting market and the government does not determine them. In a pure, stakeholder model state, the rules for financial reporting are largely hindered by taxation requirements (Ball, 2004; Lantto, 2005). In such a context, employees, managers, shareholders, debt holders and the government are all considered stakeholders (Lantto, 2005). Transactions within this model are often conducted among parties that know each other, and there is less of a reliance on information in the public domain. Instead, investors usually have access to private information (Beckman, et. al., 2007).

Stakeholder model systems generate less public information as there is a tendency to require a lower standard of public disclosure (Beckman, et. al., 2007). As a result, this model does not support large public capital markets. Instead, it tends to be reliant on intermediaries such as banks (Lantto, 2005). If a corporation has a long-term relation with a bank, for example, it can raise debt and equity capital in relatively large amounts. In turn, the bank, serving as an intermediary, raises the capital from the public (Ball, 2004). Private information

about risks related to the corporation can be accessed by the bank, and the information need not be publicly disclosed (Daske and Gebhardt, 2006).

In reality, pure shareholder model countries and pure stakeholder model countries do not exist, however, countries such as the United Kingdom, and others that follow the United Kingdom's system, are usually classified as shareholder model countries (Beckman, et. al., 2007). Most continental European countries tend to be classified as shareholders model countries (Beckman, et. al., 2007). A number of researchers have noted that the objective of financial statements, as defined within the IASB framework, is achieved in stakeholder model countries (Epstein, 2009; IASB, 2006). Barth, et. al., (2005), for example, found that there is a higher financial reporting quality in firms after they have adopted IFRSs, and that this appears strongest in stakeholder model countries. Furthermore, Daske and Gebhardt (2006) indicate that under IFRSs, the quality of disclosure has increased significantly, as perceived by experts in the rating of the annual reports of Swiss, Austrian and German firms. Previous studies however, have reported mixed evidence on whether more value-relevant accounting information is provided under IFRSs than under the GAAP of a stakeholder model country (Hung and Subramanyam, 2007). The mixed results suggest that there is still a controversy in relation to the following question: does the accounting information as reported under the IFRS provide a better explanation of a firm's performance and share prices than the accounting information that is reported under the US GAAP, and to what extent the level of information given by accounting standards affect the users' decision making.

In order to address this issue, an analysis of the value relevance of accounting numbers contained within financial statements issued before and after the implementation of IFRSs for a sample of companies that are listed in two different Stock Exchanges in the Middle East, the ADX and the DFM is undertaken. The nature of the two federal states in the UAE is different, wherein the tendency of Dubai is to follow the financial system of the UK (shareholders model), whilst Abu Dhabi government set rules to control the ownership of

investments in their listed firms as 51% of shares should be owned by either the government or citizens in Abu Dhabi. Thus the comparison between the two case studies aims to address and compare the impact of IFRS and/or US GAAP in these two Middle Eastern states.

1.2.1. Background of the UAE

The purpose of the following background information is to gain a better understanding of the research context. Geographically, the United Arab Emirates is a small country in the Middle East region that lies on the coast of the Arabian Gulf. It is a federation of seven emirates that vary greatly in size and economic capability. These are Abu Dhabi, Dubai, Sharjah, Umm Alqowen, Ajman, Ras Alkheimah and Fujairah and each of these emirates (states) has a high degree of independence within the political system of the UAE, having their own local government and ruler (TheWorld Factbook, 2006). The rulers of the emirates come together to form the Supreme Council or Ruler, and this body is basically responsible for the appointment of the prime minister and the cabinet. The ruler of Abu Dhabi state is also the president of the UAE, while the ruler of Dubai holds the position of the Prime Minister of the country (Emirate.org, 2010).

Over the last three decades, and in particular the last decade, the UAE has experienced an economic boom, with economic policies that have taken the country from being the least developed in the world to one of the strongest for attracting foreign investment capital (United Arab Emirates, 2009). Its natural resources, particularly oil and natural gas have been exploited to such an extent that the revenues have helped a rapid, radical development of the UAE, without the expected transition through hypothetical development stages experienced by most industrialised countries.

The UAE was the first country within the Gulf Cooperation Council (GCC) to adopt the concept of 'Resource-based Industries'. With such a wealth of oil and natural gas within the country, this approach is considered to build upon the support of industrial activities based on utilization of natural resources (Al

Maktoum, 2004). The remarkable economic development within the UAE, in particular within the two largest and most powerful emirates, Dubai and Abu Dhabi, has led to the states adopting changes to their accounting system through the implementation of new International Financial Reporting Standards (IFRSs) within listed firms by 2005. These changes have enabled the financial firms in the UAE to compete in the global market place (Government of Dubai website, 2010).

According to the Department of Economics and Social Affairs (2009), of a population within the UAE of 6 million, only 20% are nationals (Emiratis). Foreign expatriates have taken over the market in the UAE to the degree that the country now holds the highest rate of migration in the world (Dubai interact, 2009). Such a remarkably high proportion of foreigners has mainly been as a result of huge development and investments in the real estate sector, particularly in Dubai (Government of Dubai website, 2010). The UAE currently has relatively high economic growth that is attracting new foreign investors from different markets, and this is consequently helping to generate further revenue and an increased demand for real estate.

As the political and economic stability of the UAE is a major asset for the attraction of foreign capital, the country maintains a very high level of Foreign Direct Investment (FDI). The EU countries, the USA and Russia are the main foreign investors in the UAE.

Although there are somewhat limited capabilities for foreign firms operating in the UAE, the fairness and political stability of the legal system within the country keeps it as an attractive businesses market for foreign investors. The variety of products and services introduced to the country through globalization, and the benefit of a strong workforce from all over the world, have been major assets for economic development (Shihab, 2007). With an economic policy focussed on enhancing the import and export of all products to and from the UAE, there are no trading barriers for imported goods with 75% of its imports

re-exported for profit (Ahmed, 2007). The huge wealth of the country means there has been no need to borrow funds from the IMF or World Bank. Indeed, the UAE had a balance of payments trade surplus of over 100 billion dirham in 2007 because of the construction and real estate markets (Roumathi, 2009). In the past year, the official reserves account for the UAE has increased by over 50 billion (Global Investment House, 2010).

1.2.2. Recent performance of the UAE economy

The government's investment spending in the UAE should help to provide a degree of insulation from the global economic slowdown. The Finance minister (Sultan Saeed Nasser Al Mansoori) in Abu Dhabi said in March 2011 that they expected the economy of the Emirate to grow by 3.3% in that year. He also anticipated that the economy in Abu Dhabi will grow by 5% within the following three years and, following that, by 6% a year (Emirates business website, 2011). Other analysts, however, had indicated that Dubai and Abu Dhabi would have less percentage of the UAE's growth (Reuters, 2010).

The figure indicates that the UAE's fiscal surplus rose from US$53 billion in 2007 to a record US$ 82.8 billion in 2008, a rise of 55% in one year, according to Institute of International Finance Figures (The Institute of International Finance, 2010). This was due to a surge in the income from oil exports from Abu Dhabi.

Figure 1-1: Budget Surplus Deficit of the UAE as % of GDP

Source: Gulf base website: http://www.gulfbase.com

A 41% leap in the total revenues of the UAE caused the surge. The country's total revenues hit an all-time high in 2008 of US$133 billion, in comparison to the US$93.9 billion in 2007 (IIR Middle East website, 2008). There was, however, a sharp decline in the figure in 2009 to US$52 billion (Central Bank of the UAE, 2010).

A positive impact on inflation has come from the economic slowdown and the fall in international commodity prices. The Director-General of the Dubai Chamber of Commerce and Industry, Hamad Buamin, predicted in March 2009 that there would be a fall in inflation between 6% and 8% in 2009, from the 14% of 2008 (Delmar-Morgan, 2009).

1.2.3. Industrialization in the UAE

During the process of economic development, industrialization has been considered a crucial transitional element. Industrialization is considered a link to the stimulation of forward and backward linkages with the wider economy and can create new employment opportunities. The UAE, along with other developing countries, that have been significantly dependent on the export of

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one primary product, i.e. oil, has pursued an industrialization strategy, so that the national revenue comes from alternative sources. Such a reduction in dependence on oil, is particularly relevant for the state of Dubai which has far less oil reserves than Abu Dhabi, and so the government in Dubai has sought other sources of income for its economy such as tourism and Foreign Direct Investments (FDI) (Government of Dubai website, 2010).

The size of the domestic market and the limited resource of raw materials have been the main factors that have acted as a constraint on industrial development in the UAE. However, on the other hand, there have been a number of resources and incentives that have encouraged industrialization in the UAE, namely; the abundance of natural mineral resources, infrastructure that is well established, a flexible labour and employment policy, the availability of cheap energy, industrial zones and other various legislative incentives, financial capital that is readily available and the existence of political and social stability (Shihab, 2007).

Rather than dependence on the oil sector, in order to sustain industrial growth in the UAE, and to maintain steady economic growth, the government focuses strongly on the promotion of non-oil sectors. In particular, the focus has been on the industrial sector which contributed 49.4% of the total employment in the UAE in 2007 (AME info website, 2009). However, due to the global economic recession at the time, the industrial sector faced a slowdown in the second half of 2008. The same challenges were faced in 2009, with the expectations of a poor climate for industry and further concerns and crisis currently sweeping the environment for funding and credit (Global Investment House, 2010).

1.2.4. The growth of accounting standards in the UAE over the period

For dominant nation-states, in pursuit of "intentional politics and policies" to enhance their wealth, the financial health of global financial markets is considered important (Arnold and Sikka, 2001). It is also considered important

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to emerging economies and developing countries that seek to acquire wealth through the adoption of business practices that are globalized such as a set of accounting standards (Harris, 2002). There is a promise of "transparent, comparable and consistent financial information" that can guide investors to making "optimal investment decisions" because of the convergence of many national Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRSS) (Fontes et, 2005; Jacob and Madu 2004). There has been a recognition within developing countries of the need to participate in the opportunities offered by globalization (United Nations General Assembly, 2004). As such, they have led the way in the adoption of IFRSs (IAS Plus, 2006a).

1.2.5. The history of the stock exchange in the UAE

The Emirates Bank Group took the first step toward the establishment of an official stock market for the UAE in 1997. Emaar Properties offered $920 million into the market for foreign investment (Ame Info website, 2010). Clearly, this was an indication of the considerable interest in opening a stock market in the UAE, however only 20% of the value of the fund was approved by Emaar properties for foreign investment with a further suspension of 20% on sales (UAE Interact, 2010). Prior to 2000, the UAE had no official stock market, however, a plan was approved in 1999 by the Dubai government for the establishment of a bourse in Dubai (Dubai website, 2008). This was started in early 2000 using an electronic trading system. Securities were the main sector for trading in the Dubai Financial Market (DFM), and these were issued by public shareholding firms with bonds being issued by the institutions of local federal government (in reality, only in the state of Dubai). Following a year of trading, the DFM was increased to include the bonds issued by financial and investment institutions (DFM website, 2009).

Only 12 companies were listed in the DFM at the time, however this has now grown to 165 listed firms (DFM website, 2011). Some of these are international,

however the majority are based in the UAE market, with a total market cap of roughly $360 million (DFM website, 2011).

The DFM witnessed a dramatic increase in the volume of sales that were traded, during 2004 and 2005. By the end of 2005/beginning of 2006, however, the value of shares in DFM dropped by around 60%. Similar drops in share value were witnessed in most of the Gulf stock markets (El Hedi, et. al., 2009).

In November 2000, within the Federal state of Abu Dhabi, the Abu Dhabi Securities Exchange (ADX) was established, only a few months after the establishment of the DFM (ADX website, 2009). The ADX was formerly known as the Abu Dhabi Securities Market (ADSM), which provided a marketplace solely for companies listed in the UAE. However, later on the ADX began to accept other firms based in the Middle East as secondary listings, a movement that enhanced the status of ADX with other markets in the Middle East (Gulf base, 2010). A broad spectrum of participants make up the ADX including industrial and institutional investors, dealers with assigned responsibilities, companies and securities firms (ADX website, 2009). Today, a total of 28 brokerage firms are licensed with the ADX. Eight of these are public shareholding companies that deal in new shares, as well as buying and selling securities for their own accounts and for those of their clients against a commission in the secondary market (ADX Website, 2009). This indicates the nature of the Abu Dhabi's market which is more controlled by the government, while Dubai's market aims to be controlled by the free market. The remainder are private shareholding brokerage companies that also buy and sell securities for their own accounts and for clients against commission.

Within the UAE, the investors in the securities market are composed of different groups, in particular within the secondary market (World Market Media, 2009). Most of the investors, however, are trading as individual stakeholders with institutional investors comprising of a third of the market. Non-UAE investors can also trade in the ADX. Indeed, increased attention from international

financial institutions for investment in the securities market in the ADX and DFM has been noted, with a much greater degree of foreign investment in the latter (UAE Interact, 2010). The ADX mainly relies upon investment from the government.

The ADX has a combination of elements that are normally found in both government securities and exchange commission and a stock exchange. There is a mandate for the government for it to both regulate and institutionalize the securities market in Abu Dhabi (ADX website, 2009). The ADX has the mandate to promote the development of the securities market, the regulation of the trading market and the regulation of the activities of member firms that deal in securities such as brokers, investment advisors and underwriters. As such, the ADX not only functions as a typical stock exchange; it is also a body for organisation and control (ADX website, 2009).

In late 2007, a further stock market was established in the UAE called the Dubai International Financial Exchange (DIFX). Its focus is on international firms rather than local firms and, as it was established after the adoption of the IFRSs, thus the DIFX will not be discussed in this research as it is beyond the scope of this study.

1.3. Statement of the problem

This study aims to address the gap between the literature and practice related to the impact of adopting the IFRSs into both profitability and share performance of listed firms in the Middle East. The nature of IFRSs research is a recent development in the emerging markets, in contrast this subject has been extensively researched in Western countries since 2001. There is a gap in the literature regarding the impact of adopting the IFRSs on the listed firms within the emerging economics. Therefore, the aim of this research is to fill in the gap between the adoption of IFRSs and profitability and share performance in both ADX and DFM listed firms.

In addition, the research aims to address the core problems of how the adoption of IFRSs affects the practitioners' work. Firstly, the research aims to evaluate the level of understanding of the IFRSs on the preparers of the financial statements. There is lack of research in the area of evaluating the practitioners' understanding of the effect of IFRSs on the financial statements. Secondly, the research aims to evaluate the effectiveness of adopting the IFRSs on the stakeholders of the financial statements' decisions, whether the users are internal (such as management, employees, shareholders) or external users such as the government, investors, and other stakeholders who might be interested in the financial statements. The following are the main problems relating to the subject:

- Lack of information on the impact of adopting IFRSs into firms' profitability
- Few well qualified accountants are able to prepare the financial statements using IFRSs
- Lack of clarity on the effect of IFRSs on share performance

1.4. Justification of this study

In 2002, the European Union agreed to adopt the International Financial Reporting Standards (IFRSs) by all listed firms on a stock exchange in European countries from 2005. Following the European Union's announcement; the UAE, as part of the GGC, has announced its desire to adopt the IFRSs for its listed firms. Accordingly, this research is pertinent as it examines the effects of adoption the IFRSs on the listed firms in the United Emirates, and its consequences on the firms and the financial statement users of the transition from US GAAP to IFRSs, wherein more than 200 listed firms had adopted the IFRSs since 2005.

The mandatory adoption of the IFRSs has affected the majority of research undertaken in this century. Thus this change in the policy has offered an interesting opportunity for researchers to adopt empirical experiments into the implications of the new regulations on different aspects such as the formality of

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preparing the financial statements and its impact on the firm's activities. However, there is little research on the impact of the adoption on the financial statements users, as the new standards require significant changes in the financial statements structure and values, which has a direct impact on the different valuation of the profitability of firms. In addition, there is lack of research on the effect of such adoption on the firms' stock performance, particularly in the emerging economies.

Therefore, the research has been motivated by two criteria for undertaking this research. Firstly, this research is important to the practitioners, wherein the prospective findings of this study will evaluate the effectiveness of adopting the IFRSs in measuring profitability and share performance of listed firms. In addition, the results of this research would help the practitioners to improve their decision-making value. Thus the outcomes of the study will help both managers and investors to improve their evaluation of the financial statements according to the new standards.

Secondly, this research will expand the existing literature regarding the impact of adopting IFRSs on financial statements, profitability and share performance. The research will also provide more recent and diverse literature in regards to the degree of awareness of both managers and investors to the implications of adopting IFRSs into the financial statements evaluation. Therefore, the findings of this study will benefit any further research.

1.5. Importance of the study

1. This research contributes to the existing literature by evaluating the impact of the adoption of IFRSs on the performance of companies, an area which has been overlooked in emerging countries in the literature.

2. Given the compulsory adoption of IFRSs in the UAE markets and all the other Gulf countries in 2005, the study is timely and considers an area that is perhaps the most important for current accounting literature. Since there may be a different impact on share price as a result of the impact of the adoption of IFRSs in the Gulf listed firms, this study contributes to

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the debate. In addition, an analysis of stock performance provides a better understanding of the volume of trading as well as share prices.

3. Furthermore, the research provides an assessment of the impact of the compulsory adoption of IFRSs on the performance of companies through certain selected indicators of performance in the two different environments which, nevertheless, operate in a very similar cultural context. The study focuses on the profitability performance of the companies, in addition to the trend of the share price in the two studied markets. This is an area that has limited research within the accounting and finance literature and, following the results of this study, there may be further motivation for other countries in the Middle East that are not yet adopting IFRSs, to switch to the approach for the preparation of their financial reports. It is considered that the convergence of accounting standards globally would achieve greater benefits for investors that are concerned with cross-border listings and capital markets worldwide.

4. The study also focuses on the level of understanding of the IFRSs and its importance to the preparers of the financial statements in the two markets. It is important to examine if the people who deal with the new standards can provide these differences about the old and the new standards in order to gain better understanding of the new standards.

5. Methodologically, the research has an approach that is multinomial and logistic to prepare the researcher for comparisons between the two markets as follows: compare the evaluation of performance pre-adoption and post-adoption. This would enable some of the effects to be separated in particular it should enable distinctions to be made of whether differences in impact between the two stock markets are caused by environmental factors or by to the converting to IFRSs itself.

1.6. Objectives of the study

The main objectives of the study are two-fold. The first aims to evaluate the impact of the compulsory adoption of IFRSs in the UAE on share performance. This share performance would be evaluated by consideration of share price, volume of share trading and the financial performance of listed companies measured by selected financial indicators which will mainly focus on the profitability of these firms. The second objective of the study is to explore the difference in impact of the adoption of IFRSs, if any, between the DFM and the ADX. Thus, this study sets the following specific research objectives:

1. To critically review the different theories, concepts and strategies related to the impact of adoption of IFRSs on listed firms' performance.
2. To determine the current problem facing users in the understanding of the implications of adopting the IFRSs by the listed firms in the developing countries.
3. To examine the level of users' perception of the benefits and disadvantages of adoption of IFRSs.
4. To assess the performance of shares pre-adoption and post adoption of the IFRSs in both ADX and DFM.
5. To evaluate the impact of adopting IFRSs on the share price and firms performance in both ADX and DFM.
6. To analyse the main impact of adopting IFRSs on the profitability of firms in both ADX and DFM.
7. To make recommendations for both practitioners and policy makers based on the findings of the study to show the impact of adopting IFRSs upon the firms' profitability and share performance.

1.7. Research questions

This study formulates the following research questions:

1. What are the different theories, concepts and strategies related to the impact of the adoption of IFRSs on the performance of listed firms?
2. What are the main problems of adopting the IFRSs on the accounts of listed firms in developing countries?
3. What is the level of users' understanding of the benefits and disadvantages of the adoption of IFRSs?
4. What is the performance of shares pre-adoption and post adoption of the IFRSs in both ADX and DFM?
5. What is the main impact of adopting IFRSs on the share price and firms performance in both ADX and DFM?
6. What are the key implications for adopting IFRSs on the profitability of firms in both ADX and DFM?
7. What recommendations can be made for both practitioners and policy makers based on the findings of the study to show the importance of the impacts of adopting IFRSs upon the firms' profitability and share performance?

1.8. Research Hypotheses

Table 1.1 provides a summary of the research questions and their sub-questions, then a summary of research hypotheses for each research question and the method used to achieve the hypotheses.

Table 1-1: summary of research questions and hypotheses

Research Objectives	Research Questions	Sub Research Questions	Hypotheses	Used Methods
First objective: To critically review the different theories, concepts and strategies related to the impact of adoption of IFRSs in listed firms' performance	What are the different theories, concepts and strategies related to the impact of the adoption of IFRSs by the performance of listed firms?	**1.1.** What are the different theories and strategies related to the impact of the adoption of IFRSs into listed firms' performance?	N/A	secondary data through the different Journals, books and official websites
Second objective: To examine the level of users' perception of the benefits and disadvantages of adoption of IFRSs.	What is the level of users' understanding of the benefits and disadvantages of the adoption of IFRSs?	**2.1.** Who are the main users of financial reports in both ADX and DFM? **2.2.** How do users view the effectiveness of financial statements that are prepared under the IFRSs? **2.3.** What are the different perceptions of preparers and users in regards to benefits of IFRSs compared to US GAAP?	**H1/1:** There is no significant difference in the mean of users of financial statements in both ADX and DFM **H1/2:** there is no significant difference in the mean of both ADX and DFM that adopting IFRSs has positively affected the financial statements **H1/3:** there is no significant difference in the mean of users of	questionnair e survey

			financial statements regarding the preference of financial statements under IFRS than US GAAP	
Third Objective: To determine the current problem facing users in the understanding of the implications of adopting the IFRSs by into the listed firms in the developing countries.	What are the main problems of adopting the IFRSs in the accounts of listed firms in developing countries?	**3.1.** What are the main difficulties faced by both ADX and DFM during the transition of IFRSs **3.2.** What were the cultural issues that influenced the adoption of IFRSs in UAE, and which of these issues were considered as difficulties of adopting IFRSs **3.3.** What are the main motivations of the UAE to adopt the IFRSs into its stock exchanges?	**H2/1:** there is no association between the Lack of qualifications and experience and the difficulties of implementing the IFRSs **H2/2:** there is no correlation between Culture and the IFRSs transition **H2/3:** there is no differences in the mean of both preparers and users in ADX and DFM regarding the motivation factors of adopting IFRSs	questionnaire survey
Fourth objective: To assess the performance of shares pre-adoption and post adoption of the IFRSs in both ADX and DFM.	What is the performance of shares pre-adoption and post adoption of the IFRSs in both ADX and DFM?	**4.1.** Has the information under IFRSs changed (increase or decrease) the value relevance of accounting numbers **4.2.** Was the impact of adopting IFRSs different between ADX and DFM? **4.3.** What potential information influenced the share price?	**H3/1:** the independent variables have no significant increased effects on the value relevance of accounting information in ADX **H3/2:** the independent variables have no significant increased effects on the value relevance of accounting information in DFM **H3/3:** there is no significant differences in the impact of adopting IFRSs between ADX and DFM	secondary data through the listed firms' financial statements

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| Fifth objective: To analyse the main impact of adopting IFRSs on the profitability of firms in both ADX and DFM. | What are the key implications for adopting IFRSs on the profitability of firms in both ADX and DFM? | **5.1.** Has the adoption of IFRSs influenced the financial indicators? **5.2.** Has the impact, if any, of IFRSs on financial indicators being different between ADX and DFM | **H4/1:** There is no association between IFRSs adoption and Returns On Equity (ROE) in ADX **H4/2:** There is no association between IFRSs adoption and Returns On Invested Capital (ROIC) in ADX **H4/3:** There is no association between IFRSs adoption and debt to equity ratios (DTER) in ADX **H4/4:** there is no association between IFRSs adoption and current ratios (CR%) in ADX **H4/5:** There is no association between IFRSs adoption and Gross profit Ratio (GP%) in ADX **H4/6:** There is no association between IFRSs adoption and Returns On Equity (ROE) in DFM **H4/7:** There is no association between IFRSs adoption and Returns On Invested Capital (ROIC) in DFM. **H4/8:** There is no association between IFRSs adoption and debt to equity ratios | secondary data through the listed firms' financial statements and selected ratios |

			(DTER) in DFM **H4/9:** there is no association between IFRSs adoption and current ratios (CR%) in DFM **H4/10:** There is no association between IFRSs adoption and Gross profit Ratio (GP%) in DFM	
<u>Sixth</u> <u>objective:</u> To evaluate the impact of adopting IFRSs on Trade Volume in both ADX and DFM.	What is the main impact of adopting IFRSs on Trade Volume in both ADX and DFM?	**6.1.** Has the adoption of IFRSs influenced the Trading Volume of shares on both ADX and DFM? **6.2.** Has the impact, if any, of adopting IFRSs significantly Varied between ADX and DFM?	**H5/1** there is no difference in the beta value of trading volume of shares in ADX following the adoption of IFRSs **H5/2** there is no difference in the beta value of trading volume of shares in DFM following the adoption of IFRSs **H5/3** there is no difference in the beta value of trading volume of shares in both DFM and ADX	secondary data through the listed firms' financial statements
<u>Seventh</u> <u>objective:</u> To make recommenda tions for both practitioners and policy makers based on the findings of the study to show the impact of adopting IFRSs on the	What recommendation s can be made for both practitioners and policy makers based on the findings of the study to show the importance of the impacts of adopting IFRSs upon the firms' profitability and share performance?	**7.1.** What recommendations can be drawn from the results of this research for practitioners and policy makers in the UAE?	N/A	Through a combination of both literature review and the findings of the research

firms' profitability and share performance.				

1.9. Structure of the study

In general, this study is divided into two parts. Firstly, there will be a theoretical part, containing three chapters, that will have a literature review of material concerned with the origin and development of International Financial Reporting Standards (IFRSs), the main differences between them and US GAAP and also studies related to the value relevance of accounting information, at both the national level, and for use in international comparisons.

The second part consists of two chapters, which focus on the empirical study for the testing of the various research hypotheses and the answering of the research questions. This will be followed by conclusions and recommendations.

Chapter One: outlines the research study and introduces the thesis in terms of its objectives, the research questions, a summary of the methods used in the research and the contribution to knowledge of the thesis accompanied by an outline.

Chapter Two: critically reviews the literature and analyses the evolution of International Accounting Standards, the attempts of the International Accounting Standards Board (IASB) to help in the convergence of accounting standards across the world, the relationship between the IASB and other standard-setters within different countries, the agreement made between the IASB and the International Organisation for Securities Commissions (IOSCO), the main advantage, for both the capital markets, and the participants in those markets, of adopting an accounting language for financial reporting that is worldwide, and the obstacles to achieving that.

Chapter Three: analyses the main differences between US GAAP and IFRSs in relation to the measurement and presentation of key items within financial statements. There are two parts to this chapter. Firstly, the chapter examines the differences in disclosure and presentation that will lead to different classification and/or recognition of equity, liabilities, assets, revenues and expenses within financial statements. Secondly, the chapter deals with differences in measurement which will lead to differences in totals for groups of the various categories of liabilities, assets, revenues and expenses within financial statements.

Chapter Four: Explores the various valuation models that are used in the accounting and finance literature in order to link accounting information to the movement in the prices of shares and the volume of trading of shares. This chapter will also present the nature and types of studies of value-relevance. This will be followed by a survey of the comprehensive academic work that has dealt with the three key issues that are raised in this research, those being the impact of the adopted accounting standards on share prices, their impact on the volume of trading and their impact upon financial performance focusing on the profitability aspects.

Chapter Five: discusses the research methodology and the techniques of statistical analysis that will be used to test the impact of the compulsory adoption of IFRSs on stock and the performance of companies. The chapter addresses the empirical research questions and their translation into research hypotheses, and provides a detailed explanation of how the main research hypotheses are subdivided into sub-hypotheses. The statistical techniques shown, i.e. the univariate and multivariate analysis that are based upon multiple and multinomial regressions, will be employed in the testing of the research hypotheses, and in order to evaluate the impact on both company and stock performance for the markets under study, brought about by the adoption of the IFRSs.

Chapter Six: analyses the main findings of the empirical study. The first part will provide an answer to the first two research questions by comparing the value relevance of accounting information, and the impact of accounting numbers on the prices of shares in the periods of both pre and post-adoption of IFRSs. The second part answers the third research question by comparing the performance indicators of listed companies both pre and post-adoption of IFRSs, in both markets. The third part of the chapter answers the fourth research question by comparing the behaviour of trading volume of shares, both pre and post-adoption of IFRSs, again, in both markets.

Chapter Seven: summarises the findings of the study, and focuses mainly upon the findings within the empirical part of the research. It also makes recommendations for both practitioners and policy makers, and suggestions for further research, based on the conclusions reached.

Chapter 2 : International Financial Reporting Standards (IFRSs): An overview

2.1 Introduction

In order to gain a better understanding of International Financial Reporting Standards (IFRSs), this chapter highlights the different stages and development in the accounting standards which are used to prepare the financial statements. Although the updated International Accounting Standards are called International Financial Reporting Standards (IFRSs), there were many standards prior to the current international standards. Thus this chapter identifies the different stages of the International Accounting Standards development. In addition, this chapter discusses the main advantages and disadvantages of adopting IFRSs into financial statements. Finally, the chapter provides a brief background about the accounting standards in the financial statements of firms in the UAE.

Many enterprises around the world prepare and present financial statements for external users and, whilst such financial statements may seem similar, they do differ (Liu, 2011; Albu, et. al., 2011). Probable reasons for differences are the variety of social (Al-Ajmi and Saudagaran, 2011), economic and legal contexts within different countries (Arvidsson, 2011), and the setting of national requirements that require financial statements to meet the needs of different users (Beneish and Yohn, 2008). Such differing circumstances have led to the use of a number of different definitions of the elements within financial statements i.e. assets, equity, liabilities, expenses and income (Choi, et. al., 2001). The various circumstances have also led to the use of a variety of criteria for recognising items in financial statements and differing preferences for the bases of measurement (Al-Ajmi and Saudagaran, 2011). There has also been an

impact upon the scope of financial statements and the disclosures made therein (Nordlund, 2010).

The International Accounting Standards Board (IASB), which replaced the International Accounting Standards Committee (IASC) in April 2001(Haswell and McKinnon, 2003), is committed to reducing such differences. This is sought through attempts to bring about harmony between the procedures, regulations and accounting standards that relate to the preparation and presentation of financial statements (Lehman, 2005), with the belief that a focus on preparation of financial statements for the purpose of informing economic decision-making is the best route for such harmonisation (Archer et. al., 1996). It is a belief of the Board of the IASB that when financial statements are prepared for such economic purposes, then the common needs of most users are met, since economic decisions are made by the majority of them (Pascual, et. Al., 2002).

Amongst the users of financial statements are current and potential investors, lenders, suppliers and other trade creditors, auditors, customers, employees, governments and their agencies and the public (Moneva, et. al., 2007). The statements cater for some of their different needs for information and although not all information requirements for all the users will be met, there are many information needs that are common to all (Taplin, et. al., 2002). As providers of risk capital to an enterprise, the investor, for example, has certain needs with the provision of financial statements that would also meet the needs of the majority of other users (IASC, 1997).

Within recent decades, capital markets of the world have become increasingly and effectively linked due to technological and communications advances (Bao, et. al., 1999). As a means of enhancing the performance of investments, investors are increasingly showing an interest in foreign equities because of the growing trend of deregulation of capital markets by national governments (Ball, 2004). Such a globalisation of the capital markets of the world, and their varied

operations, has increased the need for reliable and comparable financial information (Cooper, et. al., 2003).

Participants in capital markets are affected by diversity in accounting reporting (defined here as measurement, presentation and disclosure). Stanko (2000) considers that a lack of comparability of financial statements has an influence in four ways: i) upon the decision of a company to invest in an overseas operation (Jayasuriya, 2009); ii) upon the recommendation or rating of an analyst in relation to a foreign entity's creditworthiness (Arnold and Sikka, 2001); iii) upon the ability of an investor to make a decision with regard to a global investment opportunity (Cooper, et. al., 2003) and iv) upon the decision of a domestic organisation to use a supplier from overseas (Pilcher and Dean, 2009).

According to an extensive survey of participants in the capital market, i.e. corporate issuers (Panigyrakis, et. al., 2009), market regulators (Halim, 2010), investment underwriters (Mir and Rahaman, 2005), rating agencies and investors, (McEnroe and Sullivan, 2006) nearly half of the respondents stated that diversity of accounting affected their capital market decisions (Choi and Levish, 1991). The analysis of foreign financial statements is a difficult task for investors in the absence of accounting principles that are comparable (Ball, 2005), and compliance with foreign reporting and disclosure requirements often becomes a costly and cumbersome exercise for companies seeking to raise capital in foreign markets (Turner, 2001).

The development of quality international accounting standards, within the context of a sound conceptual framework, is considered an aid for the promotion of the reporting of business in a way that is comparable between companies and markets (Evans, 2004), and enables the efficient allocation of capital in the world economy (IAS Plus, 2006a). As such, it is supported by the American Accounting Association (AAA) (Wahlen, et. al., 1999).

2.2. The IASC and IOSCO

Sixteen professional accountancy bodies from nine countries, the United States of America, the United Kingdom, Canada, Japan, Germany, Netherlands, Mexico, Australia and France, established the International Accounting Standards Committee (IASC) in 1973 (IASC Foundation, 2010). Many further countries now make use of the work of the organisation and there are accounting bodies that are members from around 90 countries (IASC Foundation, 2010a). The IASC was a private sector organisation and amongst its membership are all the professional accounting bodies that have membership with the International Federation of Accountants (IFAC) (Pascual, et. al., 2002), which amounts to over 140 members in over 100 countries (Deloitte, 2006). The IASB has the following two objectives: i) to work towards the improvement and harmonisation of accounting standards, generally (Rivera, 1999); and ii) to formulate international accounting standards and promote the acceptance and observance of them (Luzi, et. al., 2008).

Since the establishment of the IASC in 1973, its work has extended from its professional accountancy background, to its involvement with private sector and government national standard setting bodies (Ball, 2005); regulators and stock exchanges, developmental agencies, governmental and intergovernmental bodies, financial analysts and others that use financial statements and companies and other business groups. Such an evolution has been time consuming and controversial (Irvine and Lucas, 2006).

In 1983, an organisation called the International Organisation of Securities Commissions (IOSCO) was established with the objective of ensuring there was capacity for the efficient operation of global capital markets (Mohamed and Mostafa, 2010). Soon after its creation, the body acknowledged that different accounting standards in nations were impeding multinational securities offerings and other listings, and it was agreed that a critical goal was an agreement for

mutually acceptable standards of accounting and disclosure (Ampofo and Sellani, 2005).

For the setting of such standards, the IASC was considered, by the IOSCO, to be the appropriate body (IASB, 2009). The IOSCO observes on most steering committees in a non-voting capacity and acts as an association of securities regulatory organisations (IOSCO, 2011). There are approximately 135 members that are ordinary, associate or affiliate, of which 12 are based in the U.S.A. The Technical Committee and its Working Party No.1 on Multinational Disclosure and Accounting are key IOSCO committees that follow the project (IOSCO, 2010).

Some of the world's largest markets, that are more developed and internationalised, are regulated by the sixteen regulatory agencies that form the Technical Committee (Chen and Sami, 2007). The Committee's objective is to review and co-ordinate practical responses to concerns over issues related to international securities and futures transactions (Haverty, 2006). The Securities Exchange Commission (SEC) is a member of IOSCO and it has played a key role in efforts for the harmonisation of requirements of regulation for cross-border offerings and listings (Hopkins, et. al., 2008). A recent approval and recommendation of IOSCO, for the purposes of such cross-border harmonisation, has been for its members to adopt a set of non-financial statement disclosure standards, and these have been implemented by the SEC through an amendment to the requirements for its foreign private issues disclosure (Hopkins, et. al., 2008).

A report entitled "International Equity Offers", that was prepared by IOSCO in 1989, noted that the development of accounting standards, that were internationally accepted, would facilitate cross-border offerings, (having considered the existing IASs not good enough for such purposes) (Liou and Yang, 2008). Such a view came as no surprise to the IASC which had begun their own project in relation to comparability, which was aimed at tackling the

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issue of the variety of free choices for alternatives for accounting that were permitted by some of the standards – one of the more obvious weaknesses in the existing IASs (Liu and O'Farrell, 2010). So that a comprehensive body of principles could be created for enterprises that were undertaking cross-border securities offerings, in 1993, IOSCO wrote to the IASC with details of the components that would be required for a set of standards that would be reasonably complete (Mehmet, et. al., 2009).

Therefore the IASs were sufficiently detailed and complete and had disclosure requirements that were adequate for the users of the financial statements (Rehberg, 2008), IOSCO further urged the IASC to provide further enhancements to them (IOSCO, 2010b). The IASC completed the project that year, with an improvement made to the ability to compare and use financial statements that were prepared by their new standards (Taplin, 2004). The project led to many alternatives being eliminated, however, multiple approaches remained in certain areas of the IASC standard that had a 'benchmark' approach and an 'allowed alternative' (Carlin and Finch, 2010).

The following year, 1994, IOSCO completed their review of the IASC standards. Before IOSCO could consider the recommendation of the IASC standards, for use in cross-border listings and offerings, there were a number of issues that were identified that needed to be addressed (IOSCO, 2010). In July 1995, an agreement was made such that if the IASC were to complete a core set of standards by 1999, then IOSCO pledged to consider endorsing them, which would then lead to a recommendation to national regulators that they accept the revised IASs as an alternative to their own national accounting standards for cross-border offerings and listings. This agreement, of course, was a significant boost to the importance, internationally, of the IASC (Beuren, et. al., 2008).

Following completion of the IASC comparability project in 1998, IOSCO's review of the core standards began in 1999. There was growing support for the IASC by national setters at the prospect of the endorsing of the standards by the

IOSCO and the IASs became adopted by law in certain countries, e.g. Malta and by certain accountancy bodies e.g. Singapore and Malaysia. Before the adoption of IFRSs became compulsory in Europe, it was agreed in France, Germany, Italy and Belgium that instead of using the existing national requirements, certain companies were permitted to use IASs in their consolidated financial statements (Stent et. al., 2010). Furthermore, an increasing number of companies were adopting IASs voluntarily, amongst them were some multinationals such as Nokia, Nestle, Fiat, Bayer and Lafarge (Doukakis, 2010). The important decision finally came through for the IASC on 17 May 2000, when their IASs were endorsed by the IOSCO, and with it the implication that IOSCO was to advise its members i.e. the Securities Commissions to accept 30 IASC standards for the basis for reporting for companies listed at many stock exchanges (Ballas, et. al., 2010).

In February 2001, the European Union proposed a regulation that would require the preparation of consolidated financial statements by all firms that were listed on exchanges in the EU, in accordance with IFRSs, from 1st January 2005 (IAS PLUS, 2006A). The implication would be that, from that date, 7000 listed companies in Europe should apply IASs when preparing their financial reporting. Many emerging countries showed an interest in following the EU example, with the UAE being one of the first countries to follow the EU decision for its strongest states, Abu Dhabi and Dubai (AME Info, 2005). It was announced by the EU that it regarded the proper enforcement of standards for accounting as a high priority (Mir and Rahaman, 2005). In order to achieve it, there needed to be co-operation between the companies that prepared their financial statements and their auditors and from securities regulators (Turner, 2001). It was decided by the securities regulators in the EU, who were members of the Commission of European Securities Regulators (CESR), to establish a special committee to specifically focus on enforcement matters (Abdul-Karim and Abdul-Majid, 2010).

Arguably, the shift towards the adoption of IASs is the most important development that has taken place in recent years in international financial markets (Huang and Bacon, 2009). No other factor is more important to the health of capital markets around the world, than for investors to be assured of good and consistent quality accounting information upon which they can base their decisions (Wang and Kong, 2010).

The Securities Exchange Commission (SEC) waived reconciliation to US GAAP for foreign companies that registered in the United States (Hora et. al., 2004), if their financial statements were prepared in accordance with IFRSs issued by the IASB (Hung, 2001). This recent event, in relation to foreign private issuers, was perhaps the most important one for the IASB (Hung and Subramanyam, 2007). Along with this was a proposed road map for a mandate, in the United States, for the adoption of IFRSs from the beginning of 2014 (Epstein, 2009). This event in the US, along with the rapidly increased adoption of IFRSs in other influential countries, highlights the potential over the next few years for the IFRSs to be embraced worldwide (Daske, et. al., 2008). An example of a recent development, is the official switch from the Canadian GAAP set of standards, which are similar to the US GAAP, that was set to occur in Canada in 2011 (Bandyopadhyay, et. al., 2009).

Diverse interests and concerns from a wide range of organisations and participant groups, worldwide, gave rise to the pressure for accounting and disclosure of information to be improved in its comparability (Reinstein and Weirich, 2002). From the time of the establishment of the IASC in the early 1970s, the pressure for change grew rapidly, at a time when stock markets, internationally (Reinstein and Weirich, 2002), and in particular in emerging economies, were growing (Agyei-Ampomah, 2011). The diversity in the practices of international accounting was considered by researchers to be putting capital providers at a considerable disadvantage. For Choi and Levich (1991), this diversity led to four problems globally, as outlined below:-

i)   Confusion and misunderstanding as a result of the use of different languages. An example is shown with the term 'stock', which is associated automatically in a North American context as concerned with shares of ownership, however in the context of Commonwealth countries it is typically associated with the inventory of merchandise. The solution for the readers and analysts of financial statements is to cope through enhancement of multilingual capabilities.

ii) Financial information taking different forms of classification. An example of this the difference between the approach for US analysts of studying important expense categories that are broken down by multiple step income statements, and the approach of other countries such as Germany. Analysts in other countries would more often impute the costs of sales as expenses, with more of a tendency for them to be disclosed by type rather than function, with wages aggregated, whether they are in relation to distribution or production, so that the formats of accounting can be reclassified to a standard of comparison that acts as a benchmark. The readers of statements have to exert some effort in such circumstances.

iii) The levels of disclosure can vary between different countries and within countries. Even though international reporting has improved, there is still a considerable variety of disclosure levels both between and within countries. Research of institutional investors in London, New York, Tokyo, Zurich and Frankfurt has revealed that international disclosure practices were considered to be most deficient in the areas of foreign operations disclosures, frequency and completeness of interim information, segmental information, methods of valuation, hidden reserves, off-balance sheet items and description of capital expenditures.

iv) Measurement concepts can be different. The need for foreign analysts to analyse company statistics, that were prepared in accordance with a set of rules of accounting measurement that are unfamiliar, is a significant obstacle. The car manufacturer, Daimler Benz, for

example, became the first company from Germany to list its shares in the USA, and had to reconcile accounts to US GAAP, as a requirement of the SEC. Warrell (1999) showed that the result of this was that the net income based on US GAAP in 1993 was seen as a loss of DM 1839 million in 1993 rather than an income of DM 615 million when based upon German GAAP. In the same year, under UK GAAP, British Airways reported a profit of £178 million to its UK shareholders, whilst reporting a loss of £75 million to US investors when conducted under US GAAP. Such an example shows that profit is a matter of opinion that can vary depending on the perspective taken in different parts of the world. Until a common accounting language is adopted all around the world, Stanko (2000) considers that difficulties will persist in making valid comparisons between companies operating in global industries. Generally, the confidence people can have in accounting will suffer if the reports of a company have dramatically different results when they are published under the various rules of different countries.

From the above statement it can be concluded that the continued absence of adoption of reporting standards internationally is a major concern for policymakers (Campbell and Ohuocha, 2011). Around the world, there are clear and compelling benefits that increased transparency from international accounting standards could bring (AME Info website, 2005a).

2.3. Motivation for IASs

According to Warrell (1999), there have been certain international developments that have required a single set of well defined accounting standards that could be applied in all the countries (Holger, 2006; Ernst and Young, 2002). Among the developments pinpointed by Warrell (1999) are:

i) The development of economic unions, their development within Europe, North America and lesser associations elsewhere have led to companies being considered more European, for example, rather than German, French or British, or perhaps more North American, rather than United States or Canadian in origin (Gassen and Sellhorn, 2006).

ii) The development of the General Agreement on Tariffs and Trade (GATT). This development has given an impetus to an expansion of such a perspective so that companies can be seen as part of a world citizenry irrespective of their country of origin (Andre, et. al., 2008).

iii) The spread of privatisation programmes. Programmes of privatisation that have been widespread, including for example, Egypt, Australia, China and Russia, and their demands for capital and expertise, which are often required from abroad (Omran and Painton, 2004).

The aforementioned developments have led to an increase in the number of multinational companies, with a more international spread of financing and ownership, that further necessitates the development of International Accounting Standards (Warrell, 1999).

2.4. Worldwide acceptance of IASs

Across the world, the impact of the IAS has been varied. If a differentiation is made between less developed countries and European countries, the influence of IAS can be seen as the strongest in the first of these (Nellessen and Zuelch, 2011). IAS has been adopted by many countries such as Nigeria, Malaysia and Singapore, as they represent a cheaper alternative than having to develop their own standards (Cavoli and Rajan, 2005). The Chinese too have proposed that their new accounting standards are based on IASs (Holger, 2006). For less developed countries, IASs are a more practicable alternative than the direct adoption of US standards (Illiano and Thornton, 2007), even though IASs are based on principles from the UK/US GAAP. Traditionally, countries in continental Europe, in particular France and Germany, have preferred

accountancy practices that have been tax-driven, creditor-based and heavily regulated and, as such, at odds with the UK/US approach embedded in the IASs (Nellessen and Zuelch, 2011). However, many of the board of the IASC hail from multinational professional auditing firms and by inclination and training tend towards favouring the use of IASs (Gabbi, et. al., 2011). Generally, IASs are preferred to US standards. Even though, there are many large German and French multinationals which used IASs before the compulsory adoption in 2005 started when they prepare their financial statements as 23 out of 100 leading French companies applied IASs before 2005 (Hora, et. al., 2004).

Generally, within capital market countries, domestic standards approximate to IASs, for example within the US, UK and Canada (KPMG, 2009). Listed companies in certain European countries, such as Germany, have been allowed to use IASs, rather than domestic standards, when undertaking the preparation of their financial statements (Leuz, 2003). There has, however, been considerable reluctance to fully endorse all the aspects of IASs until recent years. Indeed, research has found that prior to the IOSCO agreement of 1995, the impact of IASs had been marginal (Cairns, 1999).

A survey of national efforts for the promotion and achievement of convergence with IASs, conducted in 59 countries by Ernst and Young in 2002, indicated that the IASB was considered the appropriate body for the development of a global language for accounting; the survey has covered different industries. Most of the countries surveyed have stated their intention to converge with IASs formally, usually through a regulatory or governmental requirement or through the national body for setting accounting standards announcing a policy. Often there is only a requirement for the adoption of IASs by listed companies in the country in question. For other countries, the national standard setters have an approach that covers listed and unlisted companies, that is designed in order to narrow or remove the differences that exist between their national GAAP and IASs (Leuz, C. and Verrecchia, 2000).

2.5. The IASC's and standard setting bodies

Earlier on, the links between the IASC and national standard setting bodies were brought about through the professional accountancy bodies that were members of the IASC. Since the early 1980's, however, a number of initiatives were taken by the IASC to work with national standard setting bodies directly, through conducting a series of visits for the discussion of issues of common interest and through the establishment of joint working parties to address common problems, such as pension costs and deferred taxes. Later on in the 80s and early 90s (Lin and Paananem, 2007), the IASC took some important initiatives to further develop these links. As well as this, the IASC began to play a part in a grouping now known as G4+1, which is a group of bodies for standard setting from the United States, United Kingdom, Canada and Australia with the addition of the IASC (IASC, 2009). It is a belief of the IASC that groups such as these should lead to the harmonisation and improvement of financial reporting by their recommendations to the IASC and through the adoption of common improvements to the national standards (Boolaky, 2006). For Cairns (1999), there is wide acceptance of the IASs worldwide due to the involvement of standard setters directly in the IASC work.

In recent years, many significant works have been undertaken to move towards the attainment of a global financial reporting framework. Most importantly, in March 2001, the establishment of the highly professional International Accounting Standards Board (IASB), as a replacement to the IASC, was part of comprehensive restructuring of international accounting standards setting (Ortiz, 2005), becoming an organisation that was supported around the world by governments and industry, with the transfer of responsibilities occurring the following month (Bao, et. al., 2010). The IASC issued IASs that were determined to be effective until they were superseded and the International Accounting Standards as updated will would be known as International Financial Reporting Standards (IFRSs) (Casabona and Shoaf, 2002)

The new Constitution of the IASC, that was issued in 2000, showed that its program of restructuring attempted to incorporate the suggestions of the SEC. The IASB has been working closely around the world with national standard setters to achieve its goal of convergence, with the US Financial Accounting Standards Board (FASB) as one of the most significant partners (Chen and Dodd, 2001). The FASB realised that it did not have the answers to all the issues in accounting when there was a crisis in financial reporting in the US, in 2001. International standards appeared to be more principles based and more readily applied, areas where US standards had room for improvement (D'Arcy, 2001). The FASB then pushed for improved international standards; a single set that could be used both domestically and internationally (Sylwia and Irene, 2003).

At a joint meeting of the IASB and FASB, in Norwalk, Connecticut, on 18 September 2002, a Memorandum of Understanding was issued called 'The Norwalk Agreement', within which the two bodies undertook to move their financial reporting to full compatibility as soon as they could, with a commitment to maintain such compatibility, once it had been achieved. On 29 October 2002, the IASB and FASB made a joint announcement to achieve genuine convergence between their accounting standards by 2005, based upon the Memorandum, at the same time as the requirement for EU companies to apply IFRSs. This announcement was welcomed by the European Commission and the global standards were also supported by the US Securities and Exchange Commission (SEC), although the SEC still does not accept financial statements based on IAS unless they reconcile to the US GAAP, as the international standards are considered to be still too ambiguous and not yet adequate nor comprehensive enough (Tidrick, 2002). For the SEC, there was a necessity for IASs to be applied and interpreted more rigorously, and that would require more uniform enforcement, auditing procedures and regulatory environments, worldwide. Reason (2002) noted that there were 50 foreign issuers registered with the SEC to use IASs and this was estimated to rise to 500-600 by 2005. In the light of this, the agreement for convergence of the IASB and FASB was welcomed by the SEC.

It was expected that the requirement for foreign filings to have reconciliation between IASs and US GAAP would no longer be necessary once convergence had been achieved. As Street and Gray (2001) point out, a consensus was reached, by the FASB, that a set of international standards of high quality was desirable as it would not only improve international comparability, but it would also reduce the costs to many, such as the users, auditors and preparers of financial statements and it would ultimately, optimise capital market efficiency.

If accounting standards were internationalised, this could also lead to the benefit for many large foreign companies of being able to be listed on the NYSE, thereby making it easier for companies to issue equity or raise debt, through having access to the largest capital market in the world. Additionally, there would be the opportunity to earn more profit with the NYSE, as the previously huge number of inaccessible multinational corporations could then be reached (Cooper, et. al., 2002). The Certified General Accountants Association of Canada (CGA-Canada) published a report in September 1999 that detailed the many benefits accruing from the adoption of IASs, called 'The Case for International Accounting Standards in Canada'. Instead of domestically established standards, the report recommended that Canada moved towards the adoption of IASC standards to reflect the trend towards globalisation and increasing commercial activity (Richardson and Hutchinson, 1999).

2.6. Advantages of IFRSs (Investors side)

One of the largest financial reporting changes in recent years came through a regulation, that was issued in 2002 by the European Commission, that required the adoption of IFRSs by listed firms in the European member states in 2005 (Holger, et. al., 2008; Luzi, et. al., 2008; Ball. 2005). Most of these states had previously applied their own domestic financial reporting standards (Fontes, et. al., 2005) and, with the adoption of IFRSs, a common set of financial standards was applied instead of the domestic set, aiming to have the ability to compare their financial reports with the European firms' financial reports (Irvine and Lucas, 2006). However, the adoption of IFRSs was controversial in Europe. On

the one hand, proponents believed there would be benefits to investors through the adoption of IFRSs for three reasons:

i)   For some there was the belief that when IFRSs were applied there would be a higher quality of financial reporting information than when domestic European standards were applied. It was considered that there would be a lowering of information asymmetry and information risk, once there was improved information quality (Holger, et. al., 2008).

ii)   Proponents considered that there would be a lowering of costs to investors when comparing firms' performance from different countries, when a common set of standards was applied (Beckman, et. al., 2007).

iii)   Proponents believed that there would be increased liquidity for European firms because the European capital markets would experience an increase in capital flows from outside Europe and therefore become more competitive on the global scale (Beuren, et. al., 2008).

Previous research revealed that the aforementioned effects can be associated with capital costs (Chakroun and Hamdouni, 2010) and so, it can be predicted that investors would perceive the adoption of IFRSs in Europe to be associated with net benefits (Raghavan, et. al., 2010).

On the other hand, opponents contended that given that there are regional differences in economies that have led to differing systems of accounting in the first place, IFRSs, with a common set of standards, may not be able to adequately reflect the different political and economic features of the various member states (Ball, 2005). Also, some research has shown that the adoption of a common set of high quality financial reporting standards does not necessarily have clear benefits for investors (Illiano and Thornton, 2007; Epstein, 2009). However, for Sharp (1998), there are a number of benefits that can accrue for the

adoption of international accounting standards, including: i) A reduction in risks of investment and the cost of capital across the world, ii) A decrease in costs that would arise from multiple reporting, iii) The removal of confusion that arises from the use of different measures of performance and financial position between different countries, iv) The greater motivation to invest internationally, v) The increased efficiency from allocating savings across the world (SodDrstrom and Sun, 2007).

2.6.1. Direct advantages of IFRSs

There are a variety of potential advantages that the widespread adoption of IFRSs offers internationally to equity investors, which include the following:

1. There is a promise with IFRSs of more comprehensive, accurate and timely financial statement information in comparison to the original standards of financial reporting used in most countries including continental Europe (Beneish and Yohn, 2008). As financial statement information is not necessarily available from other sources, there would be more of an informed valuation in equity markets and this would lower the risk taken by investors (McEnroe and Sullivan, 2006).

2. Compared with investment professionals, small investors are less likely to be capable of understanding the financial statement information gathered from other sources, and so they are better able to compete when there is an improvement in financial reporting quality (Ball, 2005). Therefore, with improved reporting, the small investor is less likely to suffer 'adverse selection' or, in other words, the risk of trading with a professional who is better informed (Glosten and Milgrom, 1985; Diamond, 1991; Leuz and Verrecchia, 2000).

3. The adoption of IFRSs would eliminate international differences in accounting standards, through the standardisation of reporting formats, and thereby eliminate the necessity for analysts to make adjustments, which historically they have undertaken to enable financial statements of companies to be more comparable across the world (Nobes and Parker,

2004). So, there would clearly be a reduction in the cost of processing information that would have to be borne by the investor (Dörner, 2005).

4. There is most likely to be an increase in the efficiency with which financial information is incorporated into stock market prices because of the reduction in the processing cost of that information. This increase in efficiency of the market can be expected to be a gain for most investors (Casado-Díaz, et. al., 2009).

5. A reduction in the differences in accounting standards, internationally, can, to some degree, assist the removal of obstacles to cross-border divestitures and acquisitions and thus, theoretically, can be a reward to investors that have increased takeover premiums (Chong, et. al., 2003).

In summary, IFRSs can be considered as offering greater comparability and therefore can lead to a reduction in the costs of information and the risk associated with information for investors.

2.6.2. Indirect Advantages of IFRSs

For investors, there are several indirect advantages that are offered by IFRSs. Theoretically, there should be a reduction in costs of equity capital of firms as a result of a higher quality of information (Simlai, 2009). This would reduce risk to all investors considering owning shares (Gao, et. al., 2008), and reduce the risk of adverse selection for less-informed investors (Koutmos and Philippatos, 2007). This would result in an increase in the prices of shares and, other things being equal, could improve the attractiveness of new investments by firms (Chu-Sheng, 2010). For investors, indirect advantages can also arise through an improvement to the usefulness of financial statement information for making contracts between firms and various parties, such as managers and lenders (Yusaku and Ming, 2010).

A key aspect of financial reporting that is 'transparent' is that any model of accounting has a focus upon the recognition and measurement of assets and

liabilities, and therefore fair value, for instance, is considered by the IASB to be the measurement basis that is most relevant (Nellessen and Zuelch, 2011). As such, a considerable proportion of the assets and liabilities are expressed within the balance sheet at fair value in accordance with IFRSs, along with other balance sheet items such as: derivative financial instruments, pension assets and liabilities and certain other financial assets, tangible and intangible fixed assets that were acquired in a business combination, impaired or revalued, share-based payment liabilities, biological assets, financial liabilities held for trading and investment properties (Songlan and Kathryn, 2010).

The practice of accounting in some countries such as Germany is usually based upon historical costs (Deloitte and Touche, 2004). With increased transparency, managers have a tendency to act more in the interests of shareholders, particularly if loss is recognised in financial statements in a more timely fashion (AME Info website, 2005a), as this would motivate managers to more quickly address strategies and investments that are making a loss, and to subsequently, make fewer new investments that have a Net Present Value (NPV) that is negative (Alexander, et. al., 2009).

Evidence has been reported that firms in those countries that have more timely recognition of losses are less likely to undertake investments that have negative NPV (Bushman and Piotroski, 2006). As IFRSs promise a greater degree of transparency and recognition of loss, there could be an increase in the efficiency with which contracts are undertaken between firms and their managers, along with a reduction of agency costs between managers and shareholders and could lead to enhanced corporate governance (Alexander, et. al., 2009). With managers potentially acting more in the interests of investors, and with IFRSs promising an increase in the transparency that could also enhance the efficiency with which contracts are made between firms and lenders, the case for IFRSs is compelling (KPMG, 2009). With loss recognition being more timely within financial statements, this particularly enables violations of debt covenants to be triggered more rapidly, once firms experience a decrease in value of outstanding debt as a

result of economic losses (Ball, 2001; 2004; Ball and Shivakumar, 2005; Ball, et. al., 2006). If loss is recognised in a more timely fashion, there can be a more timely revision of the asset and liability book values, and also the earnings and stakeholders' equity that causes the more timely triggering of covenants on the variables of financial statements (Ball, et. al., 2006). The increased timeliness of loss recognition, and the greater degree of transparency that are promised by IFRSs, can enhance debt market contracting efficiency (Mehmet, et. al., 2009), which could potentially lead to a reduction of debt capital costs that could be of benefit to equity investors (Miihkinen, 2008).

Researchers have long believed that when financial reporting standards are uniform, capital costs become lower – an objective that is desired by both companies and investors (Boyle, et. al., 2006). In particular, when investors have a willingness to accept returns from investments in corporate securities, that are lower from interest on debt, dividends and capital appreciation on equity, then a lower cost of capital is a result (Cheong, et. al., 2010). In theory, for investors there is a willingness to accept lower rates of return when there has been a reduction in the risk of investment (Carlin, et. al., 2009). Obviously, there are many factors that constitute the risk of any investment, however the risk involved in accounting is a concern. As Epstein (2009) makes clear, such accounting risk is a risk for investors that is as a result of difficulties in comprehending the accounting principles that have been applied by a reporting entity and, such a possibility that financial reporting standards have not been adhered to uniformly, is a concern.

2.7. Disadvantages of IFRSs adoption (Investors' side)

However, the adoption of IFRSs can bring some drawbacks for investors, as follows:

1. There are inevitable international differences that are substantial, as financial reporting practice and quality can be influenced by political and economic factors at the local level (Strouhal, 2006).

2. The widespread adoption of IFRSs can raise the concern that investors would be mislead into the belief that there is a greater degree of uniformities in practice than there is in reality (Bishop, et. al., 2005). Seemingly uniform standards could mask international differences in reporting quality (Hassan, 2008).

3. The ability of uniform standards to reduce the risks and costs associated with information is curtailed if there is uneven implementation. Inconsistencies in accounting can be buried in standards and this could increase the costs of processing information for transnational investors (Mir and Rahaman, 2005).

2.8. IFRSs in United Arab Emirates

In recent years, the UAE has significantly expanded its economy through finance and trade, after years of reliance on oil revenues (Gulf Base, 2010). Having been so active in seeking to attract international investment, there has been a greater need for IFRSs to be adopted, to increase the legitimacy of the UAE for foreign investors (Kawach, 2003). As pointed out by Irvine and Lucas (2006), the government of the UAE had a number of challenges to enable the economy to embrace globalization and to reform its legal, economic and regulatory structures so that a culture of secrecy, and limited accountability and regulation could be overcome.

As Cooper et al (2003) illustrate, traditional accounting has been an integral part of globalizing processes, with it premised upon "the assumption that economic growth promises a better world", with most of the countries of the world having succumbed to "homogenization and standardization including the imposition of American-centric accounting standards and regulations" in their processes of trade. The Organization for Economic Co-operation and Development (OECD), the World Bank and the International Monetary Fund (IMF) have diffused

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business and accounting practices throughout the world through their economic strategies and requirements for accounting that have been imposed on developing countries that have sought funding (Stiglitz, 2001). This phenomenon has been contributed to by multinational corporations, and western governments that have a reliance upon accountancy for the regulation of enterprises, with developing countries and emerging economies expected to adopt the same processes (Arnold and Sikka, 2001)

Within the UAE at the moment, only banks and firms that are listed on the new exchange, the Dubai International Foreign Exchange (DIFX), are required to use IFRSs for the presentation of reports (DIFC, 2005). The adoption of IFRSs is considered a critical part of the ambition within the UAE to attract global capital, with it showing how in the UAE there is an "aggressive approach to marketing the country as an attractive destination for business as well as residence" (Global Investment House, 2005).

The culture in the UAE has traditionally been prone to secrecy and privacy with the elite holding most of the wealth. The decision of the UAE to adopt IFRSs has been strongly influenced by the trade relationship to developed nations, in particular those of the EU (Haswell and McKinnon, 2003). With the EU adopting IFRSs from the 1st January 2005, the UAE soon followed, with the establishment of the DIFX in September of that year to facilitate FDI's growth within the UAE (UAE Interact, 2010). This reinforced the need for the adoption of a set of IFRSs and the establishment of an accompanying regulatory regime that would contribute to efforts within the UAE to demonstrate transparency, integrity and efficiency (DIFC, 2006a, 2006b; AME Info, 2005). Once strong reporting requirements are imposed, there is a powerful incentive for firms to ensure the preparation of high quality accounts, that accord with international benchmarks, so that they can access capital market around the world (Al Mulla, 2005).

The Chairman of the Dubai Financial Services Authority (DFSA), Al Mulla spoke at the initial Summit for World Accounting, held in 2005 in the UAE saying "strong regulations are an incentive for the financial sector" (Dubai website, 2008). Serious financial institutions look to the places where there are strong regulations, because at the end of the day they're a guarantee for institutions and shareholders. It may be difficult initially to adopt them, but finally everybody will be pleased to have strong regulations in place" (AME, 2005).

There has been little resistance to the decision to adopt IFRSs in UAE, compared with a number of other developing countries, such as Pakistan, Bangladesh and Fiji, primarily because FDI is considered necessary by businesses in the UAE (Kim and Lee, 2004).

The adoption of IFRSs is considered a key step to ensuring that the interest of foreign investors in the UAE economy continues to be maintained (Irvine and Lucas, 2006). The UAE is interesting in the sense that the country has had a tradition of privacy and secrecy, and whilst globalisation was relatively well received, the fact that the stock exchange is only a few years old is testament to a lack of development in financial reporting. The demography of the UAE are also unique, due to around only 20% of the people living in the country being UAE citizens (Gulf Base, 2010). Most of the GCC nations in fact have population compositions that show foreigners outnumbering the nationals (The World Factbook, 2006).

In 2000, there were a "series of insider trading and market manipulation scandals which created doubts over the credibility of the UAE's over-the-counter market", and it is doubtful that just an adoption of IFRSs will bring about the goal of an increase in FDI for the country unless such negative perceptions can be overcome (AME Info, 2005). Nevertheless, as the adoption of IFRSs contrasts starkly with the country's culture, the UAE is a unique case for the

study of their impact, with perhaps the practical impact of IFRSs adoption being considerably different than the impact intended.

2.9. Summary

In recent decades, there has been extensive globalisation of capital markets and investors have increasingly looked to enhance investment portfolios with foreign equities, which has resulted in more pressure for companies, worldwide, to adopt one common accounting language. In 1973, The International Accounting Standards Committee (IASC) was formed in order to issue International Accounting Standards (IASs), and this committee and its successor the International Accounting Standards Board (IASB) have been widely accepted across the world. Both practitioners and academics alike believe that many benefits can be brought to the participants in capital markets through standards of accounting that are applied globally. The IASB, unsurprisingly, started to collaborate with the national standard-setters of leading countries, i.e. the UK and the US, in order to harmonise and converge the accounting standards and practices. The International Organisation of Securities Commissions kept faith with the IASB and advised its members to adopt IFRSs as a basis for their financial reporting. In response to this, the European Union enacted a law requiring the mandatory adoption of IFRSs for listed companies within European Stock Exchanges, for the preparation of their financial statements from the 1st January 2005 onwards, and with this historical event, there is now the expectation that there will be a big influence to the manner in which items within financial statements are measured and presented, in comparison with the different domestic accounting standards that had previously been used in the various countries.

In the next chapter there is a discussion of the main differences between the US GAAP and IFRSs, in terms of the disclosure and measurement of items presented within financial statements. As these differences are supposed to influence the decisions of investors, with IFRSs promising a greater degree of transparency and accurate financial information in comparison with US GAAP,

it is expected that adopting IFRSs will bring greater value for investors and lead to an increase in the relevance of financial reporting for them.

Chapter 3 : Major Differences between US GAAP and IFRSs

3.1 Introduction

This chapter examines the main differences between US GAAP and IFRSs. The highlighted differences are not exhaustive, but just the major differences related to the aim of this thesis. Thus, this chapter focuses on the main differences of the two standards of the financial statements (Cash Flow Statement, Balance Sheet, and Income Statement), accounting treatment for investment in associates and measurements of value.

The capital (debt and equity) raised by companies, comes directly from the public and indirectly from intermediaries, and there is a presumption that investors rely on information that is in the public domain. As a result of this, there is a tendency towards a high standard of the disclosure needs of shareholders, both existing and prospective ones, determining the rules of accounting (Fontes, et. al., 2005). Within the literature related to accounting, it is standard practice for a distinction to be made between two standards of accounting used in preparing the financial statements namely: the US Generally Accepted Accounting Principles (US GAAP) which are mainly used in the United States and the International Financial Reporting Standards (IFRSs) which have been issued since 2001 (Ampofo and Sellani, 2005).

Different methods of timely public disclosure including financial reporting, address the issue of asymmetric information between shareholders and managers and, over time, standards of accounting have evolved to a state of common acceptance in practice. As they have arisen in an accounting market without being determined by government, they are generally separate from tax law (Illiano and Thornton, 2007). By way of contrast, in a country that is considered

a stakeholder model, the shareholders, employees, government, managers and debt holders are all considered stakeholders and the financial reporting rules are largely encumbered by taxation requirements (Ashbaugh and Pincus, 2001).

The IFRSs are considered as a system oriented towards the shareholder, with the encouragement of an approach to the presentation of financial statements that is fair value based, with financial events being more likely to be incorporated into them in a more timely fashion (Alexander and Archer, 2001). Volatility in book values and reported earnings is likely to be introduced by the fair value orientation of IFRSs (Barth et al, 2005; Hung and Subramanyam, 2007). The implementation of IFRSs in the Middle East has been reported as generally leading to a greater degree of volatility in leverage measures and income-related figures (Ahmed, 2007). As Hung and Subramanyam (2007) point out, the orientation of IFRSs towards fair value, and the volatility in income as a result, may lead to financial distress or result in an adopting firm violating its debt covenant.

There are several important implications for accounting standards borne out of the differing roles of the accounting systems. For example, contractual contingencies are generally recognised by US GAAP as at fair value (minus the 'reliably measurable' filter), however, non-contractual contingencies are only recognised if they are likely to be defined as an asset or a liability by the date of acquisition (KPMG, 2009). Following such recognition, the initial measurement is retained by the entity until the receipt of new information, at which point liabilities are measured at the higher fair value and the amount recognised under the FAS 5 (Nellessen and Zuelch, 2011). However, assets are measured at the lower of fair value and the best estimate that can be ascertained for an amount for future settlement (Songlan and Kathryn, 2010).

On the other hand, the contingent liabilities at fair value are recognised by IFRSs as long as their fair values are measured reliably (Al-Yaseen and Al-Khadash, 2011). As such the contingent liability is measured at the amount that is higher

from that originally recognised and higher than the amount that would be recognised when ascertained under IAS 37, with the contingent assets not being recognised (Molland and Clift, 2008). Also, under the US GAAP there is no requirement for any captions for the income statement, with either the single or multiple step format sufficing to show the income (Bishop, et. al., 2005), whilst for IFRSs there is a requirement for minimum captions in the income statement (Hassan, 2008). A further main difference between US GAAP and IFRSs, in respect of the unusual income and the definition of the discontinued operations, is that the former system has a definition of discontinued operations that is wider as it includes reportable business or geographical segments or major components (Mansfield and Lorenz, 2004).

Both of these standards can be seen as being characterised by being more fair-value oriented and, therefore they are more likely to incorporate effects of economic events, into financial statements, in a manner that is more timely and volatile (Nellessen and Zuelch, 2011; Alexander and Archer, 2001). Another aspect of the similarities between IFRSs and US GAAP is that there is free choice between the different methods of depreciation, rather than other standards which were developed in an environment that was highly politicized with taxation requirements that were to serve a variety of stakeholders (Haverty, 2006). Such standards have a tendency to align financial and tax reporting, instead of focussing on disclose the information about earnings, and therefore they have a focus upon one method of depreciation, namely, 'the accelerated depreciation' (Chen and Sami, 2007).

For example, when purchasing qualifying assets (under stakeholder model), companies are entitled to write them off in a way that is accelerated (Ballwieser, 2001). First of all, the amount of the accelerated depreciation is charged to the income statement and credited to an item on the balance-sheet, then it is reversed in future periods to earnings as a credit (Black and White, 2003). For the US GAAP and the IFRSs, however, companies are given the option to choose the

method to be used for financial reporting (Hopkins, et. al., 2008; Haverty, 2006; Liu and O'Farrell, 2010).

With such similarities and differences between the earnings that are produced under US GAAP and those produced under IFRSs, it is expected that under the latter the earnings prepared will have the higher degree of value relevance (Liu and O'Farrell, 2010). It is a significant strength that economic losses are included into published financial statements quickly (Liu, et. al., 2010). If loss is recognised in a timely fashion then managers, who are made aware of decreases in the expected future cash flows from investments that are long-term, can quickly incorporate that information into accounting income as one-time losses (Rehberg, 2008). Such system can make the company more efficient as it encourages managers to take action against strategies and investments that are losing money.

In the case of the Dubai government, the main source of long term investment has been from residents of outsiders and, subsequently, money was moved out of Dubai by overseas investors once losses were announced on its market during the crisis (DIFC, 2010). This has led, in turn, to further difficulties on keeping foreign investment in Dubai stock market. Managers became aware of the decline in future cash flow, especially for construction firms, and set to addressing this problem by starting to change their strategies for gathering cash (DIFC, 2010a). For example, the 'Amaar construction firm' suspended some of its projects and swapped and sold flats, and this strategy has enabled the firm to reduce the level of loss that it might face if it were unable to complete projects due to the crisis (Louh, 2011).

On the other hand, within a system such as that in Abu Dhabi, there is more of a reliance upon private rather than public information, and managers have considerable discretion whilst making various estimates of accounting (World Market Media, 2009). This is not the case in an open market where there is a

presumption that transactions are at arm's length and informed by public disclosure (Beckman, et. al., 2007).

Many accounting treatments reflect this situation, especially lease contracts. In systems that have a strong emphasis on fairness that is oriented towards shareholders, such as in Dubai, although the company is not the legal owner of the assets, lease contracts are accounted for on the balance sheet (AME Info, 2005b). However, wherever the legal form prevails, such as in Abu Dhabi, as the company is not the legal owner, these assets that are used by the company are kept off the balance sheet. This difference can significantly impact upon the debt/equity ratio of companies (Alexander, et. al., 2009).

Furthermore, for compliance in the income statement of the presentation of certain items, the US GAAP has a requirement for certain standards, with public entities subject to SEC rules and regulations that require specific line items (Hopkins, et. al., 2008). For the IFRS, however, specific line items are required and there is a slight difference in the presentation of items in the balance sheet (Liu, et. al., 2010). Current and non-current assets and liabilities are presented by IFRS entities as separate classifications on the face of their balance sheets, except when more relevant and reliable information can be provided by a liquidity presentation (Liu, 2011). In such cases, all assets and liabilities are broadly presented in order of liquidity, otherwise there is no format that is prescribed for the balance sheet and, in many areas, the management may use its judgement with regard to the form of its presentation (Beuren, et. al., 2008). Items that are presented on the face of the balance sheet are similar to IFRSs, though, generally, they are presented with a decreasing order of liquidity. The detail of the balance sheet ought to be sufficient to enable material components to be identified, with public entities following specific SEC guidance (Alexander et al, 2009).

To summarise, whilst both US GAAP and the IFRSs are primarily set by the private sector, with a focus upon the needs of investors, differences do exist

between the two sets of rules, and these are discussed in the following section. The section provides a discussion of the main differences between the two standards of accounting and the impact they have on the disclosure and measurement of items that are contained in financial statements. It is worthy to mention here that both ISAC and FASB have issued Memorandum of Understanding (MoU) in 2006, 2008 and 2011 for the hope of highlighting the most areas in need of improvement of both US GAAP and IFRS to improve the quality of the two standards and reach a better convergence (SEC, 2011).

3.2 The main differences between IFRSs and US GAAP

Change can be difficult to deal with, and management of firms can become more nervous. Most people try to resist change (Liu and O'Farrell, 2010), however, as it makes them face the unknown, it can be a good thing and eventually change can become the norm. During the last decade, the environment of the world of accounting and financial reporting has seen a lot of rapid change, with good progress made towards the establishment of a single set of accounting standards that are of high quality and globally accepted (Liu, et. al., 2010). This has not yet been fully achieved, however care must be taken in defining what is the ultimate goal. Is the goal convergence of US GAAP to IFRSs, or their conversion to IFRSs? When considering the results of convergence, there maybe an expectation gap as there are two different things.

The FASB issued SFAS 141R Business Combinations in December 2007, and the IASB issued the revised IFRS 3 Business Combinations in the following month (Liu, 2011) and, even though this substantial change was still referred to as 'substantially converged', these two accounting standards represented a 'substantially' converged standard for the accounting of business combinations (Beuren, et. al. 2008). Whilst the project was carried out as a joint project that aimed at convergence, the FASB and IASB did not issue identical standards, however, as the process of attempting to dissect and eliminate all the possible differences that may be encountered in practice was to be very time consuming and costly, if not impossible (Bao, et. al., 2010). A focus on the alignment of the

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general principles and overall methodologies is a more effective approach and this is further illustrated in other examples of converged standards, such as those for assets held for sale and discounted operations, share-based payment, operating segments and borrowing costs (Doukakis, 2010).

A false sense of security that all significant differences are eliminated by convergence should be avoided as there continue to be differences in the detail that is experienced, even though the general principles and overall methodology of the accounting standards have been converged (Albu, et. al., 2011).

During the time of continued work on convergence by the FASB and the IASB, the US Securities and Exchange Commission (SEC) have also made significant progress to increase the degree towards which IFRSs are accepted (Ballas, et. al., 2010). The decision of the SEC to accept financial statements of foreign private issuers that have been prepared in accordance with IFRSs as issued by the IASB, without the requirement to reconcile them with U.S (Callao, et. al., 2009). GAAP has shown that the SEC is willing to continue to support work towards convergence. Also, the option of applying IFRSs for US domestic filers, as an alternative to the application of US GAAP, is currently being considered by the SEC, to see if or when it should be allowed (Pilcher and Dean, 2009).

3.2.1. Differences according to disclosure

3.2.1.1. Presentation of the financial statements

1. Cash flow statement

To comply with IAS7, firms that have adopted IFRSs have to prepare a cash flow statement to present the cash flows during the period, and this should be classified into three categories, namely: operating, investing and financing (Cheong, et. al., 2010). Such key classifications are also required by the US GAAP, however, if there is more than one class of cash flow within a transaction in the US GAAP (KPMG, 2009), then the transaction should be classified

according to the main source of the cash flows unless the underlying transaction has been accounted for as having components that are different (KPMG, 2010). With the IAS7, the three classifications of operating, investing or financing provide the framework for the classifying of each single transaction (Liu and O'Farrell, 2010). Further to this, both the IAS7 and US GAAP standards calculate the net cash of the three categories. This is to show the change in cash and cash equivalents during the period and this, in turn, is used to reconcile opening and closing cash and cash equivalents (Liu, 2011). Those cash flows that are reported under IAS 7 and US GAAP (SFAS 102) are related to the movements in cash and cash equivalents, which are defined as investments that are short-term and highly liquid and that are readily converted into known amounts of cash and that are subject to an insignificant risk of changes in value (PwC, 2008). The US GAAP is different from the IFRSs, however, in terms of the definition of 'short-term' investments, the inclusion of which is a requirement for both standards (PwC, 2008). Additionally, whilst in some cases, bank overdrafts are included within IFRSs, they are not included in the calculations of cash flow statements of the US GAAP (Beuren, et. al., 2008). With regard to the method used for the presentation of operating activities, both standards give those who prepare the financial statements the option of choosing which method of presenting the operating activities, using methods that are either direct or indirect. However, cash equivalents would be included in the 'management of liquid resources' under both standards (Deloitte IAS Plus, 2009). The two standards are also similar in regard to the foreign currency cash and cash equivalents that would be reported on the face of the statement of cash flow in order to provide reconciliation of the balances of opening and closing cash and cash equivalents (KPMG, 2009). In the situation of reporting entity itself reporting in the currency of a hyper-inflationary economy, the IAS29 can deal with it.

2. Balance sheet

Generally, the presentation of the balance sheet classification differs between US GAAP and IFRSs, with IAS1 describing that the balance sheet ought to be

classified into the two categories of current and non-current (PwC, 2009). If a balance sheet is unclassified, with it based upon the order of liquidity, then it is only acceptable if it provides information that is reliable and more relevant (Haverty, 2006). However, a presentation of two categories is not required by US GAAP for the assets and liabilities, and the US GAAP does not put restrictions upon an unclassified balance sheet that is based on the order of liquidity (Liu and O'Farrell, 2010).

Furthermore, whilst regulations that prescribe the format and certain minimum line item disclosures are set by the SEC regulations of US GAAP for SEC registrants, the format of the items on the balance sheet is not prescribed by the IFRSs (Rehberg, 2008). Current liabilities that are classified by both US GAAP and IFRSs is payable within a year, however the standards differ in regard to the keeping of this classification when an agreement is issued between the lender and the firm in order to refinance a loan (Liu, 2011). In such an instance, the US GAAP does not classify the current liability as current when the loan is refinanced subsequent to the reporting date. Instead it is done prior to the issuing of financial statements, or when the lender has, after the reporting date, waived the right to demand repayment for more than 12 months from that reporting date (Nordlund, 2010). For the IFRSs, it is stated that the agreement between the lender and the firm for the refinancing of the loan was done after the financial statement was authorised for issue, and then there is no demand for a re-classification of repayment (Pilcher and Dean, 2009).

3. Income statement

IAS1 and IAS8 do not require a prescribed format for the income statement, however, there is a requirement under IFRSs that certain items are presented on the income statement face (Miihkinen, 2008). SEC regulations prescribe the format and certain minimum line item disclosures, unlike the IFRSs which, on the other hand, also differ from the US GAAP with regard to the way expenses are classified (SEC, 2010). An analysis of the expenses, either by function or by their nature, is required under the IFRSs (IAS8), with the analysis to be added

either in the notes or the face of the income statement. The SEC regulations, however, do not require the classification of expenses (Deloitte, 2007). Alternative earnings can be presented in either the notes or the face of the income statement under IFRSs (KPMG, 2009). However, the presentation of alternative earnings is prohibited under the SEC regulations (KPMG, 2009). With regard to extraordinary items, the disclosure of items of income and expenses that are characterised as 'extraordinary items' are prohibited under IFRSs (IAS8) (Deloitte website, 2010). However, it is a requirement under US GAAP that extraordinary items, that are defined as infrequent in occurrence and unusual in nature, are presented (KPMG, 2009).

Finally, both the US GAAP and IFRSs standards indicate that items of income and expenses are not to be offset unless they are permitted by another standard, or if the amount is in relation to transactions that are similar or those that are not even material (Deloitte, 2007).

3.2.1.2 Investment in associates

Under the IFRSs, investment in an associate is defined as an entity over which the investor has significant influence; in other words, the power to participate in an associate's financial and operating policies, though not control them (Miihkinen, 2008). Significant influence is demonstrated by the participation of an investor in an entity's financial and operating policies through representation on its board (Songlan and Kathryn, 2010). There is a presumption of significant influence when an investor has a 20% or more interest in the voting rights of an entity (Carlin, et. al., 2009). Within the US GAAP, there is no term that exists for what would be considered an 'associate' under IFRSs. Instead, under US GAAP, the term 'equity-method investee' is used (Deloitte, 2004). The entity has the power to exercise a significant degree of influence over financial and operating policies through investment in associates. Whilst under the IFRSs it is stated that there is a 'rebuttable presumption' with significant influence if a firm has 20% to 50% of the voting rights of another entity, under US GAAP, additional requirements are added in respect of partnerships and similar entities

(KPMG, 2009). Both the US GAAP and the IFRSs permit the investor to adopt the equity method for an investment in an associate, with the investor presenting their share of the post-tax profits of the associate and the losses within the income statement (Deloitte, 2010). The share of changes in the equity of the associate that have not been recognised in the profit or loss of the associate, is recognised by the investor in equity (KPMG, 2009). Upon acquisition of an investment, the investor accounts for the difference between the share of fair value of the net identifiable assets of the investor and the cost of the acquisition as goodwill, and this is included in the carrying amount of the investment (PwC, 2011). The investor's investment in the associate is stated at cost, in addition to its share of profits or losses post-acquistion, and its share of movements in reserves post-acquisition, minus the dividends that have been received (Beneish and Yohn, 2008).

If there are any losses that reduce the investment to below zero, these are applied against any long-term interests that substantially form part of the net investment in the associate of the investor, for example, long-term receivables and loans and preference shares (Daske, et. al., 2008). Where there are losses that are recognised as being in excess of the investor's investment in ordinary shares, these are applied to the other components in a winding up in reverse order of priority (Liu and O'Farrell, 2010). If there are further losses, these are provided for as a liability only to the extent that the investor has incurred constructive or legal obligations in order to make payments on the behalf of the associate (Mehmet, et. al., 2009). There is a requirement for disclosure of information with regard to the revenues, profits or losses and the assets and liabilities of associates (Nordlund, 2010). The investments in associates that venture capital organisations, mutual funds, unit trusts, and entities that are similar, such as investment-linked insurance funds, hold are able to be carried at fair value through profit or loss (Tsalavoutas and Evans, 2010).

3.2.1.3 Income taxes

Income taxes in financial statements are classified in the accounting literature into the two broad categories of current and deferred tax and, under the two sets of standards of accounting under study, their treatment is different. US GAAP and IAS 12 Income Taxes are similar with respect to current taxes, as the two standards have a recognition of income tax expense within the income statement, where it is calculated through the summation of current tax expense in addition to the change in deferred tax liabilities and assets during the period, with the recognition of the net of tax, directly in equity or that has arisen from a business combination (Deloitte, 2004). Furthermore, the two standards have a recognition of the deferred tax for the estimation of the future tax effects of temporary differences and the tax loss carry-forwards (KPMG, 2009). The temporary differences are differences between the tax base of an asset or liability and its carrying amount within a financial statement (PwC, 2009). There will not be recognition of the loss carry-forwards, meanwhile, if it is due to a loss in goodwill (Beckman et al, 2007).

On the other hand, there is difference between the US GAAP and the IFRSs in regard to the exempting of the recognised deferred tax liability or assets (Ding, et. al., 2006). With the US GAAP, there is no recognition of any exemption from the initial recognition of an asset or liability, when there is a transaction that is not a business combination and affects neither accounting or taxable profit, at the time of the transaction (Deloitte, 2008). Also, the U.S GAAP does not have a recognition of the deferred tax liability for exchange losses and gains, that are related to assets and liabilities that are foreign and non-monetary, that are re-measured, using historical exchange rates or indexing, into the functional currency for tax purposes (Horton and Serafeim, 2007).In addition, the US GAAP recognises deferred tax assets in full after deducting the valuation allowance, US GAAP also requires the entity to consider the relative impact of negative and positive evidence and provides examples that realize the deferred tax asset. However, under the IFRSs, deferred tax assets can be recognized when

it is considered probable which is sufficient taxable profits will be available to use the temporary difference (SEC, 2011).

A further difference between the two standards is in regards to the deferred tax in relation to the investments in subsidiaries associates and joint ventures. If certain conditions are met, the US GAAP and the IFRSs do not have a recognition of deferred tax, however those conditions differ between the two standards (Hung and Subramanyam, 2007). The US GAAP always has a recognition of the deferred tax in relation to investment in equity-method investees (associates), whilst, if it is likely to be realised, the IFRSs recognise this tax (Andre, et. al., 2008). The two standards differ in the method for measuring the deferred tax, with the US GAAP using a measurement solely based on rates and tax laws that are enacted at the date of reporting, and the IFRSs allowing measurement of deferred tax that is based upon rates and tax laws that are either enacted or substantively enacted on the date of reporting (JermakoDicz and Gornik-Tomaszewski, 2006).

It has been highlighted by Haverty (2006) that whilst deferred tax measured by the IFRSs is based upon the expected manner of settlement (liability) or recovery (asset), with the US GAAP, the deferred tax is based upon the assumption that, in a manner that is consistent with its current use in the business, the underlying asset/liability will be recovered or settled. However, as Deloitte (2004) point out, for both standards can be measured on an undiscounted basis. The general classification rules for current/non-current assets apply to deferred tax assets: with deferred tax classified as non-current asset under IFRSs in a classified balance sheet; and with it classified as either current or non-current, under US GAAP, according to whether the classification of the related assets or liabilities gives rise to the temporary difference. It is allocated by (KPMG, 2009) that the IFRSs allows the adjustment of the share-base payment in order to reflect the amount of tax deduction that the entity would receive if the award was tax deductible based on the current market price of the shares, in the current period. However, under the US GAAP, temporary

differences are allowed that are related to payment arrangements that are share-based that are based upon the amount of compensation cost recognised in profit or loss without there being any adjustment for the current share price until the realisation of the tax benefit (Leuz and Wuste, 2003).

3.2.1.4 Leases

Although there is agreement between the two sets of standards on the classification of leases into finance or operating leases, with the definition of finance lease being the same for both standards, they do differ in respect of whether a lease is indeed to be classified as of one type or the other. A quantitative test of whether a lease if a finance lease is not provided by IAS 17, Leases (PwC 2005). Instead, there is provision of further guidance on when a finance lease ought to be classified as such. In accordance with IAS 17, Leases, finance leases ought to be capitalised when all the rewards and risks that go with ownership have been transferred to the lessee and, in a manner that is similar to the recording of other long-lived assets, depreciation should also be recorded (Beckman et al, 2007). Under both the US GAAP and the IFRSs there is a requirement that, at the inception of the lease for land and buildings, there ought to be a split between a lease for the land and one for the buildings (Paulo, 2002). Leases of land should usually be treated as operating leases, unless the title is expected to pass to the lessee at the end of the term of the lease, however, there is a requirement for more details to be explained under the US GAAP than under the IFRSs (PwC, 2005). There would be a classification of the buildings element into either operating or finance lease as appropriate, and this would mean that the leases of buildings are more likely to be classified, under IAS 17, as finance leases (Deloitte, 2004)

There is a difference between the standards of the income recognition for finance leases, and this can give rise to income recognition profiles that are materially different, particularly where there are significant tax effects of a lease (PwC, 2005). As such, some leases that are now classified as finance leases under IAS 17, were previously classified as operating leases under the local

GAAP (Horton and Serafeim, 2007). As with the IFRSs, the lessor has a recognition that a capital lease is receivable, unless the lease is a leveraged lease and the lessee has a recognition of leased asset and liability for future payments on the lease. With an operating lease, both of the standards recognise the leased asset in the balance sheet of the lessor and, for the lease payments over the lease term, as an expense for the lessee (Hung and Subramanyam, 2007). Furthermore, as pointed out by Beckman et al (2007), gains on sale and leaseback transactions are often recognised in the period of sale, whether or not the sale takes place at fair value, with the classification of the leaseback as either an operating or finance lease. The immediate gain recognition on a sale leaseback transaction is not permitted, however, by the US GAAP, unless the transaction is considered minor.

3.2.1.5 Segment reporting

With regard to segmental reporting, there is a difference between the scope of IAS 14(IFRS 8 *Operating segments*), Segment Reporting, and SFAS 131, with the former applying to entities that have equity or debt securities that are, or are in the process of, being publicly traded (Andre, et. al., 2008). SFAS 131, however is also applied to other sorts of entities for the filing of financial statements with the SEC (KPMG, 2009a). While US GAAP provides guidance in some cases; the IFRS provides some core disclosure principle (SEC, 2011).

There are more extensive requirements for disclosure of the *IFRS 8*, in comparison with the US GAAP, as the *IAS 14* has a requirement for both business and geographical segments, with one basis of segmentation being primary and the other secondary (KPMG, 2009). Primary segments have a requirement for extensive disclosure under *IAS 14*, with secondary segments requiring the disclosure of considerably less information (Lin and Paananem, 2007). However, under the US GAAP, there is a requirement for segments to be reported to the chief operating decision maker, with no distinction made between segments that are business or geographical (Deloitte and Touche, 2004). Moreover, the *IAS 14* is based upon the approach of management towards the

organisation of business, and this approach differs from that of the US GAAP, which is a risk/returns approach based upon the entity's internal reporting structure (PwC, 2005). Finally, to accord with the IFRSs, the amount of disclosure is based on the same policies of accounting as those amounts that are recognised in the financial statements; however, under the US GAAP, the amount that is disclosed is based on the amounts that have been reported to the chief operating decision maker, internally (Wines, et. al., 2007).

3.2.1.6 Non-current assets (Held for sale and discontinued operations)

Within *IFRS 5, Non-current Assets held for sale and discontinued operations*, requirements for the classification, measurement and presentation of non-current assets, that are held for sale, are set out (Lin and Paananem, 2007). Within *IFRS 5*, the concept of a '*disposal group*' is introduced, with assets that are classified as being held for sale, and those assets that are in a disposal group that is classified for sale, being presented in the balance sheet separately from other assets (Nobes and Parker, 2004). In addition, any liabilities of a disposal group that has the classification of being held for sale ought to be presented separate from any other liabilities (PwC 2005). Subsidiaries that are acquired exclusively with a view to resale are consolidated under *IFRS 5*, when they meet the conditions of being classified as held for sale. However, *for discounted operations*, their results are presented within the single line item. In the balance sheet they are presented as two separate items (namely: assets, that include goodwill; and liabilities) and these are measured at fair value less the costs to sell (PwC 2005; Nellessen and Zuelch, 2011). Also, those assets that are classified in this group as held for sale will not be depreciated. Similar classification of assets held for sale and 'disposal groups' are with the US GAAP, however, they differ from the IFRS in that guidance is not provided in the U.S (Nellessen and Zuelch, 2011). GAAP of whether there ought to be a re-presentation of the comparative balance sheet when an asset within the disposal group, that is long-lived, is classified as being held for sale.

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Furthermore, whilst the discontinued operation was classified as a component of an entity which either has been disposed of or is held for sale under both standards, under the IFRSs, the discontinued operation is limited to those operations that are a separate major line of business or a separate geographical area, and to those subsidiaries that have been acquired solely with a view to their resale (Ballas, et. al., 2010). Under the US GAAP, however, that *discontinued operation* is described as comprising of operation and cash flows that have been or will be eliminated from the ongoing operations due to the disposal transaction that might only be a fraction of a separate line of business (Nordlund, 2010). Under both sets of standards, there is an indication that the discontinued operations are to be separately presented on the face of the income statement, however the US GAAP does not have a requirement for the disclosure of operations that are discontinued within the cash flow (Carlin and Finch, 2010). Finally, whilst both sets of standards have a requirement for the re-presentation of the discontinued operation in comparative income statements and cash flow information, the US GAAP has a determination of the represented cash flow information to such a condition that if the cash flow information were to be discontinued, operations are presented for the current reporting period separately (Callao, et. al., 2009).

3.2.2. Differences based on Measurement

3.2.2.1 Investment in subsidiaries

Throughout the world, full consolidation has emerged as the main method of accounting for investments in subsidiaries in the primary financial statements, with the makers of accounting rules and the regulators having come to accept that a parent and its subsidiaries ought to have financial statements that are a report of the financial position, the results of operations and cash flows, as if they were a single legal entity (Reinstein and Weirich, 2002). Whilst, for legal, tax or other reasons, there may be the formation of multiple subsidiaries, they all function as one economic unit and, as such, they ought to report as one. It is recognised by the proponents of full consolidation that there maybe a decentralised manner for the operation of members of a group, with maybe a

broad spread of authority amongst the various subsidiaries so that they can run their businesses in a way that has minimum supervision from the parent of the group (Alfredson, et. al., 2005). However, such decentralisation of operations can only continue in so far as it serves the needs of the group and, whether it is exercised or not, the parent retains the power to control its subsidiaries. However, full consolidation does not solve all of the potential problems. In order to reveal the resources that are available for the repayment of their loans, separated financial statements are required for the creditors in the individual entities in the consolidated group (KPMG, 2009). Also, there may be a need for disclosure with a footnote in consolidated statements in order to provide an explanation of restrictions between the members of the group on the transfer of cash and other assets (Deloitte, 2010). There is a requirement within the *IAS No. 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries"* for full consolidation of all subsidiaries, with the following exceptions: there is an exemption for a parent from having to present financial statements that are consolidated, if it is in itself a subsidiary that is owned wholly or virtually wholly by a parent that does present consolidated financial statements; also a subsidiary ought to be excluded from consolidation if i) the subsidiary is acquired and held solely with a view to its subsequent disposal in the near future, with the control only intended as being temporary or ii) there are severe long-term restrictions under which the subsidiary is operating that significantly impair its ability to transfer funds across to the parent (KPMG, 2009). Those subsidiaries that are excluded from consolidation ought to be accounted for to accord with IAS No.25 "Accounting for Investments" (PwC, 2011). This particular pronouncement permits those investments that are long-term to be accounted for at cost, lower of cost, market or fair value (Nellessen and Zuelch, 2011). The definition of control within IAS No.27 is "the power to govern the financial and operating policies of an enterprise so as to obtain benefit from its activities" (Nellessen and Zuelch, 2011).

On the other hand, within the United States, the primary guidance is the *FASB Statement No. 94 "Consolidation of All Majority-Owned Subsidiaries"*. With

this guidance, there is the requirement for the parent to consolidate fully all companies for which it "has a controlling financial interest through direct or indirect ownership of a majority voting interest" (SEC, 2010). There are two exceptions to this rule within SFAS 94: firstly, if the control does not rest with the majority shareholders; and secondly, if the control is only likely to be temporary, or if there is no contemplation of an investment position that is long-term, such as an instance of the acquisition of a majority interest in order to facilitate other business deals without any meaningful commitment to the company that has been acquired (Liu, 2011). When a subsidiary is in bankruptcy or legal reorganisation, then control of it may not reside with the management of the parent company, but with fiduciaries, such as creditors or bankruptcy trustees (Albu, et. al., 2011). Likewise, the effective control of subsidiaries in foreign countries may actually rest with the foreign government, and foreign exchange restrictions, controls or other restrictions that are imposed by the government may be that severe that it gives rise to a significant doubt over whether the parent has a true ability to control its subsidiary (Nellessen and Zuelch, 2011). When the subsidiary is not consolidated due to the majority shareholders not having control, then the cost method is generally used for accounting.

3.2.2.2 Intangibles

With regards to the intangible assets, both the US GAAP and the IFRSs identify them as non-monetary assets that have no physical substance. By definition in the *IAS 38, Intangible Assets*, when an asset is separable, as in it is capable of being sold separately from the entity, or when it arises from contractual or other legal rights, then it is identifiable (Al-Ajmi and Saudagaran, 2011). Furthermore, the IFRS has a definition of the cost of the intangible assets at cost, which equates to the fair value of the consideration given (Al-Yaseen and Al-Khadash, 2011). There are also marked similarities between the US GAAP and the IFRSS with regard to direct-response advertising and software that has been developed for internal use or to be sold to third parties, as they are initially recognised at their cost, whereas other intangible assets are generally recognised at fair value with this usually equating to the fair value of given considerations (Molland and

Clift, 2008). Goodwill is also an issue with regard to intangible assets. Both the US GAAP and IFRSs only recognise goodwill within a business combination and measure it as a residual. Also, instead of being amortised, goodwill that has been acquired, or other intangible assets with lives that are indefinitely useful, are subject instead to impairment testing on a yearly basis (Carlin and Finch, 2010). Those intangible assets that have finite lives, however, are amortised over the period of their expected usefulness. As a result, expenditure on an intangible asset is not capitalised unless it can be shown that the utility of the asset is increased by the expenditure. It has been stated by Deloitte (2004) that whilst intangible assets are revalued under IFRSs to fair value if the market is active, such a re-valuation of intangible assets is not allowed under US GAAP. Furthermore, Beckman et al (2007) argued that whilst the incurring of internal research expenditure is recognised as an expense under the IFRSs, in order for these kinds of expenditure to be considered as capitalised expense, certain criteria ought to be met (Wines, et. al., 2007). On the other hand, both internal research and development expenditure is considered under the US GAAP as expense incurred (Deloitte, 2008). Furthermore, the criteria for special capitalisation applies to direct response advertising, software that has been developed for internal use, and also software that has been developed in order to be sold to third parties, with these differing from the general criteria that operate for the IFRSs (Carlin and Finch, 2010). Finally, both sets of accounting standards consider that advertising, expenditure on promotion and expenditure on reorganisation or relocation are expenses when they are incurred. Some of the costs in the intangible assets, however, are not considered as capitalised expense in accordance with the two sets, for instance goodwill that has been generated internally, the costs of developing lists of customers and the costs of start-up and training (Horton and Serafeim, 2007).

3.2.2.3 Accounting treatment for foreign exchange rate

There is a requirement within *IAS 21 The Effects of Changes in Foreign Exchange rates for the income and expense items of foreign entities*, that have a different functional currency to that of the group's presentation currency, to be

translated at the transaction rate, and it is suggested that a good approximation of that rate may be the average rate (PwC 2009). Likewise, with the *SFAS 52 "Foreign Currency Translation"* the entity is allowed to measure its assets, liabilities, expenses and revenues in accordance with its functional currency, which is the currency of the primary economic environment within which it operates (Daske, et. al., 2008). Additionally, the US GAAP, as with the IFRSs, an entity is allowed to present it financial statement in any currency other than the original one. However, more than one reporting currency is not allowed by the US GAAP, whereas more than one presentation currency is allowed by the IFRSs (Beckman et al, 2007).

Further to this, both the US GAAP and IFRSs standards provide indication that all transactions that are denominated in a functional currency of an entity are foreign currency transactions, with exchange differences that have arisen from currency transactions generally being recognised as company profit or loss (Haverty, 2006). Both sets of standards also deal the same way with the assets and liabilities, revenues and expenses, with foreign operations' financial statements being translated at the closing rate for the assets and the liabilities (Liu and O'Farrell, 2010). Revenues and expenses, meanwhile, are translated at the actual rates or appropriate averages, with equity components at historic rates (KPMG, 2009). The two standards differ, however, in the way they deal with the foreign operation when it is in an environment that is hyperinflationary, within which the adjustments are forced, by the IFRSs, to be made prior to translation, with the financial statements then translated at the end of the current period, at the closing rate (Liu, *et. al.*, 2010).

Unlike the IFRSs, the US GAAP provides guidance for financial statements of an operation in a foreign country that has an economy that is highly inflationary, with them being re-measured as if its functional currency were the reporting currency of the parent (Mehmet, et. al., 2009). Finally, it is important to note that both standards deal in a similar fashion with the cumulative exchange of equity, with the differences that were previously recognised directly in equity being

recorded as profit or loss (Ndubizu and Sanchez, 2006). As Deloitte (2004) note, the financial statements are translated into a currency for reporting that differs from the entity's functional currency, with the use of the same method of translation of financial statements as that of a foreign operation (Liu, 2011).

3.2.2.4 Fixed assets transactions

Subsequent expenditure is capitalised on an asset by *IAS 16 Property, Plant and Equipment* through the use of the same criteria as the initial spend, i.e. when it is likely that the economic benefits that are associated with the item in the future will flow to the entity, and the item's cost can be reliably measured (Beuren, et. al., 2008). Once part of an asset has been replaced then that replaced part becomes derecognised, irrespective of whether it has been separately depreciated or not (PwC 2008). In addition, under IFRSs, the useful life of an asset acts as a basis for depreciation, with the depreciation of plant, property and equipment being recognised, even when idle, though not the asset is being held for sale (Yong and Isa, 2009). Similarly, there is a recognition under the US GAAP that depreciation of fixed assets that are being held or idle, however, there is a difference between the two standards in regards to the depreciation method that is used for fixed assets (Deloitte, 2007). For the US GAAP there is a review of the estimates of the useful life and the residual value, and the method of depreciation, only when changes in circumstances or events provide an indication that the depreciation method or the current estimates are no longer appropriate (KPMG, 2009). Also, if an asset has an individual component, for which different depreciation methods or rates are appropriate, then IFRSs requires a separate depreciation method for the component of that asset. Whilst the US GAAP permits component accounting, it is not a requirement (PwC, 2009).

Finally, the revaluation of property, plant and equipment at the fair value, is required by the IFRSs and all items that belong in the same class are revalued at the same time and ought to be kept up to date (PwC, 2011). Under the US

GAAP, this is not a requirement, with the revaluation of property, plant and equipment not being permitted (Beckman et al, 2007). The income statement has a recognition of compensation for loss of impairment, though only if the receipt of it is virtually certain in IFRSs (Deloitte, 2008). Similarly, the US GAAP does not allow offsets to be made of loss or impairment of the carrying amount of the asset that has been impaired or lost (Deloitle and Touche, 2004). It is stated in IAS 16 that the cost of the acquired asset is measured at fair value, if fixed assets are acquired in exchange for an asset that is non-monetary, unless: i) the fair value of neither the asset that is given up, nor the asset received can be reliably measured; or ii) the exchange transaction has a lack of substance in commercial terms (PwC 2008). If future cash flows are expected to be changed significantly as a result of a transaction, then it is considered to have commercial substance Unless the fair value of the asset received can be more reliably measured, then fair value is considered to be the fair value of the asset that is given up (Al-Yaseen and Al-Khadash, 2011).

3.2.2.5 Investment property

In relation to investment property, there are significant differences between the approach to its definition within the IFRSs and US GAAP. Within the IAS 40, investment property is defined as being held for capital appreciation, to earn an income, or both (Deloitte, 2008). Under the US GAAP, however, there is no specific definition that applies to investment property, unless it is the classification criteria for 'held for sale' apply (Deloitte, 2008). Also, *IAS 40, Investment Property* that an entity has the choice between the fair value model and depreciated historical cost, for all investment property (PwC 2009). This approach differs from the requirement for investment property to be carried at cost model within the US GAAP (Deloitte, 2004). Furthermore, when there is the application of the fair value model under IFRSs, there is no depreciation of the carrying amount (Songlan and Kathryn, 2010). Within the income statement there is a recognition of gains or losses that arise from changes in the fair value of the asset (Al-Yaseen and Al-Khadash, 2011). This differs from the approach

of the US GAAP where there is recognition of a revaluation gain or loss, unless the deficit (or reversal) is permanent and ought to be recognised in the profit and loss statement (PwC 2009). IFRSs provide detailed guidance for when there is a change in the use of the investment property, and there is a subsequent classification (Deloitte, 2008). When the investment property is to be developed for sale, it is reclassified as inventory, and investment property that is to be owner-occupied is reclassified as property, plant and equipment (KPMG, 2009). On this issue, there is no guidance within the US GAAP, although investment in properties that is accounted for as property, plant and equipment, cannot then be transferred to or from the category of 'investment property' (PwC 2009). Finally, it is worth noting that whilst the IFRSs permit firms to classify property as investment property when the property is held by a lessee under an operating lease, so long as the definition of investment property is otherwise met and the lessee measures the investment property at fair value (Nellessen and Zuelch, 2011). The US GAAP on the other hand, does not allow property that is held by a lessee to have recognition in the balance sheet. Indeed, the US GAAP does provide an indication of guidance of how dual-use property ought to be classified, other than to be accounted as property, plant and equipment (Chen and Sami, 2007).

3.2.2.6 Financial instruments

A comprehensive standard for dealing with all aspects of the recognition and measurement of financial instruments is provided by IAS 39 Financial Instruments: Recognition and Measurement. Within its scope are all types of financial instruments, including de-recognition, fair value considerations, hedge accounting and impairment (Horton and Serafeim, 2007). Similarly, the *SFAS 133 (and amendments SFAS 138 and SFAS 149)* is used by US GAAP in order to deal specifically with the recognition and measurement of derivatives and hedge accounting. Different standards, in particular *SFAS 115 'Accounting for Certain Investments in Debt and Equity Securities' and 140 'Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities',*

deal with recognition and measurement and de-recognition issues for other financial instruments (Chen and Sami, 2007).

The Derivatives Implementation Group (DIG) (which is responsible for identifying issues facing the adoption of Statement 133 *'Derivatives Implementation'* and to advise the FASB on how to resolve those issues) have issued Implementation Issues on SFAS 133 *'Derivatives Implementation'*(PwC 2009). Unless derivative instruments are part of an effective hedge relationship, with the IFRSs, they are all deemed to be trading (KPMG 2009a). The balance sheet has all derivatives measured at fair value, and the US GAAP states that, under SFAS 133 *'Derivatives Implementation'*, derivatives are either hedging or non-hedging instruments (Nellessen and Zuelch, 2011).

In relation to the issue of recognition, both the US GAAP and the IFRSs state that financial assets and liabilities are measured at cost, initially, with this being defined in terms of the fair value of the consideration that was exchanged (Al-Yaseen and Al-Khadash, 2011). As a part of the initial recognition, those transaction costs that were incurred in order to acquire a financial asset are capitalised. Also, under the IFRSs, the classification of recognition as either equity or as a liability is based upon the contractual arrangement's substance rather than its legal form (Al-Yaseen and Al-Khadash, 2011). However, some of the instruments that would be classified as liabilities under the IFRSs are classified as equity under the US GAAP (PwC, 2008). On the other hand, the issue of de-recognition is different between the two sets of standards, whereby the financial components model for de-recognition is followed by IAS 39 *'Financial Instruments'*, though also with certain risks and aspects of reward contained therein (PwC, 2008). Under the US GAAP approach, however, the financial components model has a focus on control (KPMG, 2010). With regard to the issue of measurement, the IFRSs cover all financial assets and liabilities other than instruments of hedging, with amortised cost used for assets that are held-to-maturity, originated loans and receivables and non-trading liabilities. Also, fair value is used for trading assets and liabilities and for available-for-sale

assets (Molland and Clift, 2008). For these financial instruments, however, the U.S GAAP, was just covering the equity securities and derivatives, with mortgage loans held for sale carried at the lower of fair value or cost (Nellessen and Zuelch, 2011). The debt of an entity is stated at amortised cost. The other financial instrument, which could fall under the other rules of the US GAAP, is generally, however, carried at amortised cost.

In addition, both sets of standards have a recognition of the fair value adjustments in the items of trading that are in the income statement. Within the immediate income statement, the adjustment of the changes in fair value of financial assets that are available for sale might be recognised (Nellessen and Zuelch, 2011). Or it may be recycled to latter adjustments and then reports in equity, which will be affected when the recycle has been realised within in the income statement (Nellessen and Zuelch, 2011). In a similar fashion, the US GAAP allows for the use of a recycling system for those securities that are available-for-sale, with the adjustments reported in other comprehensive income (a component of equity) and this will be recycled, subsequently, from other comprehensive income and when it is realised it will be recognised within the income statement (Tsalavoutas and Evans, 2010). In addition, the IFRSs have a recognition of the change in fair value that is attributable to differences in foreign exchange within the income statement, with the equity containing the remaining change (Al-Yaseen and Al-Khadash, 2011). The US GAAP, however, does recognise in other comprehensive income, the change in fair value for differences in foreign exchange (Deloitte, 2004).

With regard to the Impairment, the IFRSs assess this at each balance sheet date, and the income statement has a recognition of the required write-downs in the carrying amount of the financial asset. Subsequently, impairment losses may also be reversed through the income statement, if it is warranted by the circumstances (Beuren, et. al., 2008). The US GAAP impairment, however, will be written down in the financial asset, and will only be if it is not temporary. Subsequent reversals are not permitted (Bishop, et. al., 2005).

3.2.2.7 Inventories

To some extent, there is a difference between the US GAAP and IFRSs in relation to inventories. Under the former, inventories are measured at the lower of cost and market, however under IFRSs, inventories tend to be measured at the lower of cost and net realisable value (KPMG, 2010; PwC, 2009). For both standards, however, it is stated that the cost includes all direct expenditure in order to get the inventory ready for sale, and this includes attributable overheads (PwC 2009).

Using the specific identification, weighted average or FIFO (first-in, first-out) method, the amount to be recognised as an expense (cost of goods sold) must be determined under the IFRSs (Deloitte, 2008). However, despite its prohibition under the IFRSs, under the US GAAP it is possible for firms to use the LIFO (last-in, first-out) (Nobes and Parker, 2004). If the result approximates actual cost, the US GAAP and the IFRSs allow for the use of the standard cost or retail method, however, where inventories have similar use and nature to the entity, it is not possible for the same cost formula to be applied to all inventories (KPMG, 2009). Also, whilst the US GAAP and the IFRSs have a realisation of the net value through an estimated selling price minus the estimated costs of completion and sale, under the US GAAP, a write-down of inventory to market is not reversed for subsequent recoveries in value (Deloitte, 2010).

3.2.2.8 Impairment of tangible and intangible assets

IFRSs require a yearly impairment test to be taken, in relation to the impairment of property, plant and equipment, for intangible assets and goodwill, that either have an indefinite life of usefulness or are not yet available for use (PwC, 2008). During an annual reporting period, this impairment test may be performed at any time, provided that each year it is performed at the same time (PwC 2005). For the US GAAP, it is stated that a compulsory impairment only exists when there is an indicator of impairment (KPMG 2009a). Whilst the basic approach within

IAS 36 'Impairment of Assets' matches that in *SFAS 142 'Goodwill and Other Intangible Assets'*, the impairment is measured through a comparison of the carrying value of fixed assets and goodwill with the recoverable amount (which equates to the higher of fair value minus costs to sell, or net selling price, and the value in use (PwC 2005).

Firstly, impairment losses are to be allocated to goodwill and then to intangible assets and other tangible fixed assets, under the IFRSs and, furthermore, reversals of impairment of goodwill are prohibited under that approach. They are permitted, however, when they relate to other intangible assets, where there are indications that the impairment is reduced or no longer exists (PwC, 2011). Under US GAAP, reversals of impairments of goodwill and intangible assets in restricted circumstances are prohibited (PwC 2005) (Deloitte, 2004).

3.2.2.9 Employee benefits

The liabilities of employee benefits on the basis of a constructive or legal obligation, are recognised by *IAS 19 Employee Benefits* and *SFAS 87 Employers' Accounting for Pensions*. SFAS 87, however, also recognises other types of employee benefits such as the benefits that accumulate when other criteria have been met (PwC, 2011). Both sets of standards have a recognition of the liabilities and the expenses for employee benefits in the same period that they occurred, and under the defined benefit plan, through the use of the projected unit credit method, the liability and expense are measured, actuarially (PwC, 2008). Furthermore, both sets of standards measure the benefit obligation through an estimation of the increase in future salary. However, the US GAAP differs from the IFRSs in that there is the necessity under the former to discount the defined benefit obligation by using a high quality corporate bond rate (Deloitte, 2010).

The US GAAP also differs from the IFRSs in relation to the post-employment benefits. For the US GAAP, there is a division of the benefits that are post-

employment into those that are post retirement (benefits that are provided during retirement), and other benefits that are post-employment (that are provided after the employment has ceased though prior to retirement). Under the IFRSs, the cessation of employment is provided under one set of requirements that are post-employment benefits (KPMG, 2009). In respect of the defined contribution plan, both sets of standards define the contribution plan as a post-retirement benefit plan under which the employer has to pay a specified contribution into an entity that is separate and thereafter has no further obligations. However, for the US GAAP there is no obligation to classify any other post-employment benefit plan, unlike the IFRSs (Horton and Serafeim, 2007).

There is a recognition of the actuarial gains and losses of defined benefit plans either within the profit and loss account, or straight away in equity. However, there is a difference in the way of recognition in that the IFRSs recognises the amounts directly in equity, whereas the US GAAP recognises the amounts in Accumulated Other Comprehensive Income (AOCI), which in turn becomes recycled to profit or loss (KPMG, 2009). In addition, there is a reference within the IFRSs that if there is recognition of the actuarial gains and losses of a defined benefit plan, then if gains and losses exceed a 'corridor', they are, generally, required to have recognition over the average, within the plan, of the remaining working lives of the employees (Deloitte, 2010). However, whilst the corridor that is highlighted in the IFRSs is 10% of the greater of the obligation and the fair value of plan assets at the beginning of the period, under the US GAAP no such percentage of corridor is highlighted. Instead, it is related to the fair value of planned assets at the beginning of the period, for the US GAAP (PwC, 2011).

Finally, whilst both sets of standards have a recognition of the expense of long-term employee benefits that can be accrued over the period of service, the US GAAP does not provide an indication of a single model to be used in the recognition of termination benefits (KPMG, 2009). Also, depending on whether the costs will be paid pursuant to an on going plan, the US GAAP has a set time

of recognition, whilst the IFRSs do not have recognition of the termination benefits until they are communicated to all the employees that would be affected (Beckman, et. al., 2007).

3.2.2.10. Share-based payments to employees

In general, the accounting for employee share schemes, that are under *IFRS 2, Share-based Payment*, differ significantly from the treatment that is currently used under the US GAAP. For the latter, the cash-settled share based payments are considered to be within the scope of the share passed payment standards, even if a shareholder or another group entity has settled it (Horton and Serafeim, 2007). In relation to equity-settled transactions, however, that are under IFRS 2, there is a requirement that the fair value of the employee services received ought to be measured by referring, at the grant date, to the fair value of the equity instrument (e.g. the share option) (PwC 2005). Likewise, the grant date of the US GAAP is the date upon which the employee and the entity have a shared understanding of the arrangement's terms and conditions (Deloitte, 2004). Furthermore, whilst the charge is distributed over the 'vesting period' under the IFRSs (this being accounted for as an arrangement that is a separate share-based payment), for the US GAAP the charge maybe rateable, if the award vests based on service only over the longest vesting tranche (PwC 2009a).Table 3.1 is a summary of the main differences between US GAAP and IFRSs

Table 3-1: The main differences between US GAAP and IFRSs

3.3 Summary

The major differences between the US GAAP and IFRSs have been highlighted within this chapter and classified into differences related to disclosure and

measurement. The main differences in disclosure have been found to be in relation to the areas of the presentation of the three statements, i.e. cash flow, income and balance sheet statements; the investment in associates; income taxes; leases; segment reporting and the treatment of accounting for assets that are non-current and that have been held for sale and discounted operations. On the other hand, differences in measurement have been identified, the main ones being within the areas of: investment in subsidiaries; intangibles; foreign exchange transactions; fixed assets transactions; investment property; financial instruments; inventories; impairment of tangible and intangible transactions; employee benefits and share-based payments to employees. As a result of this two-fold categorisation of differences that have been introduced in this chapter, it is expected that financial statements, that are prepared under the two sets of standards, will differ significantly in terms of both the disclosure and measurement of the different items of assets, liabilities and expenses. This will, in turn, lead to differences in the impact of those items on the performance of stock (measured by the price, and trading volume, of shares). It will also impact on the financial indicators of companies that adopt those different accounting standard sets (measured in terms of financial ratios that are based upon the different categories of assets and liabilities and operating profit). As the adoption of IFRSs requires the reclassification of assets and liabilities in the balance sheet, this is the reason for such a meaningful impact upon stock performance and financial indicators being obtained.

There will be one of two possibilities as a result of this reclassification:

1) Those assets and liabilities that cannot be qualified as assets and liabilities in accordance with the IFRSs are to be removed from financial statements that are IFRS-based. An example is that of research costs which do not qualify as assets under IFRSs. Research costs that had been previously capitalised were entered into the accounts, when they arose, as expenditure. Similarly, the differences of interest and exchange rate, which ought not to be regarded as part of the cost of an asset under IFRSs, have to be removed

from the cost of that asset. The book value of the asset recorded in the balance sheet will be affected by this, and also the amount of depreciation that is reported in the profit and loss account, with regard to this asset under IFRSs will be affected.

2) Within IFRS-based balance sheets, certain assets and/or liabilities that had not been previously entered into the accounts under local GAAP, are now to be considered as assets and/or liabilities. An example of this would be the case of deferred tax assets and liabilities which are more widely defined and recognised under IFRSs than under local GAAP. It is a requirement of the adoption of IFRSs that those assets and/or liabilities are included in the balance sheet.

These two points have the implication that there will be a difference in both the recognition and measurement of assets, liabilities and expenses under IFRSs, as opposed to the US GAAP that had been adopted by the listed in firms in the stock exchanges of both Dubai and Abu Dhabi, prior to the adoption of the IFRSs in 2005. There is therefore the implication that the adoption of IFRSs ought to have an impact upon the performance of stock and the financial indicators that in the main provide a measure of the ratios of profitability and this, in turn, will constitute a basis for the building up of this study's hypotheses.

Chapter 4 : Literature Review

4.1. Introduction

This chapter aims to critically review the different valuation models which have been used in the previous studies. The valuation models include the Balance sheet model, the earnings model and the Price Model (Ohlson model). The chapter will then compare the different valuation models with the new modified Ohlson model for international comparisons, followed by the literature review about the impact of adopting the IFRSs on the financial indicators.

The European Union (EU) proposed a regulation in February 2001 that would make it a requirement for all firms that were listed on exchanges in the EU to prepare consolidated financial statements that would be in accordance with International Accounting Standards (IASs) (Albu, et. al., 2011; Ballas, et. al., 2010), currently known as International Financial Reporting Standards (IFRSs) (IAS Plus, 2006). From 1 January 2005, the obligation would be effective, bringing with it the implication that, from that date, 7,000 European listed companies should apply IFRSs to their financial reporting (Nellessen and Zuelch, 2011). Consequently, this step in Europe has been followed in many countries across the world that have converted from local standards to IFRSs for listed firms, with the announcement being made from the UAE that there was a desire to change standards by 2005 (Irvine and Lucas, 2006). It was expected to be a significant influence on the disclosure and measurement of components of financial statements (Dubai website, 2008). Mainly these changes refer to the income statement, statement of cash flow and the balance sheet, and with such changes there was an expectation of an influence on share prices and trading volumes of stocks, known collectively as stock performance, and upon the various financial indicators for companies that were registered in the various stock exchanges in the Gulf (Ibrahim and Habibullah, 2010). Whilst the UAE

government announcement had a positive impact on the level of foreign investment, many authors have argued that there has been a negative impact on stock performance (Robbani and Bhuyan, 2010).

Several papers related to accounting have involved an investigation into the relationship, in empirical terms, between stock market values (or changes in them) and particular accounting numbers, in order to assess, or provide a basis of assessment of the use of those numbers, or proposed use, in an accounting standard (Ansari, 2009). This type of paper is often referred to as 'value-relevance' literature. The reporting of accounting and finance are considered, from a perspective of information economics, to be a vital part in the efficient running of a capital market (Pattarathammas and Khanthavit, 2009). This perspective of investor-oriented information-usefulness has been adopted by major accounting standard bodies, such as the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), who have specifically stated that accounting has the primary purpose of meeting the needs of capital markets (IAS Plus, 2006a). A result of this has been considerable attention given to the relationship between stock markets and accounting numbers, with such a theme becoming, probably, one of the issues of accounting literature that has been most popular in recent years (Alper and Yilmaz, 2004).

It has been suggested by Barth, et. al., (2001) that an accounting amount is defined as value relevant if there is a predicted association with equity market values. This value relevance is different from usefulness. This is because, for it to be useful, it needs also to be timely, and the timeliness of accounting data is not taken into account in research related to value relevance (Nobes and Parker, 2004; Barth, et. al., 2005).

Stickney, et. al., (2007) and Ashbaugh and Pincus (2001) conducted the first studies that recorded a relationship between accounting numbers and stock performance, measured through the volume of shares traded and share prices. It

was shown that in the week of the earnings announcement, there is a reaction in the stock market of an increase in trading volume and price variability (Trabelsi, 2010). Also, an explanation was given with regard to how increases or decreases in earnings are associated, on average, with positive or negative abnormal returns, over the 12 months prior to the earnings announcement (Floros, et. al., 2007). Also, the component of earnings that is unexpected would lead towards having the same sign as price changes that are unexpected during the same period (Softer, 2002). Ansari (2009) and other more recent research works have emphasised the relation between new information on earnings and the reaction to this information in the market. The work of Pattarathammas and Khanthavit (2009) examined the relationship between unexpected or abnormal returns and unexpected earnings and provided evidence of how accounting summarises unexpected events that have had an impact on the firm over the course of the year prior to the announcement of earnings. This spawned other work that focussed on the association between new information and unexpected or abnormal components of returns. The study of Raj and Kumari (2006) however, focussed on the market response on the day that accounting data was announced, and investigated the part that the data had in the provision of information to the market about events that could have an impact on the perceptions of investors. The accounting and finance literature has grown considerably, since the pioneering work of Raj and Kumari (2006) that studied the relationship between accounting information within financial statements and stock returns. Over 1,000 papers have been published in leading academic journals with such a focus in the last few decades (Kothari, 2001). At first, researchers of accounting published works that documented the association between stock returns and accounting earnings.

Studies related to the value-relevance of financial information has been widened out more recently to include income statement measures of earning and balance sheet measures of assets and liabilities (Floros and Vougas, 2008).

It has been suggested by Beaver (2002) that research related to value-relevance provides an examination of the relationship between a set of accounting variables and a security price-based dependent variable, with an accounting number considered value relevant if it relates significantly to the dependent variable. The suggestion is that value relevance is a statistical concept and it is argued by Barth et al (2001) that for an accounting measurement to be considered value relevant, then, to some degree, it must have accounting qualities of reliability and relevance, which are relevant to accounting standard setters. As a result of this, research into value relevance provides insights into matters of interest for standard setters.

However, Barth et al (2001) indicate that for accounting information to be useful or relevant, it does not necessarily have to be new. As such, accountants can play an important role in summarising or aggregating information that could possibly be available from various other sources, and so for information to be considered value relevant, it need not have hailed from a unique source (Elbakry, et. al., 2006). With the obligatory adoption of IFRSs from 1st January 2005 in the UAE, the effect of IFRSs on the ability to forecast earnings has become an ambiguous area for investors (United Arab Emirates, 2009). From one perspective, better accounting standards can lead to less noise and more accuracy for earnings reports, and therefore more value relevance and, other things being equal (e.g. if implementation and enforcement issues are put aside), then earnings can become easier to forecast and hence there would be an improvement to the accuracy of average analyst forecasting (Ashbaugh and Pincus, 2001; Hope, 2003). On the other hand, a different school of thought has an opposing conclusion, with the rationale that in regimes of low-quality reporting, managers can 'smooth' the reported earnings for a variety of objectives (Hope, et. al., 2005). These objectives could include avoiding recognition of losses, reducing corporate taxes, reducing the volatility of their own compensation and that of payouts to other stakeholders, most notably that of employee bonuses and dividends (Ball, et. al., 2000; Ball, et. al., 2003).

In contrast to this, within a high quality reporting regime, earnings are more informative, volatile and difficult to predict and this is further demonstrated in the case of the 'fair value accounting' emphasis of IFRSs (Nellessen and Zuelch, 2011). The rules of fair value accounting have as an aim the incorporation of information about economic gains and losses on securities, derivations and other transactions into financial statements in a more timely fashion, and for the incorporation of more timely information in relation to contemporary economic losses, or *impairment*, on tangible and intangible assets in the long term (Nellessen and Zuelch, 2011). There is the promise that IFRSs can make earnings more informative and hence more volatile and difficult to predict. It was noted by JermakoDicz and Gornik-Tomaszewski (2006) that the adoption of IFRSs is considered by European firms as a vehicle for the improvement of financial transparency and comparability between firms, however no evidence was provided of the perceived financial reporting improvement following the adoption of IFRSs, which it could be possible to attain through the use of a specific accounting practice or rule/standard. Similarly, Al-Shammari, *et. al.*, (2007b) studied Gulf countries, stress that they should adopt the IFRSs in order to compete in the global stock market, in the light of the increasing improvement of their stock exchange in the last two decades.

The remainder of this literature review chapter is arranged as follows. Section two provides an introductory overview of the various types of studies related to value relevance within the literature of accounting and finance. Section three has a discussion of the different models of valuation that are used in the literature in order to study the relationship between stock prices or returns and accounting numbers. Section four makes a comparison between price and return models as two alternatives for the study of value relevance. Within Section five there is an introduction to a review of the use of the modified Ohlson model for international comparisons. Section six provides an overview of the studies that have been introduced in the literature in relation to the impact of the adoption of IFRSs on financial indicators. Within Section seven there is an introduction to the main ratios for the measuring profitability, as profitability has a direct effect

on stock performance. Finally, within Section 8, a summary of the literature studies of the impact of the adoption of IFRSs on the performance of stock and financial indicators is provided.

4.2. The value-relevance studies

From the point of view of Chambers (1974), the propriety of accounting rules can be tested empirically through the behaviour of the market prices of ordinary shares (Armstrong, et. al., 2007). If this was indeed the case, then the correlation between the rules used and the behaviour of share price could resolve questions surrounding the differing treatments of similar equities, assets, revenues and expenses.

The role of accounting information in capital markets has been examined by Harris (2002), Arnold (1998), Ali and Hwang (2000) and Ball et al (2000). Ali and Hwang (2000) used the coefficient R^2, from various regression analyses, in order to measure changes in the value relevance of accounting information in relation to earnings, cash flows and the book values of shareholders' equity. Arnold (1998) predicted and found, through the study of variations in the characteristics of institutions in the UK, Germany and France, that, due to the importance of shareholders as a source of finance, the value relevance of earnings in the UK will be higher than book value.

4.2.1 Relative association studies

Relative association studies provide a comparison between the association between stock market values (or changes in values) and the alternative bottom-line measures for longer time-frames such as fiscal quarters or years. For example, Dörner (2005) provided an examination of whether an earnings number, calculated under a proposed standard, was more highly associated with stock market values than earnings that were calculated under existing GAAP. These types of studies usually test for differences in R^2 of regressions, with the

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accounting number that has the greater R^2 being described as having more value-relevance (Chong, et. al., 2003).

4.2.2 Measurement (incremental) studies

Measurement (incremental) studies provide an investigation of whether an accounting number, of particular interest, helps provide an explanation of the value of returns, given other specified variables, and this accounting number is usually considered to have value-relevance if it has an estimated regression coefficient that is significantly different from zero (Simlai,, 2009). For example, Venkatachalam (1996) provided an examination of the incremental association of fair value of risk management derivatives within a regression of equity market value on a selection of on-and-off balance sheet items.

To make a distinction between relative and incremental value relevance is of particular importance, a point that was made by Wilson (1997). They specifically pointed out the research contexts where each type of value relevance measure was appropriate, with incremental value relevance implying that value relevance is provided by one accounting measure beyond the level provided by another measure, and relative value relevance implying that one accounting measure provides greater value relevance than another measure (Taplin, 2004).

Incremental value relevance is considered useful when studying the necessity of disclosure and the components of financial statements (Asthana and Mishra, 2003). Relative value relevance, on the other hand, is useful when choosing between two sets of accounting information that are in conflict. Studies on incremental information context formed a famous stream of return-based literature, with a focus on whether accounting items further explain share price or returns, in the presence of other components within the financial statement (Liu, et. al., 2009). Tasche and Tibiletti (2003), Asthana and Mishra (2003) and Mishra, et. al., (2009) provided the examples of these kind of studies and found that both earnings and cash flows together can provide incremental information,

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in a relationship with stock returns. This was an important finding as previous studies had considered that cash flows did not make provision for any information content that extended beyond accounting earnings (Liu, et. al., 2009). Further studies that provided an examination of the incremental information content of accrual based earnings and cash flows were undertaken by Bernard and Stober (1989) wherein they argue that there is no evidence regarding the components of earnings having different information content.

One of the first studies in relation to incremental information content was undertaken by Rayburn (1986). In order to ascertain whether information was added by the accrual process when valuing stocks, she estimated three components of earnings, namely: current accruals; operating cash flow and investing cash flows. She constructed instead, an operating cash flow measure, using Compustat data for firms from 1962 to 1982, through the adjustment of net income before extraordinary items for depreciation, change in deferred taxes and the change in working capital. An assessment was made of whether a difference was created in information content by the accrual process, through current or noncurrent accruals, and she concluded that current accruals and operating cash flow have incremental information content beyond each other, with noncurrent accruals not having incremental information, whilst total accruals do.

Compiled from data collected for the years 1971 to 1981, from firms' fund statements that had been required beginning in 1971, a sample of data was studied by Bowen et al (1986) to determine whether incremental information is processed by two different cash flow measures, whether there are either earnings or working capital from operations. The evidence supported the view that earnings and cash flow variables, operating flows in particular, have incremental information beyond each other across firms over time, however working capital does not contain information beyond earnings. This is similar to the findings of Wilson (1997). The results of Wilson's study and that of Bowen showed a relationship of positive cash flow-earning, however their results were reflected by the work of Simlai (2009). His study was based on similar tests of stock

return association as Wilson's work of 1997, however the data sample period was expanded to include all firms from 1987 to 1994. Evidence was provided by Livnat and Zarowin (2000) that the accrual components of accounting earnings and the incremental information content of cash flows that were found by Wilson (1997) could not be generated in other scenarios i.e. other economic conditions or time periods.

A further interpretation results was suggested by Sun, et. al., (2011), who considered that whilst the disaggregating of net income into accrual components and cash flow failed to provide incremental information, it also said nothing about the components in cash flows. The evidence within the incremental information content literature was suggested by the work of Fernández (2007) through his study of individual cash flow components of the newly required cash flow statement and the association of the components with stock returns. In his sample taken from firms from 1995 to 2000, he separated the components of investing, financing and operating. The work of Fernández (2007) corroborated the results of Farshadfar, et. al., (2008) in that the separation of net income into only operating cash flows and accruals did not significantly improve those items associate with stock returns. They also discovered that the individual components of operating and financing cash flows were associated with stock returns, however investing cash flows did not have such an association. The results therefore provided an indication that operating and financing cash flows give the user incremental information, however this is not the case with the components of investing cash flows.

It could be noted at this point that this research provides an emphasis to both studies of relative value relevance and to incremental value relevance. The former is addressed through the aim of comparing the value relevance of accounting information that has been prepared under two different sets of accounting standards, and the latter is addressed through the aim of highlighting which, in relation to stock performance, is the accounting variable that is more value relevant than others.

4.2.3 Marginal Information content studies

Marginal information content studies provide an investigation of whether the information set that is available to investors is added to by a particular accounting number. These type of studies employ event studies, where the returns are measured over a short period of time, around the announcement date i.e. a few days in order to determine whether the release of an accounting number has an association with value changes, with reactions in price being considered as evidence of value relevance. For example, the work of Amir and Lev (1993) involved a test of the marginal information content of the Form 20-F reconciliation of foreign and US GAAP earnings numbers of foreign firms. This was done through a regression of five-day abnormal announcement returns upon the difference between foreign and US GAAP earnings, along with the changes in the difference.

These value-relevance studies use a valuation model that fits with this study, with the approach of input-to-equity valuation theory requiring a valuation model in order to specify the attributes of a firm that have an affect on value and their relation to it. It is also necessary to specify a link between the accounting numbers and firm attributes and it is important that in valuing the attributes of the firms under investigation, an appropriate valuation model is used (Amir and Lev, 1993).

4.3. Models of valuation

In order to investigate the relationship between accounting values and share prices, the majority of studies of value relevance adopt a valuation model. Researchers in the field usually choose between three types of valuation model, namely: the balance sheet model; the earnings (return) model; and the Ohlson (price) model. The core principles behind the three models are discussed in the following section (Park and Choi, 2011).

4.3.1 The balance sheet model

The balance sheet model is founded on a notion that the market value of equity equates to the market value of assets minus the market value of liabilities. The relationship between the accounting numbers and the attribute valued is that information about the market value of accounting assets and liabilities is conveyed by the book values of these assets and liabilities. The balance sheet model has the following formula:

$$MVE = MV A + MVL + MVC$$

Where MVE is the market value of equity,
MVA: the market value of separable assets other than the component whose incremental association is being assessed,

MVL: the market value of separable liabilities other than the component whose incremental association is being assessed, and

MVC: the market values of the balance sheet component whose incremental association is being tested.

4.3.2 The earnings model (return model)

Under this model, the returns are retreated on a scaled earnings variable. This model indicates the relationship between the stock returns and the real accounting earnings. This model takes the following formula:

$$RET_{JT} = a_0 + a_1 E_{Jt}/p_{Jt-1} + a_2 (E_{Jt} - E_{Jt-1})/P_{Jt-1} + e_{Jt}$$

where:
RET_{JT}: annual return (including cash dividends) of firm J between the current announcement month and last year's annual report announcement/month;
E_{Jt}: the annual earnings per share;
$E_{Jt} - E_{Jt-1}$: the change in the annual earnings per share compared to previous year
P_{Jt-1}: refers to the stock price at the beginning of the last year's, and
e_{Jt}: is the residual error

The above-mentioned specific version of the annual return model that includes both earnings levels and earnings changes has been popularised by Easton et al (1991) (Harris et al, 1994; Ball, et. al., 2003).

The study of Nichols and Wahlen (2004) showed that annual earnings changes have more value-relevant information than changes in cash flows from operations and their study also gave evidence with two important implications. Firstly, their results suggest that important consequences for current market values, expectations of future dividends and future earnings forecasts occur due to the new information that is communicated to capital markets from earnings numbers. Secondly, substantial incentives are provided by the stock price consequences of new earnings information. These incentives to market participants encourage trade based on that information to occur quickly, with stock prices appearing to incorporate the new information by the following day. Additional insight is provided by this strong reaction to unexpected earnings, showing why the participants in the capital market put so much of an emphasis on earnings.

Traditionally, research that has sought to explain market reactions to earnings has had a focus upon factors such as the absolute value of unexpected earnings, with this information not being revealed until the time of disclosure. Examples of such research is the work of Beaver (1968), Beaver, et. al., (1979) and Morse (1981). However, assessment can be done of other factors that affect the availability of pre-disclosure information, such as firm size, prior to the announcement of earnings i.e. before unexpected earnings are known.

A systematic relationship can be identified between an observable variable that is ex ante, e.g. firm size, and the duration and magnitude of the trading volume that is in association with accounting disclosures. This could enable policymakers to anticipate the market reaction and its differences across the accounting disclosures of various firms (Bamber, 1987). Beaver (1968) developed three theoretical links between share prices and earnings which could help explain how capital market consequences could be associated with accounting earnings. The 'three links' developed by Beaver are as follows: 1) information for the prediction of future periods' earnings can be provided by current period earnings and this can 2) provide information for the development

of expectations about potential dividends in future periods and this can 3) provide information to help in the determination of share value, which is a representation of the present value of expected future dividends.

As noted by Nichols and Wahlen (2004), there are three assumptions upon which the theory that links the earnings numbers of a firm to changes in the firm's market value i.e. stock returns, depends. Firstly, the theory has the assumption that new information for equity shareholders, with regard to current and expected future profitability, is provided by earnings or financial reporting. Secondly, the theory has the assumption that information about the firm's current and expected future dividends is provided to shareholders by current and expected future profitability. Thirdly, the theory has the assumption that, to the shareholders, the share price equates to the present value of expected future dividends.

There is an implication with these links that new accounting earnings information that generates a change to the expectations of investors for future dividends should correspond to a change in the firm's market value (Sun, et. al., 2011). Researchers examine the associations between share prices and accounting earnings numbers, that encompass the three links, and the association implied by them, by testing these theories with empirical data. The three theoretical links are depicted in Figure 4.1.

Figure 4-1: Stock Returns and the three links relating to Earnings

There is an assumption with Link 1 in the three-links framework that two important elements of information, that are useful for developing dividends expectations, are provided by a current period earnings number and these are: i)

information related to current period wealth creation and ii) information concerned with future earnings. Firstly, earnings are measured by firms by the use of accrual accounting principles that measure the effects of events and transactions upon the equity of shareholders (except for capital transactions with shareholders) (Simlai, 2009). Important information about the wealth created by the firm during the period for equity shareholders is therefore summarised by the current period earnings (Jessie, et. al., 2004). Secondly, useful information for the prediction of future earnings is provided by current period earnings and related financial statement data (Hatemi and Roca, 2005).

The income statements of firms, for example, commonly make a distinction between special items, such as extraordinary items, nonrecurring gains or losses or discontinued operations, and operating income (Damant, 2003). Operating income captures the results of the ongoing operations of the firm that are likely to recur in the future (Lin, et. al., 2011), whilst special items are not part of ongoing operations and as a result are less likely to affect the performance of the firm in future periods. Firms rely upon financial reporting so that credible information about the ability to create wealth in the future can be conveyed to equity shareholders and other stakeholders (Sepe and Spiceland, 2008). It is stated in the Conceptual Framework of the Financial Accounting Standards Board, FASB (1987) that the provision of useful information for the assessment of amounts, uncertainty and timing of future cash flows and dividends is an important objective. Within the three-links framework (see figure one), link 2 has the assumption that the wealth that the firm created, that is ultimately distributed to equity shareholders through dividends is represented by current and future earnings. Shareholders can use current earnings and forecasts of future earnings, that are indicative of future dividend-paying ability in order to develop expectations of future dividends.

With Link 3, there is the assumption that the present value of all expected future dividends are reflected by share prices (Chen, et. al., 2009). Link 3 represents the classical approach to equity valuation in that share value is viewed as the

present value of the future dividends that the shareholder expects to receive during the remainder of the firm's life.

Vital information to help develop expectations for future earnings is provided to shareholders by current period earnings numbers and financial reports related to them (Sepe and Spiceland, 2008). Such expectations also help develop expectations of future dividends and hence lead to the formation of a basis for share value. As Nichols and Wahlen (2004) point out, these three links from current earnings to future earnings on to future dividends and then to share value give a framework that is intuitive to enable an understanding of the relationship between earnings and share value.

Additionally, these links implicitly underline the reasons for the common use of earnings-based valuation ratios by investors, and they further emphasise the huge importance of accounting information and the high degree of attention that participants in the capital market focus upon them (Harvey, 1995). Also, they provide an explanation of the extent of press interest in finance that is covered through daily announcements of accounting information.

The three link framework is depicted in Figure 4.1. It provides a useful tool for the analysis of the valuation implications of earnings information and it shows that the present value of expected future dividends is determined by current and expected future earnings (Hwa, 2008), with a reaction from share prices generally occurring upon the announcement of earnings, if there is an unexpected difference.

Generally, there will be an increase in share prices if the expectations of the market participants are exceeded by the disclosed earnings, and a fall in share prices if the earnings fall short of expectations (Ramasamy and Yeung, 2005). The magnitude of the rise or fall due to earnings disclosure is determined by several factors. If an unexpected change in earnings is announced that is likely to persist, there will be a resultant change in share prices by the amount of the

change in one-time earnings. On the other hand, if an unexpected change in earnings is announced that is considered likely to persist in the future, this will result in a movement in share prices, up or down, by an amount that is larger because of the link between current and future earnings-persistence (Simlai, 2009). When an announcement is made of unexpected earnings or earnings that differ from expectations, the three-links framework can be followed for an analysis of the implications of an unexpected change in earnings for future earnings (persistence), share value and future dividends (Campbell and Ohuocha, 2011).

There is an implication with the links that new accounting earnings information that gives rise to a change in the expectations of investors for future dividends, ought to correspond with a change in the firm's market value. Researchers examine the associations between accounting earnings numbers and share prices that encompass the three links, as well as the associations that each of the links implies, in order to test these theories through the use of empirical data.

4.3.3 The price model (Ohlson model)

The price model or what is known as "Ohlson model" regresses the stock prices on the balance sheet and income statement measures. The following formula measures this model:

$$MV_{Jt} = a_0 + a_1 BV_{Jt} + a_2 E_{Jt} + e_{Jt}$$

Where:
MV_{Jt} : market value per share of firm J at the end of year t
BV_{Jt} : book value of equity per share of firm J at year t;
E_{Jt}: reported earnings per share of firm j during year t, and
e_{Jt} : error term, which relevant to information that cannot be detained by earnings and book value

The relation between earnings and share value as seen through the three-links framework is consistent with the work of Feltham and Ohlson (1995). Their work used the classical dividends-based valuation model in order to derive

equivalent formal models for the links that can be ascertained between earnings and share value (Stober, 1999). Within these papers, there is a demonstration that equity share value depends upon book value of equity and upon forecasts of future 'residual income' (earnings minus the charge for the use of capital), as long as the accounting for expected future earnings is based upon the clean surplus relation. With clean surplus accounting, there is the assumption that any changes to the book value of equity flow through earnings, unless they are transactions of owners, such as dividends and capital contributions (Zeng, 2003). Clean surplus accounting is followed by US GAAP and International Financial Reporting Standards, for most events and transactions (PwC, 2008). The persistence of current period residual income is considered by many researchers to be an important determinant of current market values.

As capital markets have grown, companies have been put under pressure to ensure financial statements are submitted with the intention to assist investors in their evaluation of the present and future financial status of the reporting entity in question (Venkateswar, 1997). Various studies have shown that both investors and managers have a tendency to discover indicator measures for the performance of their company (Amir and Lev, 1993; Zhu and Xia, 2011; Abuzar and Khalid, 2001). Professional accounting bodies and stock exchange authorities in all countries around the world have a requirement that companies disclose summary performance measures e.g. book values and accounting earnings (Liu, et. al., 2009). A number of accounting researchers have shown an interest in the informativeness of these measures, with studies that focussed on establishing which accounting measure had a higher association with share prices (Beaver and Dukes, 1972; Rayburn, 1986; Wilson, 1997; Bowen et al, 1986; Booth,2006;Hevas and Siougle, 2011). Accounting bodies intend to address the concern of investors, which is the wish for relevant information to enable them to make an evaluation of the performance of a company and the subsequent impact on share prices.

The relative value relevance in equity valuation of two sets of accounting information for Chinese companies that were listed on Chinese Stock Exchanges, were examined by Bao, et. al., (1999). One of the sets was prepared under IASs and the other used the accounting regulations for China (domestic GAAPs). The researchers selected a sample that was made up of firms that had issued the so-called B shares, over a five year period from 1992-1996, to non-domestic investors. Their study, through use of the Ohlson model, demonstrated that earnings and book values that were prepared under IASs accounted for 23.6% of the variations in share prices, whilst financial information that had been prepared under the domestic GAAPs accounted for 21.1% of the variations in share prices. The results from yearly regression analyses suggested that over time, the explanatory power of book value and earnings increase.

It was discovered by Barth et al (2001) that 75-80% of the variation in market value of equity is because of the book value of liabilities and assets, and the net book value. The various valuation functions that used earnings and book value as determinants were empirically tested by Bernard (1995). It was found that, on average, 55% of the cross-sectional variances on stock prices were explained by book value.

The value relevance that was common to both earnings and book values for the years of 1953 through to 1993, was investigated for American firms by Collins et al (1997). It was discovered that when book values are added as an additional independent variable with earnings, value relevance holds steady with minor increases overtime when book values are added, along with earnings, as an additional independent variable. Further to this, they undertook an examination of the explanatory power of earnings and book values, incrementally, and discovered that there was a decrease in the ability of earnings to provide an explanation of movement in share prices. Instead, their investigation revealed an increase, over the same period, of the ability of book values to explain changes in share prices. The power of explanation of both earnings and book values, however, is in fact higher.

Through the use of a multiple regression model and the regression of earnings and book values on share prices, their findings show that for the first ten years of the study, from 1953-1962, the average adjusted R^2 was 0.50 and this rose to 0.69 for the period 1984-1993. It was also discovered that the main reasons for the decline in the explanatory power of earnings were the reported losses, a decrease in the firm size, and an increase in the incidence of one-time items within the sample. However, it was argued by Bollerslev,(1987) that a scale factor that is common to price per share, book value per share and EPS leads to a spurious increase in value relevance over time.

Livnat and Zarowin (2000) undertook an investigation of usefulness to investors that was brought about by financial information, and it was revealed that there was a systematic decline in the association between major financial accounting variables and market values. The usefulness of financial information over twenty years from 1977 to 1996 was measured by using the association between capital market values (share prices and returns) and major financial accounting variables (earnings and cash flows). The results of Livnat and Zarowin (2000) contradicted those of Collins et al (1997) and showed that over the period of the twenty years there was a fall in the association between share prices and earnings and book values, as measured by R^2. From the latter part of 1970, it fell from 0.90 to 0.80 in 1980 and then further still to 0.50 in the 1990s. Generally, the results from Livnat and Zarowin's study (2000) demonstrated that, over the period of the study, there was a decline in the association between share prices and earnings and book values.

In contrast to the claim of Chen and Dodd (2001), there is a large and growing body of evidence that demonstrates that the relevance of accounting information is decreasing. Livnat and Zarowin (2000) used a study to seek to establish if investors were conveyed useful information by financial reporting. Their work included an examination of three pieces of published financial information that are considered to form a foundation, namely: earnings, book value and cash flow, for the thousands of companies that were in the data base Compustat. This

information was then correlated with changes in the share prices of the companies, and the authors concluded the association between stock returns and share prices with key financial statement variables had been declining in importance over the past twenty years. As Kasznik and McNichols (2002) noted, the relationship between the dependent variable i.e. share price and independent variables suggests that a powerful impact on share prices and returns is brought by variables that are not yet part of accounting information that is reported.

Even though the Ohlson model is used widely within value relevance studies, it has been criticized by numerous researchers in the literature related to accounting and finance. Hand et al (1998), for example, have noted that the Ohlson model sits upon assumptions that can either be sufficiently misspecified so as to yield misleading empirical and/or theoretical influences, or the assumptions could characterise reality with a reasonable degree of accuracy.

It is argued by Gietzmann and Ostaszweski (2003) that the Ohlson model does not bring forward any structural implications for the application of accounting rules, in that it may be difficult to argue that the model gives justification for accrual accounting, if there is little evidence of a need for accrual adjustments.

Amongst accounting researchers however, the model is still predominant for conducting value-relevance studies. In keeping with most of the value relevance accounting literature, this research utilises the Ohlson model to determine the relationship between accounting information that is either IFRS-based or US GAAP-based, and share prices.

4.4 Models of Price and return

For the purpose of assessing the usefulness of various accounting numbers for equity valuation, value-relevance studies investigate the empirical relationship between those numbers and stock market-values (or changes in values). The price and return models are commonly used valuation models to investigate the

relationship. The former examines the relationship between stock price, earnings and book value, and the latter examines the relationship between stock returns, earnings and earnings changes. The Ohlson (1995) linear information model provides the theoretical foundations for both models, however the results of using both models can be inconsistent. Harris et al (1994), for instance, have compared the value-relevance of accounting data for German and US firms that were matched in terms of industry and the size of the firm. Their study showed that using the return model, the R^2 obtained for German firms is comparable to that of the firms in the US, however, if the price model was used, the R^2 that was obtained for German firms is less than half for that of firms in the US.

There are, however, two advantages that price models have over return models. Firstly, if components of accounting earnings are anticipated by stock markets and this anticipation is incorporated into the stock price at the beginning, i.e. prices leading earnings, then coefficients of bias earnings will be biased towards zero. However, there will be unbiased earnings coefficients yielded by price models because the cumulative effect of earnings information is reflected in stock prices (Kothari and Zimmerman, 1995). Expressed another way, if accounting information is related to stock prices then it can be value relevant, even though new information that would affect stock returns is not provided. Secondly, only an assessment of value relevance of accounting earnings is allowed by return models, however if price models are used that are based on Ohlson (1995), then they show how book values of equity and accounting earnings are related to the market value of a firm. Chen, et. al., (2001) have shown that the scope of research related to value relevance is expanded through the use of the Ohlson model because the two aforementioned components of accounting information play different roles in security pricing.

Price regressions have been used by numerous researchers to empirically test the value relevance of the items on balance sheets, such as various types of assets. Some examples of such research are: Amir, et al. (2001) in relation to the valuation of deferred tax assets; Boone (2002) in relation to oil and gas

properties; Barth and Clinch (1998) and Easton (1998) in relation to pension assets and liabilities; and Barth, et. al., (1998) and Kallapur and Kwan (2004) in relation to brand assets. When it comes to the study of the value relevance of accounting information, price models are important tools. To help understand the change in an accounting system, studies of value relevance can be evaluated across time, for example, in the studies of Collins et al (1997), Chang (1998), Wahlen, et. al., (1999), Aboody, et. al., (2002) and Gu and Chen (2004). Studies of value relevance can also be evaluated internationally, in order to make a comparison of different accounting systems, examples being the work of Alford, et. al., (1993) and Hung (2001).

The value relevance of accounting information is given a better assessment by the price model which associates accounting numbers, such as earnings and book value of equity. Evidence is obtained for the value relevance of accounting information from many studies that have applied the price model. Wahlen, et. al., (1999), for instance, reported that there was declining value relevance based on a return model, and yet a rising coefficient (R^2) result when based on a price model.

From the point of view of the researcher, this model has a number of limitations. Firstly, the effect of information that is contained in the cash flow statement on stock performance is not taken into consideration by the price model; instead the focus of the model is upon information that is contained only in the income statement and in the balance sheet. Because of its historical emphasis, accrual-based accounting earnings have been criticized, in general terms, as lacking value relevance.

Within the early studies of the relative association of accounting information with share prices, there was a difference of opinion as to which of the measures or accounting information had the closer relationship with share prices. A number of researchers demonstrated that there was a significantly higher association between stock returns and earnings than between stock returns and

operating cash flows (Fama, 1965; Beaver, 1970; Beaver and Dukes, 1972; Brown and Kennelly, 1972; Board, et. al., 1989). Beaver, Griffin and Landsman (1982) however, found that stock returns were explained by both earnings and operating cash flows. Nevertheless, it was shown, in a study by Board et al (1989), that earnings influence share prices more than cash flows do.

Cheng et al (1997) conducted a study that found that actual cash flows from operations disclosure, which became mandatory by FASB from 1988 onwards, had incremental effects on stock price beyond both the earnings and estimated cash flows from operations. The relation between the information content of earnings and operating cash flows was tested by Dechow (1994), with the study defining operating cash flows as operating income less taxes, interest, depreciation and change in non-cash working capital. It was found that there is a weaker association of cash flows with share prices than there is between cash flows and accounting earnings, whilst there is more of an association between earnings and share prices. Biddle et al (1995) conducted a more intensive study using a sample of 40 industries, with extensive testing of the association between earnings and cash flows. Biddle et al's findings corroborated earlier studies, with earnings being found to have the greatest information content and also they found that there was a decline in information content as the measures of income moved further away from accrual accounting earnings and more towards cash flows. These findings are consistent with Dechow (1994).

Evidence related to the correlation between accounting income and different measures of cash flow was provided for the UK by the study of Arnold (1998), which reported a significant association between net income and working capital flow, though did not report a significant association with other measures of cash flows. However, the study did not report a correlation of cash flows with capital markets, unlike the work of Bowen et al (1986). The relationship between returns and accounting information was investigated by Wild (1992) with the use of book values as the accounting measure. The research findings gave an indication that there was a significant positive relationship between book value

and cumulative abnormal returns, that were measured from the time of the release of the forecast of book value of the analyst to the date of the announcement of earnings. Wild (1992) reached the conclusion that share prices are informed by book value. Significant relations between fund-based cash flow measures and accounting earnings were found by Bowen, et. al., (1986), with the correlation being considered as a support to the argument for the relevance of accounting-based measures. The correlation between earnings and alternative cash flow measures was found by them to be low. Bowen et al (1986) considered the relation to capital markets and reported a significant association between cash flow information and share price, however, their study did not conclude on whether or not cash flow information provided signals for incremental messages beyond earnings.

The price model does not consider the alternative ways of expressing certain accounting numbers. EPS, for instance, is included as an independent variable by the model, without the different ways that accountants normally use to express this number in the income statement being taken into account. There are different concepts with EPS, i.e. the basic EPS and the diluted EPS, and a number of studies have indicated that there is a different effect on stock performance from these two different measures. The impact of different reported earnings per share (EPS) measures (i.e. basic/primary EPS, and fully diluted EPS) upon stock prices was studied by Balsam and Lipka (1998). They took a sample from the Standard and Poor's Compustat database of corporate annual report data for 3,646 firms for the years of 1975 through to 1993, and found that EPS measures, with the strongest effect being with fully diluted EPS. The researchers also discovered that each of the EPS measures had an incremental power relative to the other two components.

The price model discusses the relationship between accounting variables and stock prices, whilst ignoring the potential relationship that existed between accounting variables and the trading volume of stocks. Whilst both trading volume and price reflect the same underlying economic factors, each of them

can potentially capture aspects of the reactions of investors that are considerably different. The activity or behaviour of investors is reflected in trading volume, through the summation of all market trades, however the aggregation or averaging of the beliefs of investors is reflected in security prices. The differences between the interpretations of investors of accounting disclosures that are preserved by the summation process establishing trading volume, that would be suppressed in the process of averaging that determines prices.

For example, if it is assumed that an announcement is interpreted by investors differently, then there may be a high volume of trading due to those who interpret the information favourably buying from those who have interpreted the announcement unfavourably. As the equilibrium price is a reflection of an averaging of the beliefs of investors, however, there may not be a significant change in price if there is a counterbalancing effect of the belief-revisions of the investors. On this basis, the volume of trading may be more sensitive, in relative terms, to individual differences in the interpretation of earnings information. Therefore, previous empirical research has documented differences between the reactions of trading volume and price to the announcement of earnings. It was reported in the work of Morse (1981) that the reaction of trading volume to the announcement of earnings persisted longer than the reaction of prices. In the work of Bamber (1987), it was noted that the volume of trade around the announcement of earnings when using a random-walk earnings expectation than when the forecasts of analysts were used.

The size of firm, measured as a log of total studies, was found to be a significant explanatory variable in empirical studies that utilized earning-returns methodology, giving an indication that the reconciled earnings of smaller firms was weighted more heavily by the market than larger firms (Meek, 1991). Trading volume studies gave results that indicated that there was the existence of an inverse relationship between firm size and trading volume (Bamber, 1987). As the impact of the announcement has not been diluted by information from other sources, the results suggest that relatively small firms, that are followed by

fewer analysts, with fewer sources of information, have a stronger reaction (Hora, et. al., 2004).

Using a regression model based on a modified Ohlson equity-valuation framework, Elbakry, et. al., (2006) undertook an empirical examination of whether domestic investors in the Egyptian stock market perceived accounting information to be value relevant, through the pooling of five years of data in order to test the impact of accounting numbers on the trading volume of shares. The researchers found, through the use of the trading volume model, that earnings ratio on trading volume was impacted upon significantly by leverage, return on investment, share book value, return on investment, size (measured in terms of the log of market capitalisation) and price. It was found that there was a positive association between trading volume and leverage and size. However, there is a significant negative association in trading volume with return on investment, share book value and price earnings ratio.

A number of empirical studies, in highly developed economies that have relatively efficient and effective markets, have concentrated on the correlation among some performance measures on the one hand, and Cash Flow (CF), Return on Equity (ROE), Earnings Per Share (EPS) and their association with stock market prices on the other (Hall, et.al., 2002; Frost and Kinney, 1996; Frost and Pownall, 1998). It has been documented by a number of authors that it is important that there is an efficient market for there to be a valid relation between the variables within capital markets (Dickinson and Muragu, 1994; Frost and Pownall, 1998).

A study was conducted about the relationship between share prices and accounting numbers for a sample of 94 listed companies within the Egyptian Stock Exchange (Omran and Pointon, 2004). It was found that in 1999, retained earnings were more significant than dividends for the determination of prices of shares that were actively traded in the stock market in Egypt. They also found,

however, that the most important determinant of share prices for non-actively traded shares was the accounting bank value.

In the light of the above limitations, the researcher employed a modified Ohlson model in the study, including several factors that would not be taken into consideration in an Ohlson model. As such, the study includes the effect of items included in the cash flow statement on stock performance, whether these are in terms of the trading volume of stocks or the stock price.

4.5. The use of modified Ohlson's model

A popular area of interest for financial economists has been explanations of the changes in share prices, and gradually, empirical researchers found that there was a relationship between share prices in capital markets and accounting information. Ample empirical evidence suggests that the variables of accounting, within developed economies, convey information regarding future activities in the capital market.

Research concerned with the impact of accounting information on capital markets has primarily focussed, within accounting and finance studies, on well-developed and organised security markets in the United States, the United Kingdom, Germany, France, Japan and Australia. Examples include the work of Hall et al (2002) for Japan, Harris et al (2002) for Germany, Barth and Clinch (1996) for Australia and Dumontier and Labelle (1998) for France. Other research studies have established that information is conveyed to the stock markets in the aforementioned countries by accounting variables (Ball and Brown, 1968; Brown, 1970). One of the largest changes to financial reporting in recent years came with the compulsory adoption of IFRSs for listed firms in developing countries, including the UAE, which led to the application of a common set of standards for financial reporting. Subsequently, the question arises of whether investors in equity perceive there to be net benefits associated with the adoption of IFRSs. The reactions within the European Stock market to

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sixteen key events that were associated with the adoption of IFRSs in Europe, were examined by Armstrong et al (2007), and the researchers found that there were significant positive market reactions to events that increase the likelihood of the adoption of IFRSs. This indicated that investors in European equity perceived the adoption of IFRSs to have a net benefit, and in order to assess whether this positive reaction to the adoption of IFRSs reflected the benefits of improved quality of information or from the convergence of accounting standards, the researchers grouped the firms by the quality of information they had prior to adoption. If firms had higher quality pre-adoption information environments, the researchers found a significant positive reaction to the adoption of IFRSs. For these firms, the adoption of IFRSs should have minimal informational benefits, so this was interpreted as an indication that there was a perception in the market that there were net benefits associated with convergence in the standards of accounting.

The researchers also found significantly more positive market reaction to the adoption of IFRSs for firms that had a pre-adoption information environment that was of lower quality. Within the international literature related to accounting, there are mixed findings with regard to which set of standards of accounting provide information that provide investors with more value relevance.

The FASB (1999), in a comparison of US GAAP and IAS, found that there were 250 key differences within the four categories of recognition, measurement, permissible alternatives, and lack of guidance or requirements, with the conclusion that IASs are of lower quality than U.S. GAAP (Wall Street Journal, 1999). Currently, the European Union (EU) requires companies listed on stock exchanges in Europe to adopt IASs and there is disagreement with the view of the FASB. Quoted in the Wall Street Journal (2002), a spokesman of the EU said *"We believe IASs is superior to GAAP. We believe it offers investors the best view of the situation of a company in which an investor might want to invest"*.

There is a further perspective taken amongst company managers and accounting researchers, who have argued that from the point of view of the investor, there is no difference, in essence, between the two sets of accounting standards. A survey by KPMG (2010), for instance, has shown that the CFOs of large European companies view IASs as having similar quality to the US GAAP though, because of the level of complexity and detail with US GAAP, IASs are less expensive to implement. Essentially similar conclusions were drawn from a computation of earnings from eight companies under both IAS and US GAAP that was undertaken by Harris (2002).

The extent of political influence on accounting and the legal context of the country in question, whether stakeholder model or shareholder model, has an effect on the need for published financial information (Ball et al, 2000). Within stakeholder model countries, there tends to be more importance attached to capital provided by the state, banks or families than in shareholder model countries, where a large number of private investors provide the majority of finance. Ball *et. al.,* (2000) showed that as a result, within stakeholder model countries, asymmetry of information between a firm and the providers of capital is likely to be resolved through features within the institution other than transparent financial reports. Within stakeholder model countries, accounting information can be provided, privately to the provider of capital, i.e. governments, banks and families, in a timely and frequent manner (Nobes, 1995).

Previous research has also shown that a country's institutional background has several effects on the standard setting of financial reporting. It was reported, in a strategy by Ding, *et. al.,* (2006), that there is a greater difference between IFRSs and domestic accounting standards in stakeholder model countries than in shareholder model countries because of the differences of institutional background between the two types of context. An extensive study of the details of institutions within seven countries, some under stakeholder model and some under shareholder model, was undertaken by Ball et al (2000). Regressions of

earnings per share deflated by price per share on annual return per share deflated by price were used in order to capture the extent to which the information that was impounded in the market in share price, during the fiscal year, was reflected in the annual earnings number. Ball et. al., interpreted the measure as a way of indicating timeliness of accounting earnings, and their hypothesis about differences in timeliness stemmed from group-specific differences in the uses of accounting earnings. Earnings are used by shareholders to determine share value and to remunerate mangers in the context of the shareholder model. Accounting earnings, within this model could be applied for the determination of payments of shareholders' dividends, wages and bonuses to employees and managers, and payouts of taxes to government. Consistent with their hypothesis, Ball et. al., (2000) reported that, within stakeholder model countries, there is a greater degree of earnings timeliness than in shareholder model countries. Their work also revealed that earnings have greater timeliness than operating cash flows in all seven countries studied, and that there were differences in timeliness from country to country, with German and U.S. firms being twice and five times as timely, respectively.

Harris et al (1994), point out that accounting variables were used in order to test the statistics for long-window association for 18-month stock returns regressed on annual earnings levels, and to test changes and valuation models of share prices regressed on book values and accounting earnings. They discovered that the correlation between return and earnings for firms in Germany is similar to that of firms in the US. German firms have higher earnings multiples, which is consistent with the conservative accounting policies in the country. Easton, et. al., (1998) and Barth and Clinch (1996) presented results that indicated that some kinds of Australian revaluation data for tangible and intangible assets have value-relevance for Australian shares.

Further to this, Hope, et. al., (2005) found that it is more likely for the adoption of IFRSs in stakeholder model in order to improve protection for investors and to improve the ability to compare and comprehend financial information. It was

also found, by D'Arcy (2001), that adopting IFRSs in countries in Europe, changes their accounting systems towards a system that is more capital market orientated. Also, the adoption of IFRSs by firms was found, by Barth, *et. al.,* (2005), to lead to improved quality of accounting by having more timely recognition of loss, less earnings management and accounting information that is more value-relevant. Daske and Gebhardt (2006) supported this view by reporting that the quality of disclosure has increased significantly in Austria, Germany and Switzerland, all three of which had adopted IFRSs. Generally, previous studies have suggested that the firms in countries that have a stakeholder model, report financial statement information that is more useful following the adoption of IFRSs.

It has been reported in earlier studies that the domestic accounting system of a country changed by IFRSs towards a system that is more capital market orientated i.e. through an improvement in the protection of investors and through an improvement in the way financial information can be compared and comprehended. Examples of studies are the works of d'Arcy (2001) and Hope *et.al.,* (2005). Most of the countries that are adopting IFRSs can be classified as code-law countries, within which the share of capital that is provided by a large number of private investors is not the main source of corporate finance (La Porta, et. al., 1998). As such, within these countries, the need for financial statement information to be published to serve the needs of information of private investors is low (Ball et. al., 2000). As such, there is a low demand for disclosure and public financial reporting of high quality, and it is more likely that asymmetry of information is resolved by 'insider' communication with stakeholder representatives (Ball et. al., 2003). In contrast, the International Accounting Standard Board (IASB) Framework has a definition for the objective of a financial statement, as the provision of useful information for investors. The IASB Framework considers information to be useful if it is understandable, relevant, reliable and comparable.

Two primary characteristics of financial statement information are relevance and reliability. The IASB has an emphasis on the reporting of financial performance that enables the prediction of future cash flows, however, countries that are credit-based, like stakeholder oriented countries, have traditionally had more of a concern for the protection of creditors and, therefore, for the distributable profit to be prudently calculated (Nobes, 1995). As Ding et. al., (2006) point out, that as a result of such traditional customs, the degree of difference between IFRSs and domestic accounting standards is higher in countries that are stakeholder oriented than in countries that are shareholder oriented.

A number of researchers have reported that, based on the definition of the IASB Framework, the objective of financial statements has been achieved in stakeholder model countries. For example, in the work of Barth et al (2005), it was found that there is a higher quality of financial reporting in firms following their adoption of IFRSs, and that this result was stronger for countries that have a stakeholder model context. Further to this, it was reported by Daske and Gebhardt (2006) that the quality of disclosure, as perceived by experts in their ratings of annual reports for Austrian and Swiss firms, increased to a significant degree with the adoption of IFRSs. Previous studies, however, have shown mixed evidence of whether there is more value-relevance for the value-relevant accounting information under IFRSs than under the GAAP (Hung and Subramanyam, 2007).

As Sloan (1999) and Holthausen and Watts (2001) point out, in general, studies of value-relevance are criticized due to the ignorance of individual investors information needs and because they use stock prices that many other factors affect, apart from accounting information reported under standards. Additionally, previous studies have shown that there may be a limited degree of compliance with IFRSs during the period when European companies were adopting the standards voluntarily (Taylor and Jones, 1999). Barth et al (2005), for example then, have criticized such studies for not having found all the important differences between IFRSs and domestic GAAP. In turn this has led to

a reduction in the transparency and comparability of financial statements, which could also explain the reason for the results of the study being mixed.

An investigation by Lantto (2005) looked into whether the usefulness of accounting information was improved by IFRSs. The empirical analyses contained in the study were based on three surveys run by the financial analysts, managers and auditors and they supported the hypothesis that new information that was prepared by IFRSs was relevant. Although the results showed that auditors and managers considered the information that was prepared under many IFRSs/IAS to be reliable, overall, the results showed that they are neutral with regard to the reliability of information that was prepared through the use of judgement following IFRSs adoption. Even though their results provide an indication that the relevance of accounting information in Finland is improved by the adoption of IFRSs, they also highlight concern over the reliability of items that have been prepared through the use of judgement based upon IFRSs.

It was concluded from a study by Gassen and Selhorn (2006) that internal exposure, size and dispersion of ownership all influenced the voluntary adoption of IFRSs. Their study revealed that the earnings of firms that have adopted IFRSs are of higher quality than the earnings of those under local GAAP, and it also found that there were lower levels of information asymmetry in the equity market by those who had adopted IFRSs, in comparison to their equivalents. Also, the study showed that share price volatility was at a level that was significantly higher for firms with IFRSs.

The value relevance of earnings produced under two different accounting regimes, IASs and US GAAP, were compared in a study by Jubori, et. al., (2005) through a consideration of the association of reported earnings and stock returns as a measure of accounting standard quality. The slope coefficient of the returns/earnings regression was investigated within a sample of Saudi companies that were trading on stock exchanges in Saudi Arabia, and they discovered that the value relevance of IAS and US GAAP based earnings was higher than that

for earnings that were local GAAP based. Their result only held for observations for profit; the suggestion was that the firms with a loss had quality of earnings, over which the reporting regime did not have an influence. Their study did not find there to be a significant difference in the value relevance between IASs and U.S. GAAP however, following control for self-selection. Both cross-sectional regressions gave rise to these findings. The regressions involved a comparison of firms that were under accounting regimes that were different, with the time period kept fixed, and also from time-series regressions that involved a before and after comparison was performed that used a set of firms that had switched from domestic Saudi rules of accounting to either U.S. GAAP or IFRSs.

The association between stock returns and earnings was found by Alford, et. al., (1993), to be stronger in countries where there was a tradition of raising capital in capital markets and where there are weaker links for tax and reporting i.e. Anglo-Saxon countries. Their research employed pooled regressions to give an estimate of the relation between 15 month return and annual earning for each of their sample countries, separately. Based on the researchers' measure of information content, i.e. the comparison of the regressions' R^2, the annual earnings from the United States and the United Kingdom was a more informative measure than earnings had been from countries like Germany. Harris et al (1994) compared the value relevance of accounting information for American and German companies, through consideration of information on companies over the period 1982-1991, on the basis of industry and the size of the firm. Their study found no difference in the overall value relevance between the American and German companies. With the German firms, there is a higher coefficient applied to earnings and book value, and in order to examine the individual explanatory power of these, the researchers applied a simple regression approach. They discovered that the explanatory power of earnings was about the same in Germany and America, though in America the explanatory power of book value was higher.

An investigation of the financial statement effects of differences in the practices of accounting measurement in the United Kingdom, France and Germany was undertaken by Joos and Lang (1994). The relation between share prices and earnings and book values was investigated for the period of 1982 to 1990. The results of the study demonstrated that there was a difference between country to country, in terms of the association between the share prices and earnings and book values: in the United Kingdom, the explanatory power had a range between 14% to 42%; in Germany it had a range of 20% to 30%; and in France, it ranged between 48% and 78%. Joos and Lang (1994) did not find evidence that the practices for measurement in the United Kingdom resulted in accounting numbers that had a higher association with stock prices than in the German context, unlike the findings of Alford et al (1993), however the results were consistent with the findings of the studies undertaken by Harris et al (1994).

The book value of earnings and equity and market value of 50 listed companies in Dubai stock market, for the period 2001-2004, were examined by Amer (2007), a significant relationship was found between the market value of equity and the book value of earnings. His investigation looked into whether the adoption of US GAAP, IFRSs or cross-listing on DFM improved or worsened the association between book values of earnings and stock prices, and it was confirmed by their results that the adoption of US GAAP, IFRSs or cross-listing on the DFM, all gave a significant increase to the value relevance of earnings in relation to market prices.

The association between accounting data and share prices in UAE and the United Kingdom was also studied by Ahmed (2007), between those countries, in terms of the value relevance of accounting data. An examination was also undertaken of any possible variations in the incremental and relative relevance of book values and earnings across the two countries. The results showed a significant relationship between book values and earnings, on the one hand, and share prices on the other, in both countries, with the coefficient R^2 found to be 40% and 70% in the UAE and the United Kingdom respectively. The accounting

numbers for the UK had the highest relation to share price, whilst the UAE was lower. The study concludes that the association between book values and earnings differ from country to country, though the explanatory power of book values is greater than earnings in the UAE than in the UK.

An examination of the value relevance of earnings and book values in relation to the price of shares was undertaken in the US, Egypt, and UAE by Hussain, et. al., (2003). Their results gave evidence to the view that the book value of equity has far more value relevance in Egypt and Emirates than earnings does, and that earnings have far more value relevance than book value in the US.

The timeliness of earnings that were reported by firms in both the UK and Jordan was compared by Tariq, et al (2002) and they found that earnings in the UK exhibit a greater degree of timeliness than earnings in Jordan, though this was driven by a greater degree of sensitivity of accounting income to negative returns, or income conservatism. The compulsory introduction of IFRSs was examined by Platikanova and Nobes (2006) to see if it introduced, into financial markets, information of value-relevance. The researchers argued that the impact of the introduction of IFRSs might be reduced by certain factors. For instance, within the domestic reporting environment in Europe, the lengthy trading experience may have provided investors with the tools to be able to handle accounting information that was apparently inadequate.

If this was the case, then the added value relevance of the reporting of finance under IFRSs would be reduced. However, if IFRSs are introduced they may still have value relevance due to help from investors coming from an adjustment to the previous basis for comparison and the revision of investments during the opening reconciliations from domestic GAAP to IFRSs. Also, profitable investments that were not recognisable prior to the introduction of IFRSs can become distinguishable on switching over. From a sample of 3,907 public firms from 13 EU countries, taken from 2003 through to 2005, the researchers found that with the introduction of IFRSs in Europe, there has been a slight decrease in

information asymmetry and, therefore, the adoption of IFRSs has been seen as an event of value-relevance in Europe.

An examination of the value-relevance of accounting fundamentals, following the mandatory transition to IFRSs in Greece was undertaken by Andre, et. al., (2008), and they found there was no significant change to the value relevance of book value of equity and earnings between the periods 2004 pre-IFRSs and 2005 post-IFRSs. They conclude that the framework of accounting is not sufficient by itself to change the perception of the value relevance of accounting information amongst participants in the market. However, the extra information, that had been provided by the reconciliations between Greek GAAP and IFRSs for 2004 figures had been viewed by market participants as having incremental value relevance, in particular, this applied to adjustments that had been as a result of standards that had curtailed previous creative accounting practices, and this was mainly caused by firms that had lower reporting quality.

By way of summary, there is a suggestion, from the mixed findings amongst the international accounting literature, that the following question still remains: does accounting information that is reported in an IFRSs environment provide a better explanation of stock prices and the profitability of firms' than accounting information that is reported within local GAAP environments in the Middle East region?

One of the purposes of this research is to find an answer to the aforementioned question through a comparison of the value relevance of accounting information that is reported by listed firms using IFRSs in Dubai, with the value relevance of accounting information that is reported by companies in Abu Dhabi that are using IFRSs or US GAAP.

The recent studies of Leuz and Verrechia (2000) and Leuz (2003) have taken the approach of making a comparison of firms that report under different regimes of accounting whilst trading on the same stock exchange. Kholeif (2009) tested the

theory that a commitment by a firm to an increase in the level of disclosure lowers the information asymmetry component of the cost of capital to the firm. An analysis was done on a sample of Egyptian firms that switched from domestic GAAP to US GAAP or IASs, and they showed that this strategy of international reporting has an association with bid-ask spreads, that are statistically significantly lower, and higher share turnover. These constructs are proxies for information asymmetry and market liquidity, and the conclusion drawn from the evidence was consistent with the idea that economically significant benefits are reaped by firms from a commitment to the increased levels of disclosure that are required by US GAAP and IASs. The results also showed that US GAAP and IASs had higher earnings quality than Egyptian GAAP.

The further studies of Elias (2007) had an investigation of whether Qatari firms that were using US GAAP exhibited differences from those firms using IASs, in terms of several proxies for information asymmetry. As Elias's study focussed on firms that were trading in the new market in Qatar, institutional factors such as standards of enforcement, listing requirements and market microstructure are held constant. The study revealed that appearance of listed firms have no influence on the value relevance of accounting information as a result of the choice between US GAAP and IASs as the basis for the reporting of finance for firms trading in the new market in Qatar... *"these findings do not support widespread claims that US GAAP produce financial statements of higher informational quality than IASs"* (Elias, 2007). These findings, however, are consistent with the findings are Bartov et al (2005), who reported that there were no differences of any significance in value relevance between US GAAP and IASs, following control for self-selection.

The financial statement effects of using IASs was compared to those of using US GAAP by Hassan (2008) from a sample of Emirati companies that had elected to go through with the adoption of IASs. The restatements of the companies of the accounting numbers of prior years within the year of adoption was examined,

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and it was found that the adjustments between the two systems of reporting have value relevance for book value of equity, relevance of book value of equity and earnings under US GAAP and IASs. The study also showed that total assets and book value of equity are significantly higher, and also there is a higher book value of equity and earnings, when under IASs, and it was also found that the adopters of IASs exhibited larger loss provisions.

An examination and comparison of the value relevance of earnings based US GAAP and IASs was also undertaken by Nadir et al (2005). Their findings revealed, on the other hand, that there is more value relevance for IASs earnings in comparison to those based on US GAAP.

An examination of the characteristics of accounting numbers from a sample of Saudi companies that reported under IASs from 2000-2002 and under IFRSs from 2004-2006 and 2006-2008 was undertaken by Loui and Bashar (2009). They investigated the change in quality of accounting during those time periods whilst the IASB issued and revised new standards. Their findings indicated a decrease in the value relevance of both earnings and book value of equity in the IFRSs periods in general, as they had found a significant decrease in association between earnings, equity book value and the share price.

Evidence was provided by Tse (1986) that the set of annual financial statements would be expected to be at its most relevant around the date of the report publication when explaining the prices of securities, due to the information being fairly current and publicly available at this time. The information may not be reflected fully in prices, prior to this time. Once published, the information would become obsolete, as new information arrives, and should gradually lose its relevance for the explanation of the prices of securities.

Some of the theory and evidence that was associated with the studies of value relevance within accounting was reviewed by Omar (2001). Generally, most studies of value relevance within the literature of accounting use either the price

or the return model. Whilst the theoretical foundations of the two models are the same, there is sometimes inconsistency in the results that are obtained using these two models. The value relevance of accounting data was compared between Saudi and US firms, that were matched in terms of industry and firm size, was undertaken by Omar (2001) and they reported that the R2 obtained for Saudi firms when using the return model was comparable to that for US firms. However, when using the price model, the R2 obtained for Saudi firms was less than half that for US firms.

An examination was done of the changes in the value relevance of accounting numbers, by Francais and Schipper (1996), that used both types of model for the period of years from 1952-1994. It found that there was an increase in the value relevance for the price model and a decline in the value relevance of the return model, and concluded that the return model's decline could be because of increases in market return volatility during the years in question.

An examination of the changes in the value relevance of accounting numbers, during the tenure of different bodies of accounting standard-setting was undertaken by Ely and Waymire (1999). Their findings had given an indication that there was a decline in the value relevance from the era of the Accounting Principles Board (APB), between 1960-1973, to the era of the Financial Accounting Standard Board (FASB) between 1974-1993, when their study used the return model. However, their results showed an increase in the value relevance from the era of the APB to that of the FASB, when their study used the price model.

An investigation was also done of changes in the value relevance of accounting data for the years 1977-1996, by Livnat and Zarowin (2000), that used both the price and return models, and it reported a decline in the value relevance for both models over that period.

An examination was undertaken by Amer (2007) of companies listed on the Dubai Financial Market that had published exclusively either US GAAP consolidated financial reports or IFRSs, to consider the value relevance of US GAAP and IFRSs, in the years from 2002-2007. The conclusion was drawn that US GAAP was significantly more value relevant than IFRSs in statistical terms.

Considering all these findings together, it can be seen that accounting information contains significant variables for explanation that contain incremental information for understanding stock performance behaviour. This research seeks to confirm, or otherwise, the incremental information content of accounting numbers, and to provide an exploration of the impact of the introduction of IFRSs in the Middle East.

4.6 The impact of IFRSs on financial indicators

There is a considerable deficiency of studies on the impact of the adoption of IFRSs on financial indicators, with only three studies, to the knowledge of the researcher, addressing this issue during the last decade.

An investigation, by Yalama and Coskun (2007), of the effects of the adoption of IAS on some key measures of finance, was undertaken for a sample of 80 firms in the Gulf countries that had adopted IASs for the first time during the period of the years from 1999-2004. The study looked at the measures of asset turnover, return on equity, leverage, book-to-market ratios and earnings-to-price ratios and found that total assets and book value of equity are significantly larger than under a system of IASs than under US GAAP. The study also found that the adoption of IASs had significantly decreased return on equity, return on assets and asset turnover due to the book value of equity and the total assets being relatively larger under the IASs. The studies did not find significant differences in leverage between IASs and US GAAP, as both book values of equity and liabilities tend to increase under IASs. However, they did find that there appeared to be an increase in book-to-market ratios while there tended to be a

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decrease in earnings-to-price ratios under IAS. In summary, the researchers found that the adoption of IAS had resulted in economically significant changes to many financial ratios and measures of accounting (Abdul-Aziz, et. al., 2007).

An investigation was undertaken by Agra and Aktas (2007) of whether the adoption of IFRSs in Turkey had had an impact on some key financial ratios for Turkish listed firms on the Stock Exchange in Istanbul. Twelve financial indicators were examined by them which were the current ratio, cash ratio, acid-test ratio, inventory turnover, receivables turnover, total liability ratio, long term liability ratio, profit margin, return on equity, return on assets and the equity factor. The researchers found that was only statistically significant change to the values of asset turnover and cash ratio. This poor response of financial indicators to IFRSs adoption was attributed to the study being limited to only one year, i.e. 2004. This was the year that it was first adopted and as there was clearly a lack of training for the preparation of financial statements that were based on IFRSs, mistakes were being made in the applications.

An analysis of the impact of differences between US GAAP and IFRSs on the economic-financial indicators of 37 English companies that negotiate American Depository Receipts on the NYSE, was undertaken by Beuren, et. al., (2008). Their study considered the following financial indicators: debt (measured by total liabilities divided by liquid assets), general liquidities (measured by current assets + long term realisable assets divided by current liabilities + long term maturing liabilities), financial dependence (measured by total liabilities divided by total assets), current liquidity (measured by current assets divided by current liabilities), return on assets and return on liquid assets. The financial indicators were based on calculations from financial statements of the year 2005; the statements being sent to the New York Stock Exchange (NYSE) based on US GAAP and to the London Stock Exchange (LSE) based on IFRSs. Their results showed that there were percentage differences in the economic-financial indicator of the 37 English companies, based on the aforementioned statements, that suggested that there were divergences between the US GAAP and IFRSs.

Their correlation and regression analyses, however, indicated that there were no significant differences between indicator values that were calculated based on the two different sets of standards of accounting. Therefore, they concluded that the divergences in the accounting standards under consideration do not significantly affect the economic-financial indicators. It should be noted, however, that these three studies only covered one year of the adoption of IFRSs, and so they did not allow for the change to IFRSs from the domestic standards of accounting, which had not therefore settled in and reflected fully in the financial statements.

This research aims to fill this gap in the literature of finance and accounting through the provision of evidence of whether the environment for accounting gives a direction to the impact of the adoption of IFRSs on financial indicators.

4.7. Summary

Evidence has been provided that both investors and managers have a tendency towards finding measures for an indication of the performance of their company (Amir and Lev, 1993; Abuzar and Khalid, 2001). For such a purpose, professional accounting bodies and stock exchange authorities around the world require the disclosure of summary performance measures, such as Cash Flow, Return on Equity and Earnings Per Share, with the informativeness long being of interest to researchers of accounting.

Many researchers have noted that the association between accounting information and share prices can be used to infer the perceptions of participants in the market of the properties of accounting information, such as reliability and relevance (Fama, 1965; Beaver, 1970; Ball, 2001; Beaver and Dukes, 1972; Brown and Kennelly, 1972; Beaver et al, 1982; Board, et. al., 1989; Bernard and Stober, 1989; Livnat and Zarowin, 2000; Dechow, 1994).

Other studies have also shown that, if there is an association, it need not mean that the information is actually used by them for making decisions related to investment and trading. It may simply be a reflection of some information that is in common with other measures of accounting that investors employ (Beaver and Dukes, 1972; Rayburn, 1986; Wilson, 1997; Bowen et al, 1986).

A number of other researchers have also provided an examination of the role that accounting information has in capital markets (Lev, 1989; Easton et. al., 1991; Ali and Zarowin, 1992; Harris et al, 1994; Ohlson, 1995; Joos, 1997; Ali and Hwang, 2000). Notwithstanding the role of accounting information, many authors suggest that accounting information has limited relevance to the residual risk.

Most of the empirical studies reviewed have concentrated on the efficient and effective markets of highly developed economies such as the United Kingdom, United States and Australia, as illustrated by the work of Ball and Brown (1968), Brown and Kennelly (1972), Kaplan and Roll (1972), Forsgardh and Hertzen (1975), Firth (1981), Easton *et. al.,* (1994), Hall et al (2002), Harris et al (1994), Barth and Clinch (1996), Frost and Kinney (1996), Dumontier and Labelle (1998) and Frost and Pownall (1998).

Other empirical studies and literature have supported the basic hypothesis that the existence of a market that is efficient is important for the relation between the variables to be valid, and this can affect the result of the studies between dependent and independent variables (Forsgardh and Hertzen, 1975; Dickinson and Muragu, 1994; Frost and Pownall, 1998). These researchers undertook investigations of the correlation among accounting measures of performance, and also the association of those measures with stock market prices.

The conclusion that can be drawn from the above literature is that the majority of researchers who have previously studied the association between capital

market values (share prices and returns) and accounting data, have mainly focussed on:

- An examination of the value relevance of earnings and book values in equity valuation
- A comparison of the incremental explanatory power of earnings with that of book values
- A comparison of the explanatory power of earnings and book values across countries, and
- A comparison of the value relevance of earnings and book values generated based on different accounting standards sets within the same country.

The focus of accounting research has largely been on whether the standards of accounting actually add value for investors or other stakeholders, with most of the studies, such as that of Kothari (2001) providing an examination of the relation between share prices and accounting information.

From the previous studies, the most significant conclusion has been that the financial reports that are being published under the new regulations have been providing investors with new and relevant information. Further to this, a number of researchers have shown that the information content of accounting requirements has a systematic diversity, depending on the characteristics of the country and the firm (Easton and Zmijewski, 1989; Alford et al, 1993).

Taking a different perspective, numerous other studies within the literature have created a widespread impression that the value relevance of the accounting information of financial statements has been lost due to the economy shifting from a traditional intensive one into a high technology, service-oriented one. Such studies have provided evidence of a decline in the relevance level of earnings and other items in financial statements. A number of studies, that used

different approaches, have found that in the context of developed economies, such as the U.K., the value-relevance of accounting information was in decline, arguing that, over time, there had been a deterioration in the relations between earnings, book values and the prices of shares (Ramesh and Thiagarajan, 1995; Brown et al, 1999, Wahlen, et. al., 1999).

These studies provided an examination of the association between a combination of book values and earnings, on the one hand, and returns or prices of shares, on the other. All the authors view the R^2 or coefficient on the explanatory variables in these regressions as a reflection that has value relevance. Collins et al (1997), Ely and Waymire (1999) and Wahlen, et. al., (1999) have also undertaken examinations of the relation between returns, earnings and book values and found that whilst there has been a deterioration between returns and earnings, an increase in the value-relevance of book values offset that deterioration. Whilst there has been a focus on the importance of earnings and book values as explanatory variables for share price changes within the existing literature, such a focus overlooks the potential for explanations of changes in stock prices to come from other accounting information. Furthermore, no attention is paid within the existing literature to the study of the impact of the compulsory IFRSs adoption on the value relevance of accounting measures, and potentially the impact on the trading volume of shares. Moreover, very little attention within the literature on accounting has been devoted to the study of the impact of compulsory IFRSs adoption on financial indicators.

In the light of the above, this research examined the association between a set of accounting variables and share price within two stock markets in the UAE named DFM and ADX, pre and post adoption of IFRSs in the UAE. In addition, the study analysed the impact of the adoption of IFRSs, in both markets, on financial indicators. This research sheds some light on the impact of the adoption of IFRSs on both company and stock performance in the two markets, and highlights the magnitude of the important shift in accounting standards towards convergence, internationally.

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Chapter 5 : Research Methodology and Methods

5.1. Introduction

This chapter presents the research methodology adopted in this study. The UAE decided to adopt the new financial standards (IFRSs) in some of its firms mandatorily (listed firms), and there was a lack of research that investigated the impact of this change in these firms' financial statements. Thus, this research assesses the main impact of adopting the IFRSs by the listed firms that adopted the standards mandatorily, and the other impact (if different) of the voluntary adoptions (for both listed firms that adopted the standards before 2005 and those that do not have to adopt the standards but they did).

The main objectives of the study are; firstly to explore the difference in impact of the adoption of IFRSs, if any, between the DFM and the ADX, and secondly, to evaluate the impact of the compulsory adoption of IFRSs in the UAE on share performance. Thus, the following research objectives were set for this research:

1. To critically review the different theories, concepts and strategies related to the impact of adoption of IFRSs on listed firms' performance.
2. To determine the current problem facing users in the understanding of the implications of adopting the IFRSs by the listed firms in the developing countries.
3. To examine the level of users' perception of the benefits and disadvantages of adoption of IFRSs.
4. To assess the performance of shares pre-adoption and post adoption of the IFRSs in both ADX and DFM.
5. To evaluate the impact of adopting IFRSs on the share price and firms performance in both ADX and DFM.

6. To analyse the main impact of adopting IFRSs on the profitability of firms in both ADX and DFM.

7. To make recommendations for both practitioners and policy makers based on the findings of the study to show the impact of adopting IFRSs upon the firms' profitability and share performance.

This chapter analyses the various research philosophies, approaches, strategies and methods of data collection used in research, justifying the reasons for the methodological choices adopted in this study in relation to the objectives of the research. It then describes the data instruments used for this research such as questionnaire process, and archival records. In addition, this chapter considers the validity and reliability of the methods of analysis employed to address the aim and objectives of the research.

5.1.1 The nature of research

According to Kumar (1999) a piece of research seeks, through a methodological process, to build on the existing body of knowledge. Saunders, et. al.,(2007) indicate that research in business is intended to find out things about business matters in a systematic way. The purpose is to advance knowledge and increase understanding by providing reliable procedures that help managers to solve business problems. Thus, the basic notion is that managers must understand research to be able to make effective decisions. Further, Cooper and Robson (2006) state that business research is a systematic inquiry that provides information to guide managerial decisions. More specifically, it is a process of planning, acquiring, analysing, and disseminating relevant data, information and insights to decision makers in ways that mobilize the organisation to take appropriate actions that, in turn, maximize business performance.

5.1.2. Methodology and Methods

Hussey and Hussey (1997) point out that methodology is the overall approach to a research process. While Easterby-Smith et al. (2008) describe it as a combination of techniques used to inquire into a specific situation and Jankowicz (2005) defines it as a systematic and orderly approach taken towards the collection of data so that information can be obtained from these data.

Explaining the term methodology further, Kervin (1999) argues that methodology within a research process not only discovers data through the design methods chosen, but also attempts to discover new facts or relationships through a process of systematic scientific enquiry of information obtained. It is an activity that enhances knowledge and understanding of the world. All of the above definitions share common themes in that research methodology is a systematic scientific approach that is essential for turning collected data into reliable and valid information to improve the writer's knowledge on the subject. Hence, systematic planning of research strategy and design is mandatory for developing, refining or expanding the original research theory.

5.1.3. Definition of research methodology

There are many different definitions of the concept of research methodology. For example, Saunders et al. (2007: 241) define research methodology as:

"Something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge"

Similarly, Bryman and Bell (2007) define research methodology as the application of various systematic methods and techniques to create scientifically obtained knowledge. Therefore, research methodology is the systematic way a researcher works using appropriate methods to collect and analyse data and to properly identify issues to be discussed, as well as the objectives of his study.

5.1.4. Purpose of the research

Collis and Hussey (2009) classify research according to its purpose, the following being some of the types of research:

1. Exploratory research which is conducted to examine a problem or issue when there are very few or no earlier studies which can be referred to for information on it

2. Descriptive research which describes phenomena as they exist;

3. Analytical or explanatory research which is a continuation of descriptive research; and

4. Predictive research which aims to generalise from the analysis by predicting certain phenomena on the basis of hypothesised general relationships. The present research is an explanatory and exploratory study whose aim is to develop a framework that identifies the benefits and constraints to implementing IFRSs in the UAE stock exchange.

5.2. Research philosophy

Saunders et al. (2007) indicate that the research philosophy reflects the way the researcher thinks about the development of knowledge, which in turn affects the way of adopting the research. According to Easterby-Smith et al. (2008), knowledge of philosophy can help the researcher to recognise which design will work and which will not, in order to avoid going up blind alleys. Collis and Hussey (2009) suggest that a philosophy is an alternative term for paradigm. Many authors, such as Easterby-Smith et al. (2008), Saunders et al. (2007), Collis and Hussey (2003) and Remenyi et al. (1998), distinguish between two main philosophies: phenomenology and positivism. However, Collis and Hussey (2009) state that the positivist paradigm has some alternative terms such as the Quantitative, Objectivist, Scientific, Experimentalist and phenomenology paradigm, while Qualitative, Subjectivist, Humanistic and Interpretivist are alternative terms for the Phenomenological paradigm. In this study the

researcher will use the terms of positivistism, Quantitative, phenomenology and Qualitative.

Easterby-Smith et al. (2008: 28) describe positivism as assuming that:

"The social world exists externally, and that its properties can be measured through objective methods rather than being inferred subjectively through sensation, reflection or intuition"

Similarly, Zikmund (2002) argues that the key idea of positivism is that the social world exists through objective measures, instead of being inferred subjectively through sensation or intuition. Positivism follows the traditional scientific approaches to developing knowledge through research strategies, methods and interpreting results. Moreover, Collis and Hussey (2009) note that it proceeds from the belief that the study of human behaviour should be undertaken in the same way as studies in the natural sciences. Further, Creswell (2003) points out that quantitative researchers usually derive a problem from the literature, in which case a substantial body of literature may be available in terms of variables and existing theories, which may need testing or verification. Similarly, Ragin (1994) observes that quantitative methods concentrate directly on relationships among variables. Moreover, Bryman (2004) states that quantitative researchers emphasise careful control and measurement by assigning numbers to measurements. In the same way, Gill and Johnson (1997) claim that quantitative research concerns the aggregation of data, most of which are assigned numerical values. Lastly, Lincoln (1998) explains that quantitative research is concerned with questions such as 'How much?', 'How often?' and 'How many?'

By contrast, Easterby-Smith et al. (2008: 28) state that phenomenology

"focuses on the way that people make sense of the world, especially through sharing their experiences with others via the medium of language. Social constructionism is one of a group of approaches as interpretative methods in other words; people construct their own words and give meaning to their own realities"

Some distinguishing features of positivism and phenomenology that they mentioned are contained in table 5.1.

Figure 5-1: Contrasting features of positivism and phenomenology

Source: Easterby-Smith et al. (2008)

Moreover, the Oxford English Dictionary presents the following definition for phenomenology:

> "the science of phenomena as distinct from being (ontology)" and "that division of any science which describes and classifies its phenomena".

Creswell (2003), Hussey and Hussey (1997) and Collis and Hussey (2009) assert that phenomenology refers to the subjective aspects of human activity by focusing on the meaning rather than the measurement of social phenomena. This philosophy is also called the interpretivism approach (Creswell, 2003). Further, Gerson and Horowitz (2002) comment that qualitative research is a

source of well-grounded rich descriptions and explanations of processes in identifiable local contexts.

Furthermore, Sekaran (2003) argues that the concept of "qualitative" implies an emphasis on processes and meanings, which are not examined or measured in terms of quantity, amount, intensity or frequency. For Strauss and Corbin (1998), the strengths of such a qualitative approach lie mainly in its ability to ascertain deeper underlying meanings and explanations of phenomena. Bell (1999) asserts that research adopting a qualitative perspective is more concerned with the understanding of individuals' perceptions of the world; they seek insight rather than statistical analysis. Table 3.1 shows contrasting features of positivism and phenomenology shown by Easterby-Smith et al. (2008). They also showed the strengths and weaknesses between each paradigm. Moreover, Table 5.2 lists some of the key features of qualitative and quantitative research with regard to the method of data collection, as given by Hussey and Hussey (1997).

Figure 5-2: Key features of qualitative and quantitative research

Source: Hussey and Hussey, (1997: 127).

Figure 5-3: Assumptions of the two main research paradigms

Source: Collis and Hussey (2003)

Moreover, Collis and Hussey (2009) also examine some fundamental assumptions behind each approach, which are compared in Table 3.3. The researcher feels that it is necessary to understand the assumptions and the features of each philosophy in order to choose research methods from an enhanced position.

5.2.1. Justification of the selected research philosophy of this study

This research has social features, dealing with beliefs, realities, attitudes and experience regarding testing the level of understanding of the impact of

adopting the International Financial Reporting Standards in the financial statements of the listed firms in the UAE stock exchange markets. The choice of the phenomenological approach to this work is supported by authors including Hussey and Hussey (1997) and Collis and Hussey (2009), who assert that phenomenology is the appropriate philosophy for studies that deal with the exchange of experience between people. As this research is aiming to investigate the implications of adopting IFRSs in UAE financial reporting, it is important to do the research through a process of transferring information on a business body to interested parties (Canadian Institute of Chartered Accountants, 1983). According to Wallace (1993), meaningful information to interested parties should be gathered through two main fields: measuring of the affairs; and the disclosure of the affairs for the decision makers. Thus, this research is focusing on the financial reporting analysis and the disclosure level by adopting the IFRSs, from both managers' and users' points of view. This approach is also supported by researchers such as Easterby-Smith et al. (2008), Creswell (2003), and Amaratunga et al. (2002). Moreover, Leonard, et. al., (2003) suggest that phenomenology is the appropriate methodology in subjects that refer to quality management, as the present study does.

5.3. Research approach

The research questions, along with the objectives of the study, are considered crucial elements in the selection of the research approach. Consequently, Oppenheim (2000) argues that choosing the best approach is a matter of appropriateness. There are two general approaches to the acquisition of new knowledge, namely inductive and deductive. According to Hyde (2000), the inductive approach is a theory building process, starting with direct observation of specific instances and seeking to establish generalisations about the phenomenon under investigation, while the deductive approach is a theory testing process which commences with an established theory or generalisation and seeks to establish, by observation, whether it applies to specific instances. Creswell (2003) and Patton (2002) state that one of the key differences between these approaches lies in how existing literature and theory are used to guide the

research. The deductive approach is designed to test a theory; thus, the literature is used to identify questions, themes and interrelationships before data are collected. By contrast, the inductive approach builds a theory as the research progresses; themes are identified throughout the research process and the literature is used to explore different topics. In table 5.4, Saunders et al. (2007) show the major differences between inductive and deductive approaches.

Nonetheless, Richardson and Hutchinson (1999) argue that there is no theory-free research and that all empirical work is based on some fundamental ideas. This point of view is supported by Bryman (2004), who note that all researchers begin with some kind of conceptual framework and that it would be impractical for them to enter a field or engage in the research process with no framework or notion about relevant concepts in the area of interest. Moreover, Saunders et al. (2007) suggest that a combination of deduction and induction is not only perfectly possible within the same piece of research, but is often an advantageous approach. For that reason, the two approaches are adopted in this research: deduction is used in developing the theoretical framework from the literature, before the inductive approach is applied in addressing the research aims.

Figure 5-4: The major differences between deductive and inductive approaches

Source: Saunders, at el., (2007)

5.4. Research strategy

A research strategy is a plan of how to answer research questions which will achieve the research objectives (Saunders et. al., 2007). Yin (2009) lists five different types of research design, summarised in Table 5.5.

Figure 5-5: Relevant situations for different research designs

Source: Yin (2009)

The first strategy of collecting primary data is through surveying, which aims to analyse the effectiveness in profitability of the UAE listed firms after the adoption of IFRSs in its financial statements by both managers and investors. Yin (2009) indicates that each design could be used for the three purposes of research (exploratory, explanatory and descriptive). Exploratory research is in reference to how to *"find out what is happening, to seek new insights, to ask questions, and to assess phenomena in a new light"* (Robson, 2003: 59). The explanatory research is aiming to study a situation or a problem which explains the relationship between two or more variables (Saunders et. al., 2007). Moreover, descriptive research describes an accurate profile of events or circumstances (Robson, 2003).

This study is an exploratory piece of research which aims to investigate the effectiveness of adopting IFRSs on financial statements in UAE's listed firms. The research is also explanatory research that aims to assess the level of investors' and managers' awareness of the role of IFRSs in their decisions. Thus, the survey is the most appropriate design for both exploratory and

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explanatory research (Saunders et. al., 2007; Robson, 2003). Surveys are a common strategy that researchers in business studies have used in their investigations wherein Sarantakos (1998) states that the survey is a common method which the social sciences have used to collect data.

The use of the survey aims to cover one part of this study which aims to measure attitudes, beliefs and the behaviour of people. Furthermore, survey questions are the most appropriate method of answering the form of "What" questions (Yin, 2009).

5.5. Triangulation

Generally, surveys are preferred as they give the researcher the chance to gather a large amount of information from the population with an economical method, such as interview and questionnaire techniques. This research has used a combination of both questionnaire and semi-structured interview methods, which is known as triangulation (Robson, 2003). Sarantakos (1998) indicates that triangulation gives the researcher a variety of information from different sources for the same issue in order to achieve a higher degree of validity and reliability. In addition, triangulation allows the researcher to overcome the shortages of employing one method, so triangulation uses two or more independent sources of data collection methods that support the findings of the study (Saunders, et. al., 2009).

By using multiple techniques to collect the data, the researcher can address different questions that are harmonized together to answer the research questions (Robson, 2003). According to Saunders et. al., (2009) the diversity of use of methods can be classified as mixed methods and multi-method. Mixed methods use both quantitative and qualitative data collection methods and analysis techniques, however it does not combine them in one analysis. However, the multi-method uses many quantitative methods and many qualitative methods to answer the research questions. The nature of this

research directed the researcher to use multi-methods to gather the required data for the research objectives and the research questions.

5.6. Data collection methods

Methods are what researchers use in order to explore, define, understand and describe phenomena, and to analyse the relations among their elements, they are the ways of collecting evidence during data gathering (Kumar, 1999). Yin (2009) suggests six major sources of evidence to be used in the case study approach; these are listed in Table 5.6 and compared in terms of their strengths and weaknesses. Yin (2009) concludes that no single source of data has a complete advantage over others, while the use of multiple sources of evidence can help in clarifying the real meaning of the phenomena being studied. Silverman, (2000) and Sekaran (2003) also encourage researchers to use more than one method and recognise the value of using multiple methods for the corroboration of findings and to improve the validity of data. Such a multi-methods approach helps the researcher to overcome the possibility of bias associated with any single method (Collis and Hussey, 2009).

Ghauri and Gronhaug (2002) agree that the use of multiple sources of evidence can help substantially in improving the validity and enhancing the reliability of research. Accordingly, the present research combines questionnaire and the examination of archival records, aiming to benefit from the strength of each method to obtain a wide variety of data, as well as gaining an in-depth understanding of the subject.

Figure 5-6: Strengths and weaknesses of six sources of evidence
Source: Yin (2009)

5.6.1. Archival records

As noted by Yin (2009), archival records are relevant for many case studies. These include organisational and personal records, maps and charts, lists of names and other relevant items and survey data. Researchers, including Al-Haj (2006), have used archival methods in their studies of testing the impact of adopting the IAS in financial statements. In the present study, which is similar, the researcher examined records showing the history of the organisations' financial reports between 2002 and 2007 for the purpose of measuring the profitability before and after the adoption of the IFRSS in 2005. Archival

records could be considered as secondary data as obtaining the required financial information can be done by gathering it from the studied firms' financial reports. In addition, profitability ratios, which were used by the firms, might also be gathered from the annual reports. This information is already structured and available to the public in the form of corporate annual reports.

1. Listed companies' annual reports as data sources

The research aim was to investigate the UAE financial reporting practices over the period 2002 to 2007. Corporate annual reports were chosen to be the main data source for testing the specific research hypotheses for the following reasons. Firstly, a corporate annual report contains most of the significant information about a company that is considered necessary to disclose to the public. The content and form of annual reports are subject to certain minimum levels, which are specified by the Companies Acts, the financial reporting standards, and for listed companies, the Stock Exchange regulations. Also, an annual report contains other information that a company considers important for users of financial reports, such as the calculations of profitability ratios and their profitability and share performance over time.

Secondly, although a company can use many ways (e. g. newspaper, newsletters and websites) to communicate to outsiders, the corporate annual report is the major medium and is the most important source of financial information for investors' decision making processes. Ball, et. al., (2006) studied three groups of users: individual investors, institutional investors and financial analysts, in three countries (the UK, the US and New Zealand) and found that investors and analysts in these countries considered financial statements published in annual reports to be the most important source in the buying, selling and holding of stocks. This also occurred in developing countries. Abdelsalam (2006) surveyed investors in Saudi Arabia and found that more than 70 percent of the surveyed investors read corporate financial reports before they made a decision relating to selling or buying stocks. Recently, Chan, et. al., (2010) surveyed the perception of 98 CFOs and 92 investment analysts in Hong Kong and indicated that the

sample considered financial statements in corporate annual reports as the most important sources of information.

The importance of annual reports, as a source of obtaining financial data for the studied listed firms in both ADX and DFM, in order to test their profitability performance during the studied period, has been clearly highlighted by the literature. According to Torn and McNichol (1998), the strength of using archival records is that certain information, that has been indicated for historical factors, might be available in the conventional historic study. The case study investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomenon and context are not clearly evident, and when multiple sources of evidence are used (Yin 2009). The main objective of this part is to test the effectiveness of adopting IFRSs in the profitability and share performance of the UAE's listed firms. This would be obtained by analysing the historic financial statements of the case studies in order to test the empirical effects of the adoption of IFRSS into its profitability and share performance, using certain ratios to measure the profitability.

Some authors have stated that the most appropriate strategy to use in such research is a case study. For example, Saunders et al. (2007) assert that a case study is valuable if the researcher wishes to gain a rich understanding of the context, as it is a worthwhile way of exploring existing theory. Similarly, Jankowicz (2005) mentions that the advantage of case study research is that it enables comprehensive and informative data to be generated. This view is supported by Yin (2009), who states that a case study can verifiably achieve full saturation by gathering appropriate information. Moreover, Yin (2009) recommends that for research which focuses on 'what', 'why' and 'how' questions, the case study approach is ideal. The present research, in exploring the effect of adopting IFRSs implementation, addresses 'what' and 'why' questions. Further, Bamber (2003) suggests that case studies are ideal to study quality management issues and adds that the intangible nature of certain elements such as culture change, resistance to change and improvement in some

of the organisations makes this all the more relevant. The case study is deemed appropriate in the present research, since these elements are related to its aim. Finally, Bell (1999) states that the case study is a useful strategy for converting tacit knowledge into explicit knowledge, so practitioners can learn more about the performance of their business systems.

2. Number of case studies

Having settled on the case study strategy, the question arises as to whether to examine a single case or multiple cases. Yin (2009) advises that the single case can be used to determine whether a theoretical proposition is correct or whether some alternative set of explanations may be more relevant. It is also appropriate to use this strategy when the case represents an extreme or unique case. On the other hand, Creswell (2003) argues that although a single case study can offer greater depth of study, it has limitations as to the generalisability of any conclusions drawn. It could also lead to bias, such as misjudging the representativeness of a single event and exaggerating easily available data. Yin (2009)) observes that multiple case studies are more common and are generally used to replicate findings or support theoretical generalisations. Indeed, multiple case study research increases external validity and guards against observer bias (Leavy, 1994). Thus, Yin (2009: 63) points out that *"criticisms may turn into scepticism about the ability to do empirical work in a single case study. Having multiple cases can begin to blunt such criticisms and scepticism"*. As a result of these considerations, it was decided that the appropriate research design for the present study would be a multiple set of case studies replicating the same phenomenon under different conditions. Thus, the selected number of case study was 42 firms from DFM and 36 firms from ADX which was a mix of those firms that adopted IFRSs before 2005 (Voluntary) and those who adopted the IFRSs in 2005 (mandatory). This part of the research strategy analyses the financial reporting for these firms before and after its adoption to test its effects on the profitability of these firms and its share performance. Thus, the covered period of the study will be between 2002 and 2007, wherein

the period was divided into two main eras pre-adoption (include 2002, 2003 and 2004) and post-adoption (include 2005, 2006, and 2007).

3. Conducting the case studies

In order to demonstrate credibility and overcome bias, the researcher carried out the following steps:

- The researcher used a student researcher letter provided by the University as proof of his conducting of the research (appendix one). This step is supported by Easterby-Smith et. al., (2008), Al-Hajji (2003) for helping to develop trust between researcher and respondents.
- The researcher also explained the purpose of the study to the respondents through the front page cover of the questionnaire (this was just for the questionnaire part, but with regard to the archival data, there was no need to use the university letter nor to explain this step, unless personal collection of the financial statements was made, as their financial statements are not published on the internet).
- Two months were given for the collection of the questionnaire from the respondents, (either through email, or by post to an address in the UAE). The researcher sent two reminders during the period to remind them of the questionnaire.

5.6.2. The questionnaire

According to Easterby-Smith et.al (2008), questionnaires are very widely used in the large scale investigation of opinions and perceptions of employees, which is the case for this study. The main dilemma with questionnaires is that they often seem to be an easy way of obtaining a large quantity of information quickly, while this is not principally true as any lapse can detrimentally hinder the validity of the information. In this context, Kervin (1999) emphasizes that further attention must be given to the order in which questions are arranged. He argues that the general sequence of the questions should be based on the

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principle of funnelling, where questions are arranged in funnel order. The questionnaire should start with the general questions, and then move to increasingly specific questions, and the implicit logic of variables and the sequence of questions should naturally follow the implicit logic of the topic. Additionally, bridges and filter questions should be used when required.

All questionnaire items must be composed in simply understood words to ensure that the meaning is clear for different candidates. Accordingly, when designing the survey questions, the researcher has to avoid detailed subjects related to theoretical literature from an academic point of view and technical aspects, such as complicated processing, that respondents may not able to follow and new techniques, that respondents may not be aware of. Additionally, large academic vocabulary and jargons should be avoided for the same reason given above. The researcher should also ensure selection of the most clear and exact words with precision. In order to achieve this, a few drafts should be prepared until reaching a final version that meets the considered necessary standards.

Furthermore, Coleman and Briggs (2002) insist that clear language and direct questions alone are not enough to produce useful information, a good framework is also needed to give further meaning to the question, especially when the researcher's aims are related to variables such as firm size, turnover and nature of business and its location. They justified this as questions regarding level of understanding to the new financial standards, the level of changes in the financial statement instruments, and the other implications regarding the adoption of the IFRSs. Therefore, they suggested that the Likert scale would be better than straight forward questions. With the Likert scale, respondents indicate the level of agreement or disagreement with a statement which is generally on three, five or seven points scale.

1. Type of questions

The questionnaire is a common and easy method of collecting primary data (Yin, 2009). The nature of questions in the questionnaire might be designed as quantitative data (closed questions) or qualitative (open questions). The use of a questionnaire makes it possible to standardise information which helps in the interpretation of the results. For the purpose of this research, questionnaires with the management and investors of listed firms in the UAE stock exchanges were conducted to obtain information regarding the second part of the hypotheses, which aims to investigate the impact of adopting the IFRSs in both the managers' and investors' decision making. The questions were mixed between open and closed questions aiming to gather data about the implications of adopting the IFRSs on both preparers and users of financial statements. The first part of the questionnaire {see appendix one} was designed for the financial statements' preparers (CFOs), starting with general questions about the firm characteristics, followed by different types of questions to highlight the different implications of adopting the IFRSs, such as its impact on profit, financial instruments, intangible and tangible assets, gross profit, and the communication between the management and stakeholders.

The other part of the questionnaire {see appendix two and three} was designed for the users (both investors and external auditors). This part also asked very similar questions to the first part; the purpose of this is to investigate if the adoption of the IFRSs has changed the perceptions of investors with regards to the communication level with the managements of firms, and the investors' perceptions of the transparency and comparability level of the financial statements after the adoption of IFRSs, compared to the previous standards.

2. Quantitative Data analysis (the questionnaire)

Before attempting any form of quantitative data analysis, it is important to be clear about the kind of data involved (Easterby-Smith et al, 2008); and these same authors identified three types of data:

- Nominal: implies no more than a labelling of different categories

- Ordinal data: response to question that offer range of answers
- Interval data: classification when the interval is clear

Analysis of quantitative data, such as the questionnaires, requires computer tests and techniques, particularly because the questionnaire has a variety of questions. In this context, the use of the Statistical Package for the Social Science (SPSS) seems very constructive and practical in order to find out the correlations between the variables, and the influences of the characteristics of firms on the other dependent variables.

3. Sampling Strategy for the questionnaire data

In the context of multiple-indicator surveys, sampling is a process for selecting respondents from a bigger group (Robson, 2003). In this case, it has three different sub-populations which vary considerably (Dubai stock exchange, Abu Dhabi stock exchange and investors). In addition, Saunders et al. (2009) state that sampling techniques give the researcher a range of methods which enable him to select data from the bigger group rather than possible cases. Moreover, Robson (2003) indicates that a sample refers to a division of the population. Moreover, Saunders et al. (2007) argue that the sample should provide a similar result as the population. In this context, Bartlett et al. (2001) state that the purpose of survey research is to gather data which represents the population, wherein the researcher would use the information gathered from the sample to generalise findings to the whole population.

In general, a sample has advantages and disadvantages. The main advantages of samples are saving time and the low cost. However, the disadvantages of using sample are that the researcher cannot get the exact characteristics of the population, thus the possibility of error still exists (Kumar, 1999). Additionally, the sample technique requires the researcher to use higher qualified staff to analyse the sample.

It was argued that samples can be classified into two main groups: random (probability) and non-random (non-probability) samples. For a random sample, there is equal probability of selecting each case in the population (Robson, 2003). In this context, Finn et al. (2000) indicate that random sampling each case gives it an equal chance of being selected for testing. This type of sampling is costly, takes a long time, and is quite complicated. However, it is considered as having the higher degree of repetitiveness for the population (Saunders et al., 2007).

On the other hand, for non-random sampling it is not necessary to have an equal probability of selection to each case, and generally the researcher is selecting the sample (Saunders et al., 2007). This type of sampling is used with strategies such as case study (Robson, 2003), or when the sampling cases are difficult to identify (Collis and Hussey, 2003).

Figure 5-7: Type of Sampling strategy

Source: Saunders et al., (2007: 207)

Stratified random sampling was the selected method to select respondents within the sub-populations. Stratified random sampling is a process of grouping members of the population into relatively harmonized subgroups before sampling. The stratum should be equally limited: every element in the

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population must be assigned to only one stratum which should be jointly exhaustive. Then random or systematic sampling is applied within each stratum. This often improves the representativeness of the sample by reducing sampling error. It can produce a weighted mean that has less variability than the arithmetic mean of a simple random sample of the population.

The aim of the sampling strategy is to represent the whole characteristics of the population. Thus, the procedures for selecting the sample size for each sub-population needs two steps: the first step is predicting the sample size for each population; then the second step is adjusting the sample size to the response rate.

4. Sample size

The Moser and Kalton model was the method used for the selecting of the sample size of each population. The reason for selecting this model was because it assumes the normality of the data. The equation of this model is as follows:

$$\text{S.E (x)} = \sqrt{\frac{\sigma 2}{n-1} X \frac{N-n}{N-1}}$$

Where:
N is the number or the units in the population
n is the number of the units in the sample
σ is the standard deviation
S.E(x) is the standard error of the mean

Figure 5.8 shows that the total population of DFM is 145. Therefore, 100 questionnaires (see appendix one) were distributed within the listed firms in DFM. The collected questionnaires from DFM were 62 questionnaires which indicates that 62% of the total distributed questionnaires were returned from the listed firms. The percentage of collected questionnaires out of the population size is 43%.

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Moreover, figure 5.8 also indicates that total population size of ADX is 165 listed firms, therefore, 100 questionnaires were sent out for CFOs which 89 questionnaires were returned back to the researcher. That mean 89% of the distributed questionnaire was returned back. The returned questionnaires from ADX cover 54% of the population size.

Additionally, the estimated population size of investor (brokers) is 104 investors (those are broker companies in both Abu Dhabi and Dubai). Therefore, 75 questionnaires were distributed in this group of respondents, wherein 49 questionnaires were returned back to the researcher which cover 65% of distributed questionnaire and 47% of the total population.

Finally, figure 5.8 indicates that auditors in both Abu Dhabi and Dubai are estimated to be 87 auditors who are considered as external auditor, thus 60 questionnaire were distributed among the external auditors, 45 questionnaire were back to the researcher which cover 75% of the distributed questionnaire 52% of the total population.

Figure 5-8: Sample size for each population for questionnaire purpose

Population name	Popul. size	No. of Distr. questionnaire	No. of Collected questionnaire	Percentage of received respondents	Percentage out of population size
Dubai financial Market (DFM)	145	100	62	62%	43%
Abu Dhabi Stock Exchange (ADX)	165	100	89	89%	54%
Investors (institutions)	100	75	49	65%	47%
Auditors	87	60	45	75%	52%
Total questionnaire	497	335	245	73%	

5. Conducting the pilot study

Saunders et al. (2007: 606) define a pilot study as:

"a small-scale study to test a questionnaire, interview checklist or direct observation schedule, to minimise the likelihood of respondents having problems in answering the questions and of data recording problems as well as to allow some assessment of the questions' validity and the reliability of the data that will be collected"

The importance of a pilot study in conducting research has been examined by many outlets. For instance, Yin (2009: 79) considers that:

"the pilot case study helps investigators to refine their data collection plans with respect to both the content of the data and the procedures to be followed"

While Oppenheim (2000) states that the function of the pilot study is not only to collect findings but also to test questions and procedures. Gathering data through the questionnaire was done through three stages:

Stage one: As this research was carried out in two phases (MPhil stage and PhD stage), a pre-test was conducted in the MPhil phase before the questionnaire was used to prepare the pre-results, which were shown in the MPhil stage. In this pre-test, the questionnaire was tested for the first time with friends and colleagues as respondents. The questionnaire was designed in English at that time, however, it was translated into Arabic so that it could be more easily understood by the respondents. The researcher received feedback from the pre-test questionnaire which helped the researcher to improve the meaning of the questionnaire questions.

Stage two: As the first stage was assumed to be the pilot study, the questionnaire was distributed to a sample of 50 respondents. The respondents were a mix that was representative of listed firms in the Dubai and Abu Dhabi stock exchanges, and investors in these markets. The aim of this stage was to get a pilot result for

the research as evidence of the validity of the research before the final stage was undertaken. One of the arguments was that if the respondents of this stage found no difficulties in answering the questions, then others would have the same perception.

This stage gave the research some ideas about some questions that needed to be added to the questionnaire, and some others that needed to be changed so that the translation was more meaningful for the respondents. For example, the researcher found that the size of the firms should be added. In addition, the structures of some questions were re-designed.

Stage three: The final stage of distributing the questionnaire was a formal pilot test which was carried out in Abu Dhabi stock exchange firms. Random sampling of respondents, amongst both management and investors, was selected by entering the names of listed firms in the excel sheet and select randomly the number of cells in excel. The purpose of this pilot test was to evaluate the new and final version modified before the actual version of sample would be distributed.

5.7. Developing the hypotheses

The starting point of our analysis is the assumption that the costs and benefits of IFRSs adoption, relative to firm value, will vary across firms. The mandatory adoption of IFRSs imposes two kinds of changes on the financial reporting practices of firms. Firstly, firms are required to adopt a new set of accounting-measurement rules, that in some cases will have a material effect on a firm's reported earnings and balance sheet values, and in other cases will not. Secondly, IFRSs introduces a new set of required disclosures that in some cases will be greater than the original disclosure requirements and in other cases less.

Empirical research suggests that the cost of capital is related to both disclosure and measurement policies. Examples of such studies are those of Botosan (1997)

that examines the association between disclosure levels and the implied cost of equity, and Francis et al. (2004) that examines the relationship between earnings attributes and the implied cost of equity. Both studies find that a lower quality of information is associated with a higher cost of capital. The main hypotheses of this research were developed as follow:

The first hypothesis was developed to answer the second research question which is to discover the level of users' understanding of the benefits and disadvantages of the adoption of IFRSs.

The previous researches demonstrate that the differences in the culture between the western countries and the Middle East countries lead to the variance between the needs of users in these countries (Ding et al, 2005). Chanchani and Willett (2004) also indicate to the differences in the required information by users across different region or even between different groups of users in the same culture.

In regards to the Middle East countries, Chamisa (2000) indicates that the assortments of economic and social indicators are the main reasons of the variance between the developing countries or even in the same country. Moreover, Nobes (2004) argues that differences in the accounting system cause the differences in the economic differences and cultural differences which are based on Hofstede's Model. Therefore, Radebaugh et. al., (2006) indicate that the differences in the accounting systems between countries are mainly because of the differences in the accounting needs for those countries as well as the cultural differences that influence, and sometimes, cause the differences, the accounting systems in the developing countries.

The UAE is an Islamic country wherein Islamic rules influence the day-to-day life and business activities for the majority of Muslims in the UAE. Accordingly, accounting is influenced by the Islamic rules. For example the duty of paying Zakat and the prohibition of interest influence the accounting system in the UAE

(Ding et al, 2005). Therefore, Napier (2007) indicates that disclosure and transparency are part of the Sharia requirements that is part of the Islamic accountability framework.

From the above, three hypotheses were developed, H1/1 indicates that *'There is no significant difference in the mean of users of financial statements in both ADX and DFM'*, H1/2 *'there is no significant difference in the mean of both ADX and DFM that adopting IFRSs has positively affected the financial statements'* and H1/3 *'there is no significant difference in the mean of users of financial statements regarding the preference of financial statements under IFRS than US GAAP'*.

The second hypothesis was developed to answer the third research question which discussed the main problems were existed during the adoption of IFRSs in both ADX and DFM.

Previous researches such as Tsakumis (2007) and Joshi and Ramadhan (2002) refer that harmonisation between accounting standards to have a single accounting system could be costly and difficult because of the differences in cultural issues. In addition, Srijunpetch (2004) refers that adopting IFRSs caused countries to face some difficulties such as translation problem, training and consultation service requirements. Therefore the question of *'what are the main difficulties was facing both ADX and DFM listed firms during the transition of IFRSs'* was developed to this research. Accordingly, H2/1 assumed that *'there is no association between the Lack of qualifications and experience and the difficulties of implementing the IFRSs'*.

In addition, many researches indicate that cultural issues are the main factors that affect the quality of adopting the IFRSs. Platikanova and Nobes (2006) refer that political system, culture and market economy should be considered when investigating the obstacles of adopting IFRSs. Abd-Elsalam and Weetman (2003) indicate that education system and language of the IFRSs may also be barriers of adopting IFRSs in the developing countries. Therefore, this research

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was investigating cultural issue in particular to discover the research question *'what were the cultural issues that influenced the adoption of IFRSs in UAE, and which of these issues were considered as difficulties of adopting IFRSs'*. Accordingly H2/2 was developed *'there is no correlation between Culture and the IFRSs transition'*.

Even though, there are main barriers of adopting the IFRSs in the developing countries, many studies refer to the motivations of countries to adopt the IFRSs into their accounting system (Fry and Chandler, 2007). For example Saudagaran and Diga (2003) refer that adopting the IFRS would increase the level of competiveness in the international capital market. Tyrral et. Al., (2007) indicate that adopting the IFRSs in the world could help to move the capital and other financial sources easily from one market to the other. Therefore, the research question 3.3 *'what are the main motivations of the UAE to adopt the IFRSs into its stock exchanges'* was developed to help understanding the motivational factors that encourage developing countries to adopt the IFRSs into their system. Thus the H2/3 was developed *'there is no differences in the mean of both preparers and users in ADX and DFM regarding the motivation factors of adopting IFRSs'*

The third hypothesis was developed to answer the forth research question *'what is the performance of shares pre-adoption and post-adoption of the IFRSs in both ADX and DFM?'*

Previous literature indicates that adoption of IFRSs has significant influence over share prices compared to previous accounting standards (Aboody et. al., 2002). Agyei-Ampomah (2011) indicates that adopting IFRSs would cause an increase in the quality of financial reporting information which would reduce the asymmetry of information and information risk. In addition, Ahmed (2007) refers that adopting a single standards would decline the costs of investors to compare performance of firms across the different markets would could increase the performance of shares post adoption of the IFRSs compared to previous standards due to the increase in capital flows from other countries.

Therefore, the research question 4.1 was developed '*has the information under IFRSs change (increase or decrease) the value relevance of accounting numbers*'. Accordingly, H3/1 '*the independent variables have no significant increased effects on the value relevance of accounting information in ADX*' and H3/2 '*the independent variables have no significant increased effects on the value relevance of accounting information in DFM*'.

In addition, the research question 4.2 refers to whether the impact of adopting IFRSs differ between ADX and DFM '*was the impact of adopting IFRSs different between ADX and DFM?*', the assumption was provided in the hypothesis H3/3 '*there is no significant differences in the impact of adopting IFRSs between ADX and DFM*'

The fourth hypothesis of the research is aiming to answer the fifth research question '*what are the key implications for adopting IFRSs on the profitability of firms in both ADX and DFM*'

Previous literature refers that adopting the IFRSs affect the different earnings numbers which in turn change the market value of firms (Agra and Aktas, 2007). In addition, Nichols and Wahlen (2004) argue that three assumptions regarding the relationship between earnings and share prices. The first assumption indicates that earnings can provide new information to equity shareholders, the second assumption refers that current profitability refers to current and future dividends, and thirdly, the researchers indicate that share rice is equal to the present value of expected future dividends to the shareholders.

Accordingly, the research question 5.1 was developed '*has the adoption of IFRSs influenced the financial indicators*' and research question 5.2 '*has the impact, if any, of IFRSs on financial indicators different between ADX and DFM*', and then ten hypotheses were established in order to test the selected ratios as follow;

H4/1: There is no association between IFRSs adoption and Returns On Equity (ROE) in ADX

H4/2: There is no association between IFRSs adoption and Returns On Invested Capital (ROIC) in ADX

H4/3: There is no association between IFRSs adoption and debt to equity ratios (DTER) in ADX

H4/4: there is no association between IFRSs adoption and current ratios (CR%) in ADX

H4/5: There is no association between IFRSs adoption and Gross profit Ratio (GP%) in ADX

H4/6: There is no association between IFRSs adoption and Returns On Equity (ROE) in DFM

H4/7: There is no association between IFRSs adoption and Returns On Invested Capital (ROIC) in DFM

H4/8: There is no association between IFRSs adoption and debt to equity ratios (DTER) in DFM

H4/9: there is no association between IFRSs adoption and current ratios (CR%) in DFM

H4/10: There is no association between IFRSs adoption and Gross profit Ratio (GP%) in DFM

The fifth Hypothesis is aiming to develop answer to the sixth research question *'what is the main impact of adopting IFRSs on Trading volume in both ADX and DFM?'*

Previous theory refers that trading volume reflects differently the economic factors than share prices which in turn refers to different investor's reactions

(Chen and Sami, 2007). Hora et. al., (2004) refer that trading volume reserve differences between the interpretations of accounting disclosures.

Consequently, Nadir, et. al., (2005) indicates to the link between trading volume and the individual differences in interpreting the information of financial reporting.

From the above, the research question 6.1 '*has the adoption of IFRSs influenced on Trading Volume of shares on both ADX and DFM?*' and '*Has the impact, if any, of adopting IFRSs significantly varied between ADX and DFM?*'

Therefore, three hypotheses were developed as follow;

H5/1 there is no difference in the beta value of trading volume of shares in ADX following the adoption of IFRSs

H5/2 there is no difference in the beta value of trading volume of shares in DFM following the adoption of IFRSs

H5/3 there is no difference in the beta value of trading volume of shares in both DFM and ADX

5.8. Data analysis

The basic step in this task involves transcription from all the data collected during the questionnaires and the analysing of the financial reports processes. A number of authors suggest making a list of contents for each piece of data, using file cards, multiple copies, and highlighting examples or questions (Sekaran, 2003), so that the researcher can summarise and analyse the study requirements in depth.

5.8.1. Validity and reliability of the data

According to Ghauri and Gronhaug (2002: 604), *"reliability and validity are conceptualized as trustworthiness, rigor and quality in the qualitative paradigm"*. They explain that validity is concerned with whether the research measures the right concept, while reliability is concerned with stability and consistency in measurements.

1. Validity

Collis and Hussey (2003) mentioned that validity is the extent to which the researcher's findings accurately represent what is really happening in the situation. Moreover, Yin (2009) proposed some points to indicate the level of validity in the sample. The first point is Internal validity, which is about establishing credible causal relationships. This requires careful specification of the units of analysis so that the study does not slip from one unit to another and the use of appropriate analysis techniques to ensure that theories and data are consistent (Yin, 2009, Amaratunga et al., 2002). It is also concerned with the degree of certainty that the observed effects are actually the result of the experimental treatment or condition (the cause), rather than intervening, extraneous or confounding variables (Wu and Zhang, 2007). In this research, a general analytical procedure for quantitative data analysis is used in addition to an explanation building technique, that was used in the analysis of empirical data. Moreover, the researcher has documented his fieldwork and analysis procedures in a manner than enables others to examine and confirm the validity of their procedures and conclusions.

The second point was the External validity, which concerns convincingly specifying the domain to which the findings can be generalised. This requires carefully choosing the cases and explaining why each case has been chosen. It is concerned with the degree to which research findings can be applied to the real world beyond the controlled setting of the study (Wu and Zhang, 2007). External

validity is maximised in multiple case study rather than single case study designs (Amaratunga et al., 2002; Yin, 2009; Collis and Hussey, 2003).

2. Reliability

Whitelaw, (2001: 127) define reliability as indicating *"the extent to which the measure is without bias (error free) and hence offers consistent measurement across time and across the various items in the instrument"*. Thus, a measure is reliable if it produces the same results when used repeatedly. Alternatively, for Hammersley (1992: 67), reliability "refers to the degree of consistency with which instances are assigned to the same category by different observers or by the same observer on different occasions". The University of the West of England (2007) explains that reliability is "an essential pre-requisite for validity. It is possible to have a reliable measure that is not valid; however, a valid measure must also be reliable". Moreover, Coleman and Briggs(2004: 145) claims that "the traditional understanding of reliability focuses on standardising data collection instruments, and this is premised on the assumption that methods of data generation can be conceptualised as tools, and can be standardised, neutral and non-biased". Equally, Kleven (1995: 13) argues that "reliability questions whether repeated investigations of the same phenomenon will give the same result". Similarly, reliability refers to the ability to repeat the findings if the same methods are used (Yin, 2009).

Yin (2009) suggests two tactics to achieve reliability in a case study: the use of a case study protocol or the development of a database. Formal protocol is significant to ensure that procedures are consistent across case studies. These two tactics were employed in the present research to enhance the reliability of the data. A case study protocol included a research design/process, a set of questionnaires' questions and a pilot study, and data analysis techniques were achieved. In addition, the researcher holds all information relevant to the case studies for the purpose of possible further research conductions. Furthermore, Flick (2007) asserts that reliability can be enhanced by testing the questionnaire

many times before the final collection was made. Consequently, the researcher attended training courses held by Liverpool John Moores University which developed the researcher's skills in relation to how to test the reliability of primary data used in this research. The protocol and database tactics were also applied to enhance the reliability of the research. Finally, Guba and Lincoln (1989) propose a number of strategies for enhancing conformability:

- The researcher can document the procedures by checking and rechecking the data throughout the study.

- The researcher can take a "devil's advocate" role with respect to the results, and he can also document this process.

- The researcher can actively search for and describe the negative instances that contradict prior direct observation.

3. Generalisability

Generalisability is disturbed with the application of a study's results that applied to cases that were not included in the study's examination (Collis and Hussey 2003). Easterby-Smith et al. (2008) argue that generalisability indicates that the results of the research can be applied to the wider population of the selected sample. Thus, it is concerned with if research findings can be generalised to the other non-selected sample within the population. However, if the results of a study cannot be validated to the other cases, then the research results would not be generalised (Yin, 2009).

As indicated by the selected sample size, the research findings can be generalised to the whole population of listed firms and investors within UAE listed firms. Interpretivist research would create generalisability through an examination of the likeliness that ideas and theories, generated in the sampling, will also apply in other settings within the population.

The positivist paradigm, it is argued, with its emphasis on the measurement through experiment or survey, is couched in processes of design and sampling that are applied to the initial research study in a way that ensures wider applicability. However, phenomenological paradigm methods, such as case study, interview and observation etc, focus on a detailed understanding of specific environments and groups and may seek to offer knowledge that is generalisable to other similar settings.

Ghauri and Gronhaug (2002) support this argument by pointing out that all that is required in order to ensure transferability in traditional research is to understand, with a high degree of internal validity, something with regard to a particular school classroom, for example, and to know that the make-up of this classroom is representative of a further classroom to which the generalisation is being applied.

5.9. Assessing the Financial Consequences of Adopting IFRSs

As stated before, the objective of this study is to investigate the impact of adopting IFRSs, as far as the UAE financial market is concerned. In exploring this issue, the following questions are raised:

1) To what extent do IFRSs reduce/increase the systematic profitability estimated by different type of profitability ratios (increase the profit, equity, financial instruments, intangible assets, revenue recognition, tangible fixed assets, and gross profit)

2) Overall, can IFRSs adoption be associated with a reduction in UAE share price volatility? As the share price of most of the UAE listed firms was dramatically reduced in 2005

3) Has the adoption of IFRSs increased/decreased the transparency and consistency, understanding of financial statements and decreased the cost of capital as a result of complying with IFRSs?

4) Has the communication between management and stakeholders has been affected by adopting IFRSs?

These questions are based on the idea that the UAE firms' mandatory adoption of the IFRSs in 2005 is a vital factor in determining their estimated systematic profitability, unsystematic profitability and cost of equity capital. Since the UAE experienced huge improvements in profitability ratios during the last decade, complying fully with the IFRSs in 2005 could be seen as a remarkable change that might have influenced the UAE companies' systematic and unsystematic profit. Previous studies such as Irvine and Lucas (2006) who indicate that the UAE listed firms have faced a huge decline in their share price during the year of 2005. This could be because of the low profit of these firms during 2005, or because of the adoption of the IFRSs in their reports, which has led to a decrease in their profitability. Profitability is the relationship between profits and capital; if profitability exceeds the cost of the firm's capital, that is the weighted average cost of firm's equity and borrowed money, then it can be called successful. The investment of excess cash, minimization of inventories, speedy collection of receivables, and elimination of unnecessary and costly short-term financing all contribute to the maximization of profitability.

5.9.1. Company Size and IFRSs disclosure

Although evidence from previous research such as Patten (2005) provides overwhelming support for the hypothesis that there may be a positive relationship between firm size and the level of disclosure, the theoretical basis for such a relationship is unclear. There are several reasons for expecting a positive/negative relationship between the company's size and its extent of disclosure. The impact of a large firm on an economy is quite considerable. For example, it can account for a great proportion of the goods and services produced, the number of persons employed, the quantity and value of raw materials consumed and the quantity and value of components imported into a country. Despite the conflicting views, and a few inconsistent results, the

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evidence from the firms in this study is from some of the largest in the UAE. There are no major multinationals, share ownership is not widely spread, and a few key owners control a firm in the UAE stock markets, whereas 50% of the firms should be owned by either the UAE government or local Emirates people.

Previous studies conducted in developed countries provide a strong indication that there is a positive and significant relationship between company size (as estimated by total book value of assets, total market value of the firm, total revenue, turnover, current assets, total assets, or total number of shareholders) and disclosure level, suggesting that larger companies follow better disclosure practices (Dumontier and Labelle 1998). In developing countries, however, although a consistent significant positive association between company size and disclosure level has been reported, it is noted that a wide variation in results exists (Rahman, 2000).

Several arguments may be advanced to justify such a positive association between size and disclosure adequacy in annual reports (Wallace and Naser 1995). Among the most important reasons for this relationship are the following:

1) Larger firms can more easily afford the costs of collecting and disclosing more adequate information.

2) Larger firms may need even more funds from the capital markets in order to continue to expand their activities at a rate which might not be possible with internal sources only and, hence, these firms would be more likely to disclose more information so as to be able to obtain the needed funds at a reasonable cost.

3) The competitive advantage of larger firms may be less endangered by more adequate disclosure than would be the case for small firms.

4) Larger firms tend to employ highly skilled individuals and sophisticated management reporting systems that can provide a wider array of corporate information.

5) The number of subsidiaries and areas of activity tends to grow with the size of the company, thus increasing the amount of information to be processed by managers.

6) There may also be greater demands on large firms to provide information for analysts and the public. According to Kothari and Zimmerman (1995), large firms are more sensitive to political costs, which force them to disclose more in order to allay public criticism or government intervention in their affairs. In contrast, the management of small firms may have a stronger belief that the disclosure of more detail could endanger their competitive position.

To summarise, however, there is a demand for better disclosure by large firms and they are better placed to supply it. Therefore, company size is selected as one of the variables for the analysis. One problem, however, is how to decide what variable to use to represent the size, since size can be estimated in a number of ways. Cooke and Wallace, (1990) have pointed out that there is no overwhelming theoretical reason to select one variable rather than another. Cooke and Wallace (1990) point out that while size, as estimated by total assets, sales, and number of shareholders, is an important variable, it does not matter which of the three measures of size is selected. One of the size variables most commonly used by previous researchers is the book value of total assets (Cooke and Wallace, 1990).

To test the above hypothesis, company size (total assets) for the included UAE listed firms was calculated. Therefore, the study classified these companies into two groups: as companies with total assets equal or more than the mean were called "large companies"; and companies with total assets less than the mean were called "small companies". The total asset's means for listed firms included in this study have been used to allow the internal environment and its effect to classify the companies in to large and small. This classification has been used for testing the above hypothesis using the univariate analysis (parametric and nonparametric tests). Following the robust approach, however, the actual values

for the company size (total assets) have been employed for testing the above hypothesis using the multivariate analysis.

5.9.2. Profitability analysis and IFRSs disclosure

The profitability of listed firms has been hypothesised to be positively associated with its disclosure level. When profitability is high, management may be motivated to disclose detailed information so that their continuation in their positions and their compensations are maintained and justified (Edwards and Smith, 1996). The Mashat (2005) argument for testing the variables profit margin and earnings return is that higher earnings motivate management to provide greater information, because managers feel that greater disclosure provides assurance to investors of profitability and thus the increase in compensation of management. In addition, firms with good news tend to disclose more detailed and precise information than firms with bad news. This is especially the case in a setting where more information allows investors to: 1) smooth earnings across periods; and 2) to change the composition of firms in their investment portfolios.

It is argued, moreover, that a highly profitable firm is more likely to signal to the market its superior performance by disclosing more information in its annual report (Dahawy et. al., 2002; Wallace and Naser 1995). Signalling theory means that the management of firms with information that implies a higher value than that established by the market will have incentives to disclose the information so that their values are adjusted upwards. In contrast, the management of a firm with information that implies a lower value than that established by the market may be tempted to suppress this information in order to avoid its negative effect on the firm's market value. This is consistent with market efficiency, which is not surprising, as has been proved by many previous studies (Bamber, 1987; Beaver 1970). However, Lang and Lundholm (1996) argue that disclosures are likely to be related to a firm's profitability, only if perceived information asymmetry between managers and investors is high. They added, *"The results from the theoretical and empirical research suggest disclosure could be increasing, constant, or even decreasing in correspondence with firm performance".*

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The literature of the field of corporate finance has traditionally made a distinction between the business risk of the firm, which is the result of the policy compromise the firm must make between the long term objective of profitability and the short run objective of liquidity, and the financial risk which is the result of another policy decision with respect to the optimal mix of debt and equity financing (Gimpelevich, 2011). These two accounting based risk measures can be considered as an indication of the firm's willingness to reduce the uncertainty in the capital market.

Since it is generally assumed that the firm is managed in such a way as to increase the value of the stockholder's equity, or at least to prevent it from declining, it is reasonable to assume that the firm is interested in reducing the uncertainty of investors. It is, therefore, hypothesised that greater soundness, estimated by the profitability and liquidity ratios, is expected to be associated with greater disclosure.

Further support for a positive relationship between profitability and disclosure comes from the earnings management literature. A review of the earnings management literature and its implications for standard setting has been done by Nichols and Wahlen (2004). The study concluded that the earnings management literature currently provides only modest insights for standard setters. Prior research has focused almost exclusively on understanding whether earnings management exists and why. The findings indicate that earnings management occurs for a variety of reasons, including to influence stock market perceptions, to increase management's compensation, to reduce the likelihood of violating lending agreements, and to avoid regulatory intervention (Barth, 2001; Collins et al. 1997; Wahlen, et. al., 1999). This evidence of managerial incentives to create "good news" leads support to a view that disclosure will positively correlate with earnings.

Empirical evidence provides conflicting results. A significant positive relationship was found in some studies (Belkaoui, 2004; Wallace and Naser

1995), whilst other studies found no such relationship (Dumontier and Labelle 1998; Choi, et. al., 2001; Raffournier 1995). A significant negative association between profitability and disclosure level has also been reported (Belkaoui, 2004; Wallace and Naser 1995). It has to be mentioned, however, that most of these researches have been done on developed countries such as USA, UK, New Zealand, and Spain. Previous studies employed the following measures of profitability: rate of return and earnings margin (e. g. Wallace et al. (1999)) and the ratio of net profits to total assets. Clearly, however, there are other measurements of profitability, such as earning per share (EPS), earning per share growth, return on investment (ROI), dividend per share and Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). Most of these measures are current short-term measures of performance. Only growth in EPS can be interpreted as a long-term measure. There is an issue about whether disclosure follows profitability in which case we would lag the variable (consider the previous year profitability value). However, it could be argued that measurement can make disclosure decisions contemporaneously with profitability.

5.9.3. Archival Records data analysis

The nature of the required archival records in this study is numeric data, which can be gathered from the annual reports of the firms. Because this section is dealing with multi case study, the first step in order to analyse this data is to put the financial data into the Microsoft Excel sheet which allows the researcher to use the data to undertake the required ratios and statistical tests.

Broadly speaking, firms' profitability refers to the ability of a firm to generate revenues at a rate greater than expense, reflecting a set of policies and decisions to achieve this. There are several ways to measure profitability. Traditional profitability ratios such as Return On Average Assets (ROAA), Return On Average Equity (ROAE) and Financial Margin, are commonly used for this purpose, since they provide a simple means of obtaining compact performance related information, and they are easily employed to compare performance over

time, across section and across country boundaries. The ratios ROAA and ROAE both measure the profitability performance from the somewhat narrow perspective of shareholders' welfare. The value added concept aids the measurement of performance in a broader sense, since it measures the wealth created by the company for all capital providers and employees. That is, it is a measure of the contribution a company has made to the financial welfare of all participants. This research will use several ratios to measure profitability including ROAA, ROAE, EBIT, Gross Profit Margin and other ratios which have been discussed in chapter three of the literature review.

5.10. The identification and specification of key variables

As the research has three phases {under IASs in ADX and DFM, under IFRSs in ADX and under IFRSs in DFM), it is pertinent to introduce the key variables under each model separately. The identification of most of the variables is obtained from www.ssca.ae, http://www.adx.aeand http://www.dfm.ae, however, for certain other variables, there was no predetermined measure that was readily available and so further discussion is provided below.

5.10.1. The share price models

Under the Ohlson model, the key variables are share price, book value per share and earnings per share. The definition of each is indicated below:

Share price: The price per share is given by the ex-dividend market price per share as of the 30th of June in the year following the accounting year-end.

Book value per share: Represents the book value (proportioned common equity divided by outstanding shares) at the company's accounting year-end. Participating preference shares are included.

Earnings per share: Represents the earnings for the 12 months ended as at the end of the accounting year. Earnings per share are "estimated using net income after tax and after (non-participating) preferred dividends divided by year-end shares or latest shares available". Under the modified Ohlson model, additional variables are introduced, the identification of which are:

Leverage: Represents total long-term debt divided by market value of equity at the end of the accounting year.

Dividend payout: Dividend per share divided by earnings per share.

Log size: Represents the natural logarithm of the total assets at the end of the accounting year.

Accruals: Earnings per share minus cash flow per share as measured at the end of the accounting year.

Orthogonalised accruals: Represent the residuals arising after regressing accruals against earnings per share, book value per share and dividend payout. This procedure is only to be adopted in case of high multicollinearity.

5.10.2. Performance measures

For the purpose of this study, the researcher has hypothesised the impact of IFRSs adoption on five performance indicators, namely: return on equity; return on invested capital; debt to equity ratio; current ratio; and operating profit percentage. The following section provides a definition for each of these performance indicators.

Return on equity: Represented by (net Income before preferred dividends - preferred dividends requirement) divided by last year's common equity. This is expressed in proportionate form as a decimal rather than as a percentage.

Return on invested capital: Represents (net income before preferred dividends + ((interest expense on debt - interest capitalised) * (1 - tax rate)) / average of last year's and current year's (total capital + last year's short term debt and

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current portion of long term debt). This is expressed in proportionate form as a decimal rather than as a percentage.

Debt to equity: Represents long-term debt divided by common equity in proportionate form.

Current ratio: Is measured by dividing current assets by current liabilities at the accounting year end.

Operating profit percentage: Operating profit expressed as a proportion of sales.

5.10.3. Trading volume

Average trading volume of shares is represented by the average number of shares traded daily for the respective year. This variable is obtained from www.sca.ae. However, due to restrictions in data availability, data was collected for this variable on a monthly basis from 2002 until 2007.

5.11. The specification of the models

5.11.1. Ohlson's model

The Ohlson's model has been discussed already in detail in chapter four and is specified as:

$$P_t = \alpha + \beta_1 BVPS_t + \beta_2 EPS_t t + \varepsilon_t$$

Pt: : Price per share at the end of year t,
BVPSt : Book value per share at the end of year t,
EPSt : earnings per share at the end of year t.
Et : error term, i.e. other value-relevant information that cannot be captured by earnings and book value figures.

5.11.2. Modified Ohlson's Model

Similarly, the Modified Ohlson's Model has already been discussed in detail in chapter 4, and has a specification thus:

$$P_t = a + b_1 \, BVPS_t + b_2 \, EPS_t + b_3 \, lev_t + b_4 \, LOG \, SIZE_t + B_5 \, ACCRUALS_t + e_t$$

Wherein
P_t: : Price per share at the end of year t,
$BVPS_t$: Book value per share at the end of year t,
EPS_t : earnings per share at the end of year t.
Lev : Leverage per share at the end of year t,
Log size$_t$: the natural logarithm of the total assets at end of year t,
Accruals$_t$: Earning per share minus cash flow per share at end of year t.
e_t : error term, i.e. other value-relevant information that cannot be captured by earnings and book value figures.

Although the main intention of the previous models is to compare the two different eras of pre and post IFRSs adoption for the Abu Dhabi and Dubai stock exchange listed firms, some brief comments will be made on the quality of different models for the same era in stock exchange.

5.11.3. The impact of IFRSs on performance measures

The ANOVA test will be used to examine the statistical characteristics of the performance indicators in order to evaluate whether the main five performance measures chosen in this study, namely: return on equity; return on invested capital; debt to equity ratio; current ratio; and operating profit margin have significantly changed following the adoption of IFRSs. This will be performed for listed firms in both the Abu Dhabi and Dubai stock exchanges. The researcher will also perform a number of tests to evaluate changes in the standard deviation and the median of the five chosen performance measures following the adoption of IFRSs.

In order to evaluate whether the performance indicators are different between Abu Dhabi and Dubai prior to the adoption of IFRSs, a logistic regression model will be employed. The reason for this choice of method is that it is a

classification technique used solely for a binary dependent variable, and is thus well suited to this problem. Incidentally, there are no restrictions on the normality of the residuals. The previous models that have been specified should enable it to be made clear whether IFRSs adoption influences share prices. The purpose of the logistic regression model in this context is to validate these results by attempting to demonstrate that the profile of the accounting performance values are different following IFRSs adoption.

The researcher is not suggesting that these independent variables impact on IFRSs, as might be the case in a multiple regression model, or even in a logistic regression model, whereby the independent right-hand side variables impact on the dependent variable. Instead of implying causation in this way, the objective is quite simple: to test whether there is statistical evidence to show that the accounts, proxied by the linear combination of independent variables, are different. In the theoretical framework introduced in this thesis, it is suggested that IFRSs impact on the performance values, as such a modeller would normally, therefore, treat IFRSs adoption as the independent variable not the dependent variable.

Nevertheless, if the set of accounts can be classified according to IFRSs adoption, then the logistic regression serves its purpose by attempting to demonstrate that the accounts are different. In this way, the logistic regression is being used in a confirmatory way strengthening our confidence in the results from the earlier models. However, the logistic regression model does not show the extent to which IFRSs impact on the individual accounting performance variables. Instead, the logistic regression model will show whether there is a statistically significant difference between the two sets of results.

In a logistic regression, the right-hand side of the equation represents a linear combination of the performance measures, and is similar to that typically found in a multiple regression model. However, the left-hand side variable is much different and represents the natural logarithm of the odds ratio. Unlike a multiple

regression model, the likelihood ratio tests for the estimates of the coefficients follow a chi-square distribution. Where the probability values of the chi-square statistics are less than 0.05 then the coefficients of the respective performance variables are significantly different from zero. The identification of such variables will enable the researcher to provide a profile of combinations of performance measures whose values help to differentiate Abu Dhabi firms from Dubai firms. Additionally, positive signs for the coefficient estimates will indicate greater values of these measures in Dubai rather than Abu Dhabi. This model will take the following formula:

$$In\{p/(1-p)\} = \delta 0 + \delta 1CR + \delta 2DTER + \delta 3GP\% + \delta 4ROE + \delta 5ROIC + U$$

where
In: natural log
p: probability that the company is based in Abu Dhabi
1-p: probability that the company is based on Dubai
δ: the generalized function on the real number line which is zero everywhere except at zero with an integral of one over the entire real line
u: residual of the model for which E(u) = 0, and u is not necessarily normally distributed (as would be the case for a residual using a multiple regression).

It follows that the probability that the company is based in Abu Dhabi is by using this likelihood, in a maximum likelihood estimation, the values of 0, 1, 2, 3, 4, and 5 are derived iteratively to arrive at the best classification results given the data.

Further logistic regression models will be used to compare Abu Dhabi and Dubai firms post IFRSs adoption. The next stage in the analysis will be to compare the impact of IFRSs on each state separately. In this way, a logistic regression model will be used to differentiate Abu Dhabi companies pre and post IFRSs adoption according to a linear combination of performance measures. The same procedure will be repeated for Dubai.

To achieve this, the study objectives to employ a model that uses categorical data as the dependent variable, for which there will be three categories, namely

US GAAP, IFRSs in Abu Dhabi and IFRSs in Dubai. No ordering of categories is implied and hence there is no need for an ordinal-based model. Instead, the appropriate model would be a multinomial logistic regression, which can simultaneously deal with, for example, the three scenarios identified.

The multinomial approach seeks to find a linear combination of independent variables whose coefficients are chosen in such a way so as to distinguish between the different categories, using one of them as a reference point. If there were only two categories in total, it would operate in the same way as a logistic regression. A Chi-square statistic is used for the likelihood ratio test for the overall model, while Wald statistics are used to assess the significance of the individual variables for the different combinations when comparing the reference category with the other categories in turn.

Since there are three categories in one reference point, in turn, there will be three logistic equations using the US GAAP as a reference point and, similarly, two logistic equations with IFRSs as a reference point. The logistic equations will take the following formula:

$$Ln\left\{prob\frac{i \, and \, i \neq j}{prob \, (j)}\right\} = a_{ii} + \beta 1_{ii} X1 + \beta 2_{ii} X2 + \beta 3_{ii} X3 + \beta 4_{ii} X4 + \beta 5_{ii} X5$$

Where:
j = 1 or 2 as the reference-category (1 = US GAAP in Abu Dhabi and 2 = US GAAP in Dubai)
i = 1,2,3,4 as a comparator-category (1 = US GAAP in Abu Dhabi, 2 = US GAAP in Dubai, 3 = IFRSs in Abu Dhabi and 4 = IFRSs in Dubai)

5.12. Ethical issues

According to Punch (2006), it is important to determine the ethical dimensions of any research prior to conducting it. Therefore, this section aims to discuss the main ethical issues of this research which the researcher might face while conducting the study. The researcher should consider these key issues during the research process (Bean, 2011).

The following are the key ethical issues which have been considered by the researcher during the collecting and analysing of the primary data as follow:

- Participants of the research should have their own privacy (Saunders et al, 2009). Thus the participants were informed that they have their own privacy if they consider participating in the research {see appendix 20}.

- Participants are voluntary contributors to the research, and they have the right to withdraw at any time without giving an explanation or without it effecting their original job (Saunders et al, 2009). This issue was clearly stated in the information sheet that was provided for each participants along with the questionnaire {see appendix 20}

- Consent and possible deception of participants

- All data gathered from individuals should be maintained in confidence and the identity of the respondent is to be kept anonymous (Saunders et al, 2009). Confidentiality and anonymity were considered during the period of dealing with the primary data wherein the collected questionnaires were not having any sign which can indicate to the respondents' identity, in addition, data were not published in its own, but it was as part of the overall results.

- The researcher should consider the reactions of participants while collecting data, such as embarrassment, stress, discomfort, pain and harm. However, this research does not have any embarrassment or stress as it is only getting the respondents' beliefs about the impact of the new phenomena (adopting IFRSs) on their needs and decision making (Saunders et al, 2009).

Berger and Patchner (1994) argue that there are four main areas of ethical issues which should be considered, namely: informed consent; harm; confidentiality; and deception. However, Blaxter et. al., (2001) add three more areas which are: anonymity; legality; and professionalism.

For this research, the researcher has used the Liverpool John Moores University's ethical guidelines as the main source for determining the ethical issues of this study. This was through the completion of research ethics application form and the participant information sheet which were presented with each participant prior to their contribution.

All the participants have been informed that all collected information to be securely stored and no unauthorised persons can access them for a period of five years according to the data protection act. After a five year period, all data will be destroyed, electronic records deleted, and hard-documents shredded.

While the researcher has been adhered to the above ethical issues during the study, Table 5.1 describes the different steps which it is necessary to consider at the different stages of the research.

Table 5-1: Ethical Issues under consideration within this research

	Participant Issues	Researcher Issues
Formulating and clarifying research topic	The researcher and the research proposal are free of coercion. There is no 'sponsor' for the research and, therefore, the researcher does not consider this to be an issue.	
Designing research and gaining access	All participants volunteer their input. Letter and information regarding research to be provided. There is no obligation to participate.	The researcher is to ensure that the 'stakeholders' identified in the research outline are contacted in an informative and professional manner.
Collecting Data –Safety	All research will be undertaken in an environment that is safe and open for both the participants and the researcher	
Informed Consent	All participants have been made fully aware of the aims and objectives of the research and were provided with opportunities to participate or withdraw their consent at any time during the research. The onus was upon the researcher to ensure that this practice was outlined at every stage of the research.	
Confidentiality / Anonymity	All participants were given complete anonymity. In the case of digitally recorded interviews, the names and identity of the organisations will not be used. There was no collection of names or identifiable marks for participants	
Processing and storing personal data	The researcher envisaged that the only personal data collected within the research was the digitally recorded questionnaire. Once received these questionnaires were transferred onto SPSS and all connections to organisations and individuals removed. The hard-copy questionnaire was destroyed after the transfer has been done. The data of participants was collected anonymously at source and no personal data issues exist with these participants.	
Analysing data and reporting findings	The nature of this research was involved both contradictory and possibly conflicting opinions within and between organisations. The researcher was fully aware of the ethical issues this may raise for individuals at a future time. As a result, all collected questionnaires were anonymised and any future data of individual opinions will not be traceable by other readers or participants with the report. The researcher also proposes to invite key stakeholders to a presentation of the findings prior to publication of the final report. The purpose of this will be, firstly, to thank those who have participated and also to provide an opportunity to raise any issues that the participants feel may embarrass, stress or harm them on publication of the report.	

5.13. Summary

To conclude, it is essential to underline the main methodology used when undertaking the research to achieve the objectives of the research. In addition, the different types of methods were examined, that can be used to gather the primary data, and the suitable methods were selected in order to achieve these objectives. The researcher has used a mixed methods strategy to collect the primary data, which includes both a questionnaire and archival records. Finally, the researcher has highlighted the research hypotheses in order to achieve the research objectives, and then discussed the way that the analysis was to be conducted in order to analyse the data gathered.

Chapter 6 Findings and discussion of questionnaire results

This chapter is divided into two parts. The rationale is to examine in the first part the findings of the outputs of the survey questions using SPSS, and in the second part, to discuss these findings and compare them with previous studies in order to answer the second questions *'What is the level of users' understanding of the benefits and disadvantages of the adoption of IFRSs?'* and the third research question *'What are the main problems of adopting the IFRSs in the listed firms accounts in developing countries?'* {See table 1.1}.

6.1. Introduction

This section presents the main views of both users and preparers of the financial statements in DFM and ADX with regards to the suitability of IFRSs in the UAE. The main aim of this chapter is to give the reader a general perception of the results obtained from questionnaires.

This section focuses on the examination of the questionnaires that involved Chief Financial Officers (CFOs) from the organisations that were listed in DFM and ADX, external auditors who work in the two states (Abu Dhabi and Dubai) and financial analysts (these are investors that include investment companies that invest for themselves or 'brokers' who invest for other individuals). The data from the questionnaire will then be analysed to find out whether IFRSs are suitable for the UAE.

6.1.1. Reliability of data

Joppe (2000: 1) defines the reliability as *"The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is*

considered to be reliable". Thus, this section measures the level of consistency between the various responses, so the researcher can be confident that the data used for the basis of the analysis is reliable.

There is no full agreement about the level of acceptance for reliability, for example Churchill and Peter (1984) state that the minimum acceptance of reliability is 0.60, wherein any result under this level will indicate to unsatisfactory level of internal consistency, in the meanwhile, the result which equal to or exceed 0.60 will be considered as an accepted data which provides the researcher with greater confidence regarding the consistence of the collected data. So if the test was repeated, it will give the same results. On the other hand, researcher such as Yin (2009) argues that social science is required 0.70 as a minimum level of accepted data for the reliability test.

In Table 6.1 It can be noticed that each section of the scale questions have above the minimum level of reliability (0.70) as the Cronbach Alpha of '*main users of financial statements*' for the all collected data was (0.781), the results of the segmentations were also above the minimum, which mean the data can be used according to the type of respondents (Banking sector, other listed firms, Investors and Auditors).

Similar results for '*Users' satisfaction about US GAAP*' and '*Users' satisfaction about IFRS*' were highlighted in table 6.1 the results indicate that the overall Cronbach Alpha are (0.791) and (0.822) respectively. While the banking sector has lower level of consistency than the investors and Auditor; it is still above the minimum, which mean the data still consistent and researcher still be able to relay on it.

Moreover, the Crobach Alpha was undertaken to test consistency of all data regards '*Zakat calculations*' wherein the result indicates that all data is consistent (0.852) and research will be able to reliable on these data to do further analysis (see table 6.1).

Table 6-1: Cronbach's Alpha Results

	All Data	Banking Sector	Other Listed firm	Investors	Auditors
Main Users of Financial statements	0.781	0.778	0.78	0.792	0.785
Users' Satisfaction about US GAAP	0.791	0.78	0.789	0.802	0.81
users' satisfaction about IFRSs	0.822	0.803	0.81	0.835	0.82
Zakat calculations	0.852	0.843	0.821	0.863	0.859
cultural issues	0.741	0.735	0.739	0.76	0.749
Groups influence the adoption of IFRSs	0.79	0.781	0.788	0.804	0.795
Benefits of adopting IFRSs	0.727	0.701	0.72	0.738	0.731

All number were taken from Cronbach's Alpha table in appendix nineteen

Table 6.1 also shows that both '*cultural issues*' and '*Groups influence the adoption of IFRSs*' are above the lowest consistency level for all data (0.741 and .790 respectively) as well as the groups of respondents; banking sector (0.735 and 0.781), other listed firms (0.739 and 0.788), Investors (0.76 and 0.804) and Auditors (0.749 and 0.795).

Finally, table 6.1 indicates that questions of '*Benefits of adopting IFRSs*' was above the accepted level (0.727) of all data as well as the groups of respondents.

6.2. Respondents' Backgrounds

This study has gathered data from the respondent by three different surveys {see appendix one, two and three} which each survey is designed for different respondents. The total distributed questionnaire for banking CFOs was 36 questionnaires (18 in DFM and 18 in ADX), the returned questionnaire from banking sector was 20. Moreover, the total distributed questionnaire for other listed firms was 180 (90 in ADX and 90 in DFM), the collected questionnaire from other listed firms was 131.

On the other hand, the collected questionnaire from auditors was 45 out of 60 distributed questionnaires that were equally distributed in the two states. While

the collected questionnaire from investors was 49 out of 100 distributed questionnaire.

Table 6.2 clearly shows that 50% of respondents were shown to have a Bachelor's degree, while 43% of them had a postgraduate degree (37% had a Master's degree and 6% were said to have a PhD). The results on table 6.3 show that 90% of respondents have had over five years in experience within their current post, whereas 38% have experience of 16 years or more. Table 6.4 also indicates that 66% of individuals have a professional certificate, 43% of individuals have a CPA or additional professional qualifications from foreign countries and finally 23% of individuals have UAE-CPA certification.

Table 6-2: Highest level of Education

	Banking sector		Other listed firms		external auditors		financial analysts		total	
	Fre	%	Fre	%	Fre	%	Fre	%	Fre	%
Missing data	3	15.0	8	6.1	4	8.9	0	0.0	15	6
Below Bachelor	1	5.0	0	0	0	0.0	1	2.0	2	1
Bachelor	15	75.0	77	58.8	20	44.4	11	22.4	123	50
Masters	1	5.0	39	29.8	20	44.4	31	63.3	91	37
PhD	0	0.0	7	5.3	1	2.2	6	12.2	15	6
Total	20	100	131	100	45	100	49	100	245	100

Table 6-3: Years of Experience

	Banking sector		Other listed firms		external auditors		financial analysts		total	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Missing data	0	0	0	0	2	4.3	0	0	5	2
Less than 5 years	4	21.4	10	7.8	4	8.6	0	0	20	8
5-10 years	4	21.4	27	20.7	13	28.6	8	16.7	59	24
11-15 years	3	14.3	58	44.8	9	20	25	50	69	28
16 years or over	9	42.9	35	26.7	17	38.6	16	33.3	93	38
Total	20	100	131	100	45	100	49	100	245	100

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Table 6-4: Professional Qualifications

	Banking sector		Other listed firms		external auditors		financial analysts		total	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Missing data	2	10.0	19	14.5	7	15.6	9	18.4	37	15
None	8	40.0	37	28.2	1	2.2	1	2.0	47	19
UAE-CPA	2	10.0	11	8.4	10	22.2	33	67.3	56	23
CPA	6	30.0	52	39.7	25	55.6	3	6.1	86	35
Others	2	10.0	12	9.2	3	6.7	3	6.1	20	8
Total	20	100	131	100	45	100	49	100	245	100

6.3. Perceptions for the main users of FR

The purpose of this section is to address the second research question (2.1) '*who are the main users of financial reports in both ADX and DFM?*' {See table 1.1}.This is by giving two different perceptions of the users and preparers of accounting information from the questionnaires. The questions vary in this section for example among sample groups according to the participants' positions. The assessment of the sample question will be separate and will then be followed by a discussion and conclusion.

The results of the closed questions used a Likert scale method (1= strongly disagree to 5 = strongly agree). However, the results of these questions were divided into two sections, wherein respondents with number 1 or 2 indicate disagreement level, and 4 or 5 indicate agreement level. Thus this section is divided into four different sub sections; Banking sector, other sectors of listed companies, Users, and External Auditors.

6.3.1 Banking Sector

Table 6.5 shows the different range of views from the banking respondents in relation to the significant users of their financial statements. It was agreed by the respondents that the first six user groups that were listed within this table represent the main users of financial statements, the reason being that they gave a level of agreement of more than 50% (which is a group recording of 4 or 5).

Moreover the first three groups, which are 'Institutional Investors' (freq. is 89%), 'Central Bank of UAE' (freq. is 87%) and 'Government' (freq. is 86%) had a high level of agreement from the respondents for being the majority of users of their financial statements. The results, however, do not show a significant difference between the banking sample in DFM and ADX (t-test significance = .29) {see appendix five}.

Table 6-5: Significant users of FR in the banking sector

N	Groups of users	Mean	S.D	Level of Disagreement %	Level of Agreement %
1	Institutional Investors	4.5	0.761	0	89
2	Central Bank of UAE	4.43	0.755	0	87
3	Government	4.43	0.755	0	86
4	Financial analyst	4.21	0.804	0	79
5	Individual investors	4	0.682	0	77
6	Creditors	3.86	0.949	7.2	64
7	Academics in accounting fields	3.29	0.725	7.2	29
8	Customers	3.07	0.996	21.2	28
9	Employees	3.07	1.073	28.4	27
10	Suppliers	2.79	1.052	35.8	23

The respondents from the banking sector were asked to what extent do their financial reports (which were prepared based on IFRSs) meet the users' needs. The results of table 6.6 also shows that the respondents agreed that the financial statements that were prepared under IFRSs meet the general needs of the main users of these statements. In particular, the respondents agreed that the major user groups ('Institutional Investors' (mean, 4.37), 'Individual Investors' (mean, 4.22) and 'government' (mean, 4.15)) were served appropriately by the financial statements prepared under IFRSs. On the other hand, the results show that the respondents from DFM banking sector have a higher mean of satisfaction than of respondents from ADX banking sector wherein the t-test shows that a major difference between the both groups (Sig = .042). {See appendix five}. Furthermore the ANOVA test shows that the respondents that had a higher level of work experience tend to have a greater amount of confidence that IFRSs had

met the needs of the stakeholders' than those that have less than 5 years of work experience.

Table 6-6: Perceptions about users that may be served by IFRSs

N	Groups of users	Mean	S.D	Level of Disagreement %	level of Agreement %
1	Institutional investors	4.37	0.633	0	94
2	Individual investors	4.22	0.698	0	85
3	Academics in accounting fields	4.15	0.667	0	85
4	Government	4.15	0.767	0	78
5	Financial analyst	4	0.669	0	78
6	Creditors	4	0.669	0	78
7	Central Bank of UAE	3.78	0.894	0	48
8	Employees	3.65	0.843	7.2	56
9	Suppliers	3.55	0.856	7.2	44
10	Customers	3.5	0.856	14.2	57

Although the preparers understood that the second major user of their financial statements was the Central Bank of UAE, Table 6.6 clearly indicates that under the IFRSs, the needs of the user might not be fully met by financial statements (mean is 3.78 and agreement level was less than 50%). Furthermore the results of t-test reveal that the respondents from the ADX banking sector have a greater level of disagreement than those in DFM at a significant level (sig =.005) {see appendix five}.

Respondents were also asked (from an Islamic financial perspective) about the elements that are essential for disclosure in financial reporting. Table 6.7 clearly indicates the issues that should be highlighted in financial reporting to ensure that UAE users make decisions that are in line with the values of Islam (Zakat). The respondents were asked to acknowledge their views as to whether these issues were highlighted in financial statements. Respondents disagreed that the financial statements of banking sectors under the IFRSs did not include such information. This is further highlighted in table 6.7 where it shows that the level of disagreement is above the level of agreement, wherein the results indicate that 43% of banking sector respondents disagreed with the statement that 'IFRSs

provide full disclosure of relevant information to Zakat' while 22% agree with the same statement. Moreover, the results indicate that 45% of banking sector respondents disagreed with the statement that 'financial instruments not related to interest'. However, respondents were more agreed (62%) to statement that 'information that helps to calculate zakat' than those who disagreed (22%).

The results of t-test indicate that there were higher level of disagreement from the respondents from DFM in the importance of disclosure of issues in financial reporting to address Islamic issues than those of the ADX's respondents (sig = .042) {Refer to appendix five}. These results reveal that the importance of Islamic issues are more important to the respondents in ADX than those in DFM, where the greater number of stakeholders in Abu Dhabi are from Islamic background. On the other hand, the results of the ANOVA test show that the respondents that had higher level of work experience have higher agreement about the level of disclosure under IFRSs to the Islamic issues in both stock markets (sig = 0.003) {see appendix six}, in which some respondents dispute the fact that the Islamic Zakat should be paid at a fair rate in accordance to their wealth not at a minimal rate.

Table 6-7: sections should be included in balance sheets

No	Statements	Mean	S.D	Level of Disagreement %	level of Agreement %
1	Full disclosure of the relevant information to help in making decisions	2.56	1.265	43	22
2	Financial instruments not related to interest	2.87	1.493	45	35
3	Information that helps to calculate Zakat	3.09	1.21	22	62
4	Disclosure of interest paid	2.76	1.352	38	23

In addition the respondents in the banking sector were asked about the methods of disclosure of information which may be needed to calculate Zakat in UAE. These methods are shown on Table 6.8.

Table 6-8: Useful information for Zakat calculation that may not be disclosed by IFRS

No	Statements	number of respondents
1	give additional disclosure when requested	12
2	provide information same as income tax disclosure	6
3	No comments	2
	Total	20

Respondents to the questionnaires indicate that some information such as capitalised expenses and goodwill were included in the IFRS balance sheets and meet the requirements of Zakat calculation. Whilst in contrast, those who believed that such a balance sheet was not suitable stated that the IFRSs balance sheets do not include sufficient details that are of importance when making Zakat calculation. It was stated by one respondent from ADX, that banks should offer two forms of financial statements: one should be for the use of Zakat and other usages for the purpose of stakeholders. In the USA companies tend to issue two forms of financial statements one for the Internal Revenue Service (IRS) and one for the purposes of SEC filing as they both have different methods of accounting (IAS plus, 2007).

6.3.2 Other Listed Company

Table 6.9 clearly shows the views of respondents of a number of listed companies in UAE in regard to the majority of users of financial statements. It was generally agreed that the initial ten groups represent the main users, as they gave a high level of agreement (50%, answer recording 4 or 5). Additionally, it was believed by the respondents that the first four groups represented the majority of the users of the financial statements, as they showed a substantial agreement level of 80%. The groups are known as {Institutional investors (level of agreement 95, financial analyst, (94.2), Central Bank of UAE (92.4), and Creditors (83)}.

Table 6-9: Significant users of FR for other listed companies

N	Groups of users	Mean	S.D	Level of Disagreement (%)	level of Agreement %
1	Institutional investors	4.78	0.415	0	95
2	Financial analyst	4.57	0.505	0	94.2
3	Central Bank of UAE	4.43	0.883	8.1	92.4
4	Creditors	4.55	0.778	0	83
5	Individual investors	4.18	0.743	0	79.5
6	Academics in accounting fields	3.77	1.1576	12.9	64.2
7	Government	3.59	1.531	27	64.1
8	Customers	3.39	1.094	33.4	58.5
9	Suppliers	3.32	1.282	33.8	57.2
10	Employees	3.24	1.081	29.7	42.5

Table 6.10 shows that only the Central Bank of UAE and Government as the most significant users which fulfil the information required that are provided through their financial statements prepared under US GAAP. The respondents gave these two groups higher means grading as well as obtaining higher agreement level of 80% or more (answer recording 4 or 5) compared to the other groups of users that were graded with a much lower mean score.

Respondents from listed companies (other than respondents from banking sector) were asked about their perceptions on financial reporting prepared under IFRSs, questioning if whether the reporting that was based on IFRSs would serve the users or not. The results from table 6.11 show that, other than Central Bank of UAE and Government users, the most important users of the listed companies' financial statements, are satisfied with the financial statements prepared under IFRSs.

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Table 6-10: Perceptions about users that may be served by US GAAP

N	Groups of users	Mean	S.D	Level of Disagreement %	level of Agreement %
1	Central Bank of UAE	4.31	0.722	0	85
2	Government	4.22	0.999	8.6	82
3	Employees	3.70	1.022	8.9	76
4	Customers	3.57	1.035	8.1	69
5	Suppliers	3.75	1.164	16.9	73
6	Creditors	3.67	0.907	8.3	76
7	Academics in accounting fields	3.59	1.265	12.9	65
8	Individual investors	3.52	1.145	16.1	63
9	Institutional investors	3.45	1.116	16.1	57
10	Financial analyst	3.59	1.313	27	65

Table 6-11: Perceptions about users that may be served by IFRSs

N	Groups of users	Mean	S.D	Level of Disagreement %	level of Agreement %
1	Institutional investors	4.55	0.722	0	88.4
2	Suppliers	4.5	0.781	0	87.5
3	Creditors	4.47	0.932	8.2	86.8
4	Financial analyst	4.43	0.857	5.7	86.3
5	Employees	4.33	0.922	7.3	84.5
6	Customers	4.3	0.815	0	83.9
7	Academics in accounting fields	4.27	0.919	5.8	83.7
8	Individual investors	3.91	1.033	13.7	82.9
9	Central Bank of UAE	3.85	1.021	18.9	55.7
10	Government	3.81	1.051	8.33	54.7

ANOVA test results show that there are significant differences in stakeholders in construction listed companies and other listed companies in which they categorise them as 'creditors' as being the most important stakeholders for their industries (sig = .045) {see appendix six}. In addition, the ANOVA test also shows that there is another considerable difference with regard to the listed companies and their size (sig = 0.033). In which the mean for the larger companies is 4.12 and have a greater concern for their 'Institutional Investors' which is the opposite of smaller organisations (mean = 3.21) {see appendix six}. The results of this section reject hypothesis H1/1 that '*There is no significant*

difference in the mean of users of financial statements in both ADX and DFM' {see table 1.1}.

6.4 perception about the effectiveness of IFRSs

6.4.1. Users' perception

The respondents were asked a further two questions in relation to the financial statements in order to answer the sub-research question (2.2) *'how users of financial reports viewed the effectiveness of financial statements that prepared under the IFRSs'.* The first question was discussing how useful is the information in the financial statement prepared under IFRSs. The answers shown on Table 6.12 clearly indicate that 59.5% of respondents tended to agree that the financial statements under the IFRSs met the users' needs.

Table 6-12: view of financial analysts regarding the IFRSs

No	Statements	Mean	S.D	Level of Disagreement %	level of Agreement %
1	To what extent do you agree that information disclosed in the financial statement under IFRSs meet your needs?	3.61	0.524	0	59.5

The second question was in relation to their views with regards to the level of disclosure was in the financial statements that were prepared under US GAAP. These answers are clearly shown in Table 6.13, whereas the results indicate that even though 59.5% of respondents were indifferent, 41.7% of respondents still disagreed with the fact that the financial statements that were prepared under US GAAP revealed details that can actually meet the needs of the users. Their perceptions were supported with the following comments for example: companies that were listed in the UAE do not tend to reveal what they show in financial statements in addition to the lack of transparency. It was further

highlighted in their comments that the Board of Directors' rewards and ownership were also not openly revealed.

Table 6-13: view of financial analysts regarding US GAAP.

No	Statements	Mean	S.D	Level of Disagreement %	level of Agreement %
1	to what extent do you agree that information disclosed in the financial statement meet your needs	2.55	0.685	41.7	0

The correlation test between the investing sectors and the agreement on level of disclosure shows a substantial correlation between the agreements of the level of disclosure from IFRSs by the users and the nature of company they want to invest in (sig = 0.043; p-value, .524) {see appendix seven}. The tabulation test clearly shows that the users who invest in the banking sector are more satisfied (5 strongly agree and 7 agree) with the amount of disclosure revealed by adopting IFRSs than those users that invest in other companies {see appendix eight}. In addition, the t-test for example clearly shows that the users of DFM are highly fulfilled with the amount of disclosure than the other users that are interested in companies in the ADX list (sig = 0.002) {see appendix five}.

6.4.2. External Auditors

The perceptions of the collected 45 questionnaire from external auditors were asked to express their view in relation to financial statements and their jobs as auditors. For example they were asked whether or not they find it simpler when auditing the financial reports which are done under US GAAP rather than under IFRSs. Table 6.14 clearly shows that there were 25 respondents (55.6% from the total auditor respondents) that actually chose financial statements that were done under IFRSs, whereas 15 (33.3%) chose the financial reports under US GAAP. A further 3 respondents (6.7%) assured that they did not see a difference between the two standards, and finally, 2 (4.4%) respondents chose not to answer this question.

Table 6-14: Auditors view regarding the comparison between US GAAP and IFRSs

	Which of the following FS do you think it is easier to audit		
		Frequency	%
1	No Answer	2	4.4
2	Financial statement prepared under US GAAP	15	33.3
3	Financial statement prepared under IFRSs	25	55.6
4	No difference	3	6.7
	Total	45	100.0

In relation to the problems that are of concern to the external auditors, they have been regarded as being either in relation to IFRSs or US GAAP. It was highlighted by respondents from external auditors that the greatest complexity that is faced is in relation to IFRSs is *"the implementation of such standards as IAS 32 and IAS 39"*, are followed by *"translation of IFRSs"*.

The t-test results clearly indicate that the Abu Dhabi auditors are more satisfied with the performance of the IFRSs than those who work in Dubai markets (sig = 0.048) {see appendix five}. Furthermore the ANOVA results show that the auditors that have more than 9 years of work experience feel more confident to handle both standards, than other auditors with 5 years or less work experience (sig = 0.001) {see appendix six}. The result indicates that H1/2 is accepted *'there is no significant difference in the mean of both ADX and DFM that adopting IFRSs has positively affected the financial statements' {see table 1.1}.*

6.5. The Comparison between US GAAP and IFRSs

This section intends to answer the following research questions 2.3 *'what are the different perceptions of preparers and users toward the level of satisfactory regarding US GAAP and IFRS?'* {see table 1.1}. This can be undertaken by showing the views from questionnaire surveys of preparers and users of accounting information. A few of these questions in this section were based on the comparison results between US GAAP and IFRSs (Chapter Three).

The respondents were asked four questions to express their views on a neutral stance of IFRSs to UAE and the timing of IFRSs adoption. Table 6.15 shows the results, which suggest that, the overall views of the respondents wherein favour of IFRSs adoption than the use of US GAAP by listed companies on the two stock markets (level of agreement, 64%). Furthermore, there was no major difference between the mean answers that were given from the sample groups in the two stock markets (sig, 0.5). A similar perception was held by all respondents that IFRSs usually is better than US GAAP, and supported their application in UAE (mean, 3.52). It is also understood by respondents that even though IFRSs were firstly designed to meet the needs of developed countries; it can still help users in the developing countries to get their needs out of the financial statements (mean, 2.35). It is also understood that even with the use of US GAAP in the UAE listed firms. Additionally, respondents indicate that there was a need to adopt IFRSs in the UAE to improve the quality of the financial statements (level of agreement, 61%). The respondents disagree with the statement 'there is no need to adopt IFRSs in UAE as US GAAP is enough', wherein the level of agreement was only (19%).

Table 6-15: Perceptions on the impartiality of IFRSs

Statements	Mean	SD	level of disagreement	level of agreement	sig
IFRSs are usually better than US GAAP and it would be preferable to apply	3.87	0.696	11	64	0.5
All IFRSs are suitable for the UAE stock markets	3.52	0.843	26	61	0.48
IFRSs were established to meet users' needs in developed countries which would not capable on UAE	2.35	0.785	56	20	0.73
There is no need to adopt IFRSs in UAE because the US GAAP is enough	2.15	0.798	59	19	0.41

* indicates the statistically significant differences of responses between respondent groups at the 5%

The view of respondents on the fair value and cost within the UAE being the main difference between US GAAP and IFRSs is shown in table 6.16. It is

further suggested by the respondent that property investment should be measured by fair value (level of agreement, 61% with mean of 3.87). They also state that by measuring investments by fair value would provide accurate and helpful advice for making economic decisions (level of agreement, 63% with mean of 4.16). A few of the respondents gave their reason for using fair value method for calculating Zakat (level of agreement 63% with mean of 3.85). A very few gave agreement for the statement that 'investment property should be measured by historical cost method' (20%, with mean of 2.19).

Table 6-16: Perceptions of fair value and historical cost in UAE

Statements	mean	SD	level of disagreement	level of agreement	sig
Investment property should measure by fair value method	3.87	0.815	21	61	0.15
Investment property should be measured by historical cost method	2.19	0.806	62	20	0.07*
Use of fair value measurement in investment property provides useful and accurate information for economic decision making	4.16	0.675	7	63	0.53
Fair value is better method to calculate Zakat	3.85	1.092	7	63	0.55
* indicates the statistically significant differences of responses between respondent groups at the 5%					

The respondents were also asked about the timings of IFRSs adoption. Table 6.17 shows that respondents agreed that adopting IFRSs in 2005 was the right time (65.7%), while only (25.3%) of the respondents stated that IFRSs should have been adopted earlier. Only 8.3% of respondents believed that the implementation of IFRSs in UAE was too soon, 0.9% stated that IFRSs should not have been adopted in the UAE at all. The results indicate the H1/3 *there is no significant difference in the mean of users of financial statements regarding the preference of financial statements under IFRS than US GAAP'*

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Table 6-17: Perceptions regarding the timing of IFRSs adoption

	Banking sector		Manufacturing sector		constructio n sector		Other listed firms		external auditors		financial analysts		total	
	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%
No response	3	15.0	5	11.9	6	16.2	6	11.5	2	4.4	4	8.2	26	10.8
IFRSs should be adopted earlier	5	25.0	10	23.8	12	32.4	14	26.9	11	24.4	10	20.4	62	25.3
Was too early to implement IFRSs in 2005	4	20.0	6	14.3	5	13.5	1	1.9	2	4.4	2	4.1	20	8.3
Was a good time to adopt IFRSs in 2005	8	40.0	21	50.0	14	37.8	30	57.6	29	64.2	33	67.3	112	65.7
IFRSs should not be adopted in UAE	0	0.0	0	0.0	0	0.0	1	1.9	1	2.2	0	0.0	2	0.9
Total	20	100	42	100	37	100	52	100	45	100	49	100	245	100

6.6 Difficulties and Problems related to the Transition to IFRSs

6.6.1 Difficulties and Problems during the Transition

This section seeks to answer the research question 3.1 '*what are the main difficulties faced by both ADX and DFM during the transition of IFRSs*' This research question was highlighted from the view of both the users and preparers of accounting information within the questionnaires surveys. Table 6.14 indicates that 57 respondents (23.4%) state that "*Lack of qualified personnel and knowledge of IFRSs*" as the main problem has faced both users and preparers of financial statement in the listed companies when the adoption of IFRSs was in place in 2005. Additionally, this difficulty was also ranked as the greatest problem facing the listed companies in both stock markets. Lack of knowledge and understanding of complicated standards was the second important problem from the adoption (46 respondents, 18.6%). This was ranked as the second highest important difficulty in adopting the IFRSs in UAE. This result can

accept H2/1 *'there is no association between the Lack of qualifications and experience and the difficulties of implementing the IFRSs'*

Table 6-18: Overall problems and costs of the transition to IFRSs

Problems and cost	Frequency		Rank
Lack of qualified personnel and knowledge of IFRSs	57	23.4	1
Lack of knowledge and understanding of complicated standards	46	18.6	2
Fair value issues	22	9.0	3
Comparability with earlier financial reporting	19	7.6	4
Training of accounting staff	15	6.2	5
Changes to computer software systems	20	8.3	6
Language issues	13	5.5	7
Lack of professional specialists	29	11.7	8
Readiness of management and the management community for disclosure	7	2.8	9
Other problems and costs	17	6.9	10
Total	245	100	

In line with this, the questionnaires for the listed companies contained an additional question regarding their views about the costs that could face or have done during their change over to IFRSs.

Table 6-19: Costs that banks incurred during IFRSs implementation

Cost	%
Training of accounting staff	79.1
Changes to software systems	64.2
Consulting service	54
Purchase of technical literature	37.1

Table 6-20: Costs that other listed firms incurred during IFRSs implementation

Cost	%
Training of accounting staff	89
Consulting service	79
Purchase of technical literature	44
Changes to software systems	42

It is revealed that 79.1% of the banking sector respondents stated that "*training of accounting staff*" was the major cost of them; whereas 89% of the other listed firms thought "*training of accounting staff*" is the main cost for listed firms.

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Moreover, respondents from banking sector have stated that *"Changes to software systems"* is the second highest cost for their companies during the adoption of IFRSs (64.2%), however only 42% of other listed companies stated this cost as a significant cost caused by the adoption of IFRSs. The cost of *"consulting service"* was stated clearly as a significant cost for listed companies, although respondents from other listed companies (79%) viewed this cost more significantly than respondents from the banking sector (54%).

6.6.2 Cultural Issues

Hofstede (1980) highlighted the dimensions of the UAE culture within his study for the Arab culture as a homogeneous community, speaking the same language. The Hofstede analysis indicates that the UAE is a Muslim faith culture in which religion plays a huge role in their lives. The main dimensions of UAE culture, similar to other Arab countries, are the Uncertainty Avoidance Index (UAI) and Large Power Distance Index (PDI). The society of UAE is expected to have a "caste system" which strict the upward mobility of its people. In addition, Hofstede indicates that such societies are more likely to follow rules, regulations, and controls for the purpose of reducing the level of uncertainty. With the combination of these two dimensions, UAE is more likely to have leaders with virtually ultimate power and authority, the people in power are those who can develop and reinforce regulations. Further to these two dimensions, the Masculinity Index (MAS) which indicates the limited role of women due to Muslim religion and Individualism (IDV) are also ranked as high dimensions in the Hofstede's analysis of UAE culture. Therefore, this discussion will be based on Hofstede's dimensions.

This section aims to assist in answering the research question 3.2 *'what were the cultural issues that influenced the adoption of IFRSs in UAE, and which of these issues were considered as difficulties of adopting IFRSs?'* {see table 1.1}. In order to answer this question, views were collected from questionnaire surveys from both preparers and users' respondents (245 respondents); the following open-ended question was asked of each sample group *'Which influences*

(cultural issues) do you think may be barriers to the full adoption of IFRSs by UAE? And Why?'. It is this question that was in reference to culture on a wide scale including issues relating to religion and language and other issues.

The questionnaire also included questions about culture and how issues relating to it can clash with the IFRSs. Respondents mentioned that the language issue is the main cultural obstacle of adopting the IFRSs (95 respondents, wherein 70 from preparers, 17 from external auditors and 8 from investors), followed by Zakat requirements (54 respondents, wherein 45 from preparers, and 9 from investors) and Lack of accounting knowledge (39 respondents, wherein 35 from preparers and 4 from external auditors) {see table 6.21}. Moreover, 23 (15 from preparers, 6 from investors and 2 from external auditors) respondents stated that IFRSs might also clash with the Emirati's pride and 17 of them (14 from preparers, and 3 from external auditors) mentioned to other cultural issues such as the system of government are the main obstacles of adopting IFRSs.

Nevertheless, ANOVA test indicates that respondents from banking sector consider the Zakat requirements as the main obstacle of adopting IFRSs more than the other respondents (sig 0.021) {see appendix six}, the Muslim cultural issues tend to be one of the main obstacles of adopting IFRSs as the Emirati people do not accept the word "Interest" within the financial statements due to the requirements of Islamic religion.

Another issue that was found significantly different among the respondents categories is the language issues (sig 0.004) {see appendix six}, wherein respondents from external auditing consider language as the main problem of adopting the IFRSs, that was due to the late publishing of the Arabic version which make both preparers and users study the English version that could be miss-interpreted. The results above indicate that culture issues have affected the process of IFRSs transition which accept the H2/2 *'there is no correlation between Culture and the IFRSs transition'* {see table 1.1}.

Table 6-21: Overall views of cultural barriers to adopt IFRSs

Culture issues	Freq	Rank
language issues	95	1
Zakat requirements	54	2
Lack of accounting knowledge on part of the financial statement users	39	3
UAE Pride	23	4
other cultural issues	17	5
None	10	6
Unsuitability of some IFRSs procedures to the environment in UAE	7	7
Total	245	

6.5 Factors affecting IFRSs Adoption

This section aims to assist in answering the following research question 3.3 *'What are the main motivations of the UAE to adopt the IFRs into its stock exchanges?'* {see table 1.1}. The following is a question in the survey was asked of the sample respondents:

Table 6-22: UAE Accountants and Auditors Association's decision

	mean	SD	level of disagreement	level of agreement	sig
To what extent do you agree with UAE's AAA decision to adopt IFRSs	4.32	0.785	0	80.2	0.23

It is clearly indicated in Table 6.22 that users that responded showed a higher level of agreement (80.2%) with UAE Accountant and Auditors Association's decision to use IFRSs as an alternative to US GAAP. The sample groups in this study have been asked the same questions, with the aim of determining the difference between each group. In accordance with the ANOVA test, there is a common agreement between the groups in relation to their views of IFRSs adoption (level of sig = 0.23) that shows there is no substantial difference in the responses of the groups from the data, which indicates that the decisions of adoption and answers given by the sample groups were all the same.

The respondents were also questioned about the reasons behind moving towards IFRSs. The strongest motivation by the respondents was their belief that the IFRSs were more comprehensive than US GAAP (22% of all motivations), along with the comparison of the financial reporting of listed companies with that of foreign companies (18%) (see table 6.23). Another motivation was providing information about issues relating to financial position, performance and cash flow of an entity, which is helpful when making economic decisions to a wide range of users outside and inside of UAE (16%). The UAE joining the World Trade Organisation (WTO) was also seen as a motivation by respondents (14%). Lastly the intention to give international credibility to banks' financial statements by the Central Bank of UAE was also seen as a motivation (10%) (see table 6.23).

Table 6-23: Perceptions of questionnaire respondents of the motivations for IFRS adoption

Motivations factors	%
IFRSs are more comprehensive	22%
Comparability with international companies	18%
More transparency	16%
UAE joining the WTO	14%
International credibility of banks' financial statements	10%
Some international companies have subsidiary companies in UAE	7%
To reduce the dependency on US GAAP	5%
Adherence only	4%
Combination of international concepts	2%
After the EU has changed to IFRSs rather than local GAAP	2%
Total	100%

6.5.1 Factors influence the Adoption of IFRSs

This part of the thesis highlights the perceptions of the groups which are able to influence the procedure of adopting IFRSs in UAE. Within the questionnaire the respondents were asked the following questions in order to express their views on what factors are influential in promoting the adoption of IFRSs and what groups will subsequently benefit from the adoption of IFRSs.

According to the results in Table 6.24, respondents believe that international auditing firms (level of agreement, 79%), foreign investors (83%), multinational companies (73%), global capital markets (68%) and the Stock Exchange (65%) have significant influences on the adoption of IFRSs in the UAE. Only half of the respondents of the questionnaire believed that the following had an influence in the adoption of IFRSs; accounting academics (57%), international lending organisations (56%), and local users' needs (50%). In spite of this the t-test shows that there is a major difference between ADX and DFM (sig = 0.003), in which that DFM respondents have higher agreement on both the international lending organisation (mean = 4.11) and the local users (3.89) than ADX (mean = 3.57 and 3.21 respectively) {see appendix five}.

Table 6-24: Influences on IFRSs adoption

Factors	mean	SD	level of disagreement	level of agreement	sig
International auditing firms	3.76	0.521	8	79	0.14
Foreign investors	3.59	0.547	7	83	0.3
Multinational companies	3.55	0.665	12	73	0.00*
Global capital market	3.5	0.698	14	68	0.07
Stock exchange	3.37	0.752	18	65	0.88
Academics in accounting fields	3.32	0.774	17	57	0.76
International lending organisations	3.28	0.83	26	56	.00*
Local users' needs	3.22	0.751	22	50	.04*
* indicates the statistically significant differences of responses between respondent groups at the 5%					

The ANOVA test results indicate that there is a significant difference between samples regarding the level of effect that multinational companies have (p = 0.000), wherein the preparers of listed companies have higher mean (4.36) than both Auditors (mean, 3.24) and financial analysts (mean, 3.11) {see appendix six}.

Further to this, appendix six indicates that there are substantial differences with regards to international lending organisations (sig = 0.000), wherein the group of analysts have higher mean (3.87) than the mean of preparers of the financial

statements (2.53). In addition, the ANOVA test has also significant differences in the means between the studied groups in regards to 'local users' needs' (sig = .04), wherein the financial analysts (mean, 3.56) and auditors (mean, 3.43) have higher mean than preparers (2.12) {see appendix six}.

Table 6.25 indicates that respondents agreed that most groups that had the experience of adopting the IFRSs are multinational companies (88%), foreign investors (87%), international auditing firms (83%), global capital markets (78%), the Stock Exchange (69%), international lending organisations (64%) and accounting academics (67%), whilst also agreeing that the greatest advantage would be to the first three groups.

Table 6-25: Users that will benefit from IFRSs adoption

Factors	mean	SD	level of disagreement	level of agreement	sig
Multinational companies	3.88	0.358	2	88	0.015
Foreign investors	3.78	0.429	4	87	0.24
International auditing firms	3.72	0.529	5	83	0.6
Global capital market	3.63	0.631	9	78	0.11
Stock exchange	3.59	0.681	15	69	0.22
International lending organisations	3.54	0.754	12	64	0.1
Academic in accounting fields	3.33	0.783	14	67	0.36
Local users'	2.83	0.823	10	59	.000*
* indicates the statistically significant differences of responses between respondent groups at the 5%					

The results from the ANOVA test show that there are a number of differences in relation to samples and the possible advantages obtained from the adoption of IFRSs in the UAE, wherein the first significant variable (sig, 0.015) was between the preparers of the financial statements (mean, 4.21) and the financial analysts (mean, 3.11) {see appendix six}. Further, the results indicates that groups of respondents were significantly different (sign, 0.000) with regards to 'local users' needs' wherein the financial analysts (3.11) have higher mean than preparers (1.98) {see appendix six}.

6.5.2 Respondents' perceptions of the Benefits of IFRSs

Respondents were asked straight questions in relation to the quality of financial reporting based on IFRSs. The results from this questionnaire survey show that the positive implementation in the UAE of the IFRSs would subsequently improve the quality of financial reporting. Table 6.26 indicates that a further 81% of the respondents understood that by adopting the IFRSs, it would assist in improving the comparability of financial reporting within countries, around 77% of respondents believed that the reliability of financial reporting would be improved, and a further 73% for understanding and 71% for relevance of financial reporting would be improved when adopting the IFRSs.

Table 6-26: The quality of financial reporting based on IFRSs

	mean	SD	level of disagreement	level of agreement	Sig
Relevance	3.8	0.971	15	71	0.09
Reliability	4.09	0.733	2	77	0.59
Comparability	4.14	0.756	1	81	0.45
Understandability	3.95	0.835	5.8	73	0.14

* indicates the statistically significant differences of responses between respondent groups at the 5%

Finally, with an open question, respondents were asked about the benefits of adopting the IFRSs into the UAE listed companies. Respondents assumed that listed companies in the two stock markets may benefit from adopting the IFRS by increasing their chance to enter international markets whilst also having a chance to increase their capital through the quotation of their shares on other foreign stock markets. Whilst also believing that by adopting the IFRSs would also assist the facilitation of conveying knowledge transfers of accounting ideas and experiences back and forth from the UAE.

The above discussion refers that hypothesis H2/3 can be accepted which indicate that 'there is no differences in the mean of both preparers and users in ADX and DFM regarding the motivation factors of adopting IFRSs' {see table 1.1}.

Discussion of questionnaire Results

6.7. Introduction

This section aims to complement section one. It discusses the results of the questionnaires, which were used to discover the appropriateness of IFRSs to the UAE stock markets. In the previous section the results were described, however, this section is outlined as follows: initially the section studies and discusses the major accounting users within UAE and their accounting needs, as well as discussing the views of the respondents' about the appropriateness and adoption of IFRSs in its stock markets. The second section examines the cultural issues that may occur as obstacles when trying to fully adopt IFRSs in UAE. The third section investigates the problems and costs that listed companies in UAE have incurred during the move to IFRSs. Finally, the last section examines the advantages that resulted from the adoption of IFRSs.

6.8. Accounting Information and Standards needs in UAE

This part presents the results of the study in relation to the major users of accounting in ADX and DFM listed firms alongside their accounting needs. The major users of listed companies' financial reports are first highlighted followed by the study of user needs. The appropriateness of IFRSs to UAE will then be analysed, together with an examination of users that may influence the adoption of IFRSs and benefit from this adoption.

6.8.1 Accounting Needs in UAE

6.8.1.1 Users of Financial Reporting in UAE

The literature review clearly indicates that financial reporting should be presented with appropriate information to assist users to make their decision (Albu, et. al., 2011). This intention remains the aim of the IASB (IASB, 2009). Many researchers believe that investors and creditors are the key users of financial reporting (Tan, 2005). However, in accordance with an Islamic accountability framework in an Islamic society, this may not necessarily be the

case as users including those in society should be acknowledged, and because of this, it is critical that such accounting information should be disclosed to the whole society (Lewis, 2001). Additionally, details and information that is not in the favour of firms should also be revealed (Napier, 2007).

The results of the questionnaire indicate that the main users in the UAE are *"Institutional Investors Financial Analysts"*, *"International Chamber of Commerce in UAE"* (ICC), *"Creditors"*, *"Individual Investors"*, *"Government"*, and *"Academics in the accounting field"*. These users have been identified through the findings of this study as the main users of financial statements in both ADX and DFM. It was found, however, that accounting preparers (both in ADX and DFM) do not believe that the people of the UAE are the main users of their financial reporting, it was reported that only two of the questionnaires respondents (one from banking sector and one from construction sector) stated that Emirati's society people are one of these major users. The results of the study indicate that some of the listed companies in the UAE do not care about the interests of the society when making their decisions, while Corporate Social Responsibility has become essential in the developed countries (Hopkins, 2007).

Ignoring society's interest was described by 10 respondents from DFM that listed companies do not take in to account Sharia (Islamic issues such as calculation of Zakat) as precedence, and the companies' failure or reluctance to safeguard society's interests as the majority of UAE society are Muslim (Heard-Bey, 2010). What is more, various respondents from different groups of respondents {3 from banking sector, 5 from construction sector, 2 Auditors, and one from financial analysts} highlighted in answering the question of '*Do you thing that listed companies consider the society interests when they make their decisions? And how*' that there is a lack of regulations that assist to protect society's interest, mostly in examination of the fact that people does not have the ability or power to protect or influence the decision regarding their own interests within UAE. It could be recommended, then, that even though ADX companies endeavour to go along with a few of the sharia requirements; there may still be

disagreement with it in refusing the society for "Interest" and then exercising the accountability framework which is already limited. Additionally, the results may recommend that UAE companies include the ICC as one of their major users because they distinguish them as a major group, not for social reasons but because it has more power and authority than any other groups.

6.8.1.2 Users' Needs from Financial Reporting in UAE

As highlighted in earlier sections, all UAE listed companies ought to reveal all information necessary from accounting for users' needs. Nevertheless, it is suggested in this study that even though they are acknowledged as being key users by preparers, generally key users in UAE, such as those who symbolize the private sector (e.g. financial analysts and fund managers), experience a lack of disclosure and transparency from companies at ADX more than DFM. Three respondents from the banking sector in ADX stated that the listed companies that follow the corporate governance guidance are more likely to provide more disclosure than those who do not follow the corporate governance guidance. Hussainey and Al-nodel (2008) state that banking sector in developing countries adopt the corporate governance more effectively than other sectors such as services and industry sectors. Therefore, Tadawul (2010) states that less than 7% of companies in ADX adopt the corporate governance guidance. Consequently, it may be suggested that the other companies do not offer adequate disclosure for users.

Furthermore, eleven respondents that are from DFM stated that even though there is inadequate disclosure; the disclosure had nevertheless enhanced during the previous few years, possibly because the Securities and Commodities Authority (SCA) had been recognized (SCA website, 2011). In relation to this, financial analysts could attain additional information from the SCA as well as from firms' financial reports. The SCA supports financial analysts in receiving information as it is of relevance when making investment decisions, possibly because they consider that this will help develop and grow the DFM performance (Mustafa, 2011). The respondents stated that when the SCA was

established in 2003 they began encouraging companies listed on the DFM and observing their disclosure; as a consequence there was an increase of information for investors. However, an auditor respondent stated that different institutions in the UAE work strongly together and attempt to improve disclosure for investors. He stated that:

"The SCA should also cooperate more with the Ministry of Commerce to improve accounting regulations and force companies in UAE to implement regulations that help investors in their decision."

Regarding the disclosure of information, the majority of the users of financial statements in this study (89.1%) were seen to be disappointed with the disclosure levels and transparency under US GAAP in practice compared to the level of disclosure under IFRSs. This resulted leading to believe that some of Gray's (1988) framework dimensions {Professionalism, uniformity, conservatism, secrecy} may clarify present accounting practice in UAE.

The results consequently suggest that that there should be disclosure, which is essential to many users in the UAE. These findings are not consistent with the decision usefulness framework that has been adopted by some bodies, including the chambers of commerce in both Abu Dhabi (ADCCI) and Dubai (DCCI), and the federation of UAE chambers of commerce and industry, who are accountable for controlling and enforcing accounting regulations. Therefore, it could be suggested that users' ability to make appropriate decisions will be affected.

There is a suggestion that the current levels of disclosure and transparency are related to accounting preparers preferences and not with users' preferences. For this reason, it can be recommended that preparers reveal detail that is in their interest, even to the users that have power (SCA), as more disclosure can lead to competitive disadvantage (Gaeremynck, et. al., 2007). It can be stated that accounting preparers have more power than accounting users, for the reason of protecting their interests and have more of an opportunity to put pressure on accounting regulators in the UAE.

Nevertheless, assessing the banks' financial reports that have been prepared under IFRSs and those from other listed companies prepared under US GAAP, it was agreed that Banks' accounting financial reports that had been prepared under IFRSs provided more information than those that were prepared under US GAAP. Therefore, generally users favour financial reports prepared under IFRSs; this indicates that IASB is regarded as a stronger and more capable regulator than local regulators. Still, the uncertainty continues to arise are whether IFRSs are suitable for the UAE environment, not forgetting that it is a developing country that may have different accounting needs from those in developed countries, as the needs in accounting are connected to numerous issues for example culture and society. The other section of the thesis assesses the suitability of IFRSs to UAE environments.

6.2.2 The Suitability of IFRSs Adoption for UAE stock markets

A substantial number of respondents from both DFM (76%) and ADX (69%) support the adoption of IFRSs in UAE, as disclosure would be enhanced to suit the country's accounting needs.

Furthermore, it was agreed by the respondents that the IFRSs have sought-after advantages over US GAAP. In spite of this, it is believed by many respondents (26 respondents) that not all IFRSs are appropriate for the Emirati's environment because some of these standards may be too complicated to apply or, at least in theory, and further they might not be compatible with UAE culture or may have difficulties with commercial law.

The existing study suggests that agreement levels in relation to the respondents' support for IFRSs adoption does not in fact replicate a view that all of the IFRSs are appropriate for the UAE, but in fact exists because it was seen by the respondents that local users' needs which were 48% level of agreement do not have substantial influence on US GAAP. It was stated by a number of respondents (11.2%) that some characteristics or specifications for UAE, as an

Islamic country, would not present problems or complexities. For example, a CFO respondent has argued that there was not a religious issue or complex issue, from his perception, that would cause conflict between Islamic principles and IFRSs. Additionally, an Auditor respondent also held that even calculating Zakat under US GAAP has a limited influence, and there were more advantages with IFRSs than US GAAP.

6.8.3 Groups that will take advantage from the Adoption of IFRSs

It has been stated that the adoption of IFRSs by developing countries may perhaps occur because of the importance of these values to financial accounting, or even because of financial reporting requests to present investors with the essential accounting information, but the accounting line of work in developing countries may have to deal with substantial problems in their adoption (Chamisa, 2000; Tarca, 2004; Tyrrall, et. al., 2007).

The results imply that there is in general an agreement on the adoption of IFRSs in UAE due to the need to establish more information and detailed disclosure by IFRSs in general. External parties such as FDI and other large accounting firms tend to benefit subsequently more from IFRSs adoption than domestic parties do such as local auditors and local investors (Marquez-Ramos, 2008). In relation to this the results show that there were considerable differences among the respondents from banks and other listed companies in regards to the benefits gained from the adoption of IFRSs to local users' needs, wherein the other listed companies reported more level of agreement than respondents from the banking sector at significant difference (p = .002), which consequently showed a reduced level of agreement. It was mentioned that this is because respondents from other listed companies believed that IFRSs may present more disclosure of information than the US GAAP (59.5% of respondents from other listed companies), which was used before 2005 by all listed companies {see table 6.12}. What is more, is that some respondents (6.7% of Auditor respondents) that are from the banking sector thought that the advantages of IFRSs depend on

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the users' education level and along with their experience with and understanding of IFRSs '*no difference between US GAAP and IFRSs*' {see table 6.14}. A CFO respondent also thought that the majority of financial reporting users would not be able to detect the changes in financial reporting if the standard of accounting differed.

A great number of respondents (88% of respondents) {see table 6.25} stated that the high levels of FDI was one of the advantageous benefits of the adoption of IFRSs in Dubai and Abu Dhabi, and simultaneously, had substantial control on their prospective adoption in the country. It was stated by an auditor that the adopting of IFRSs has assisted when foreign investors came in as they understand is international standards. The majority of people purchase bonds. This highlights issues that need to be considered, accounting frameworks that are widely accepted internationally. Rather than use standards that have limited usage internationally, as issuing bonds on an international market, would support financial indicators around the world (Portes and Rey, 2005).

It has been previously argued that many of the developing countries have attempted to attract FDI but are usually unlikely to use accounting standards that could be appropriate for the country's requirements, but could also discourage foreign investors (Marquez-Ramos, 2008). Cooke and Wallace's (1990) view that it is expected from developing countries to respond to the requirements of foreign companies considering investing in their country, which in many cases can mean that developing countries are reliant on multinational companies from developed nations (Yuan, 2009). Presently, this is the situation within the UAE, as it is an attractive environment for FDI among all Middle Eastern Arab countries. It attracted FDI of approximately US$59.2 billion in 2007, compared to 2003, when FDI was US$1.4 billion (United Nations, 2008). These results indicate a better understanding of the government's decision in 2002 to use IFRSs in companies listed on the UAE. It was this decision that had been met with well-supported agreement from numerous respondents of this study; as

there was more than 80% level of agreement on this decision which indicates that the majority of respondents prefer the adoption of IFRSs.

The results imply that the economic values have led the UAE to approve IFRSs particularly in Dubai in order to show more interest in attracting FDI, where the government in Abu Dhabi announced a new project in 2007 for the country named "2030 plan", which aimed to make a significant reduction in the dependency levels on oil sector within 25 years (UPC website, 2007). Additionally, it could offer the financial reporting that is required by FDI, in spite of local users' needs, as it is stated that these needs are not usually taken into account by accounting regulators. From the results shown in the following section, religious issues and local needs have narrow influence on impacting on the standards that are already used; this will also assist the adoption of IFRSs in that economic issues are more significant than religious factors.

Moreover the advantages of IFRS adoption to FDI, shows that most respondents (level of agreement 88%) (see table 25) recommend that multinational companies shall benefit from the complete adoption of IFRSs, and simultaneously, have great influence on their adoption. Alexander, et. al., (2009), state that multinational companies provide programmes for training and offer scholarships to the local people which is in the firms' home countries. Some of the respondents (22% of all respondents) revealed that the influence of IFRSs is mainly because they are international standard which are applied in more than one country.

However, numerous respondents (7% of total respondents) {see table 6.23}stated that multinational companies have a preference for the same values in different countries so the training of their staff could be similar and employees can travel from a variety of countries without having any issues raised from accounting values. Previous research has shown firms that audit internationally seek to persuade companies in developing countries to use accounting technology common to the accounting customs of developed countries

(Alfredson, et. al., 2005; Rahman, 2000). This resulted in them having more of an influence on accounting customs and also having more of an influence on choice in accounting standards in UAE. Within Dubai and Abu Dhabi, the 'Big Four' have an advantage from the adoption of IFRSs; the main reason being that there is little knowledge about these standards amongst most Emirati's accountants (Wiebe, 2008). Consequently, the Big Four tend to enhance their income by offering training services as well as consultancy. This can be seen as being one of their main motivations for supporting IFRSs (Wines, et. al., 2007).

The relation between FDI, multinational companies (MNCs) and big accounting firms, can be seen to work together in the direction of the adoption of IFRSs. Many respondents (10% of total respondents) have stated that investors have much more confidence in the dependability of financial statements that have been audited by international accounting firms that are associated with one of the big International Accounting Firms (IAFs) than in those that have been audited by local accounting firms with no such association (Joshi and Ramadhan, 2002; Al-Shammari, et. al., 2007; Ampofo and Sellani, 2005). This may clarify that one of the external auditors that has been selected by the banking sector for financial reporting should be from one of the Big Four firms.

To conclude so far it appears as if the accounting system in UAE could be motivated by international investment needs rather than accounting needs. It is this finding that reaffirms other findings within this study that shows the impact of the needs for local users' and Islamic principles. Simultaneously, the needs of local users' and Islamic principles tend to have a reduced impact for the benefit of adoption of IFRSs, as stated above, however one of the benefits of IFRSs is to enhance the general disclosure levels which in return could serve the needs of local users.

6.9. Cultural Issues

Cultural issues are discussed in detail observing the fact that they could be possible obstacles to the full adoption of IFRSs in UAE within the stock markets. This study starts with the examination of certain language issues and as well as other cultural issues, which include pride and accounting illiteracy. This part of the thesis also intends to talk about the Islamic culture framework in UAE by comparing the results of this research and Hofstede's cultural framework (Power Distance, Uncertainty Avoidance, Individualism, and Masculinity) and Gray's accounting values framework (Professionalism, uniformity, conservatism, and secrecy).

6.9.1 The Changes in Emirati culture

Within the UAE Islam embodies the religion of the country and it is of course different from the Anglo-Saxon culture where IFRSs was first developed. Recently the levels of cultural influences within the UAE have substantially increased and the union of many different cultures has assisted in the adoption of IFRSs (Irvine and Lucas, 2006). It seems that this control has formed a new culture within UAE. The Western culture has influenced the modern Emirati culture and this result can be seen predominantly in the younger generations in UAE, which in turn, influence the culture of Emirati society, as it changes the way they dress and the way they speak, and attitudes of people (Bilal, 2010). There are a number of reasons why these changes occur such as studying abroad. In today's society it is quite common for many parents to send their children to study abroad, and in many cases they live outside UAE for a number of years, finally returning and bringing back with them the culture and experience that they have been exposed to (Alnamlah, 2008).

This implies that individuals that establish accounting regulations are without a doubt influenced by the cultures of developed countries, as many people were educated in these respondents' countries. An examination of the respondents' backgrounds shows that a few of these individuals have top qualifications from

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the UK or the USA. The Media is seen as another cause, as most people have access to a large variety of satellite TV channels, including western TV channels, enabling their children to see and listen to the programmes of their choice. These elements are likely to affect society's culture (Klausner, 2002). Lastly the growing assistance of 'liberals' within the UAE believe that they should pursue the Western system as it will assist in the development of the UAE. In spite of this, accountants in the UAE remain close to forms of regulations, even though they were educated in Western countries that have accounting systems that emphasise substance over form and faithfulness to principles rather than rules (Accountant and Auditors Association of UAE website, 2011).

The result presented in this study suggests that economic considerations may overrule cultural, religious and educational needs. As discussed above, the role of education may assist in the transfer of some of the characteristics of certain developed countries where capital plays the primary role and in many cases affect rulings. Furthermore, UAE adopted IFRSs initially without considering their cultural factors, which is fundamentally influenced by the Islamic values. Respondents from the banking sector (8 out of 20 bank respondents) have stated that they have branches outside the UAE, with the aim of entering international markets. They assumed that they fulfilled the needs of local users in the UAE. This was considered in the results of the questionnaire, which stated that banks were motivated to adopt IFRSs in order to go into international markets.

6.9.2 Language Issues

Many researchers have established an encouraging rapport with countries where English is the primary language and the adoption of IFRSs (Abd-Elsalam and Weetman, 2003). Chamisa (2000) and Andreet. al., (2008) state that countries where Western culture exists the adoption of IFRSs is relatively easy. The main reason being the spoken language of the IASB is English as it is based in London. The issue with the Arabic version translating of IFRSs is that it has taken a long time to be published. In addition, as there are no direct equivalent

between Arabic and English IFRSs to mingles, so the Arabic translate of IFRSs lacks accuracy and the language is often ambiguous. This simplicity may also link to the Western influence on the development of IFRSs (Zeghal and Mhedhbi, 2006).

The results have shown that (80%) of respondents did not state language as being a barrier and a problem, and only a minority of respondents (5.5%) agreed that language was an issue (language was ranked as the seventh problem out of ten). Participants who stated that language was a problem were generally from local auditing firms (8 respondents) or the CFOs of small listed companies (6 respondents). One understanding of this could be that accountants and auditors in the Big Four and the banking sector have received a good training and majority of them speak 'good' English. This is different to local accounting offices that do not have enough funds to train their staff with the updated standards, and as a result find IFRSs to be an issue to deal with. In addition, it could also be recommended that language is not an issue because of the issue of an Arabic translation of the IFRSs by the IASB even though the procedure of translating the IFRS into Arabic takes longer time before it issues. This indicates that language issues implicated in the adoption of IFRSs in UAE will have a significant influence on local auditing firms, and small listed companies.

Some respondents (3 respondents) revealed that language is not a problem in the UAE as there are authorized versions made available by the IASB. There might be in some cases a time gap between the issuing of new and updated standards, and its accessibility in the national languages (Larson and Street, 2004). The Arabic version of the IFRSs was released at the beginning of 2008 and then2010 (eIFRS website, 2010), which shows that the standards that have been issued or updated to now have not been translated into Arabic yet. For this reason, some respondents (7 respondents) stated that there was a need for an updated Arabic language translation from the IASB; or else, a translation would continue to be a problem. A number of auditor respondents (16 respondents) were very self-motivated and frequently updated, so that the Arabic translation can be updated

to maintain pace with changes, or there would be a large gap between the English and Arabic versions.

There was another issue with translations that were published by the IASB. It was the fact that they might be complicated to understand and may be of poor quality (Larson and Street, 2004). A number of respondents (6% of total respondents) stated that translation of IFRSs is not comprehensible. They recommended that people that do not speak any English might find financial reporting hard to comprehend, especially as the English terminology for certain items are different; such as, one user respondent stated that many users tend to be puzzled as the term 'balance sheet' was substituted by 'financial position'. This perception in line with studies reporting that regardless of the IASB's attempt to offer certified translations of IFRSs for those living outside Western culture, these countries were still less accustomed with IFRSs (Larson and Street, 2004; Zeghal and Mhedhbi, 2006).

Recent findings also show that local auditing offices and small listed companies in Abu Dhabi are still having problems with language especially as they do not have the resources. Also, previous literature states that the translation is problematic especially that of accounting terminology, (Evans, 2004; Doupnik and Richter, 2004; Dahlgren and Nilsson, 2009; Zeff, 2007). This is probable due to Arabic translation, as Arabic is less closer to English than other Indo - European languages. There are diverse varieties of Arabic spoken in different regions, within UAE. Usually the same words frequently carry different meanings. It is likely that a single Arabic translation could not be understood or function consistently unless the terms are standardised, this combined with the lack of consistent terminology in the updating of the Arabic language version (Ghataas, 2008). However, the IFRS website (2011) has described the Official translation process which described in figure 6.1 which indicate to the level of accuracy that the IFRS foundation has set when translating the standards into any other language.

Figure 6-1: Official translation process and policies for IFRSs

IFRS Foundation key terms from the IFRSs
⬇
The key terms are translated by translator
⬇
Translated key terms are agreed on by Committee
⬇
Translator uses key terms and existing IFRS reference material to translate IFRSs. Utilising Computer Assisted Translation software. Where possible
⬇
Committee reviews draft translation for accuracy and consistency and text is finalised

Source: IFRS website, available from
http://www.ifrs.org/Use+around+the+world/IFRS+translations/Official+translation+process+and+policies.ht
m

6.9.3 Other Cultural Issues

• Emirati Pride

Respondents from the external auditors group (35% of auditor respondents) in particular frequently mentioned the national pride of Emirati, among other cultural issues in UAE. The reason for this could be because all respondents who mentioned the Emirati Pride were from local accounting firms (16 respondents). This concern was not stated by any of the respondents who were working for the Big Four accounting firms (29 auditor respondents). Therefore, it can be stated that the variety of workplace in some cases could also have an impact and influence on respondent's perceptions as to the direction of the agreement of IFRSs, wherein the ANOVA test indicate a significant difference (0.001) between the mean of local external auditors (4.11) and the Big Four accounting firms (3.24). Previous studies have examined the factor of cultural issues and the activities of companies financial reporting (Adams, 2002). As a result, the Big Four workers come from a diverse set of cultures; all having a view for specific accounting values or they may favour accounting standards that are within use in

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their culture or home country. An additional argument suggests that the Big Four will have advantage from the adoption of IFRSs and in many cases incomes could be increased by the services that are offered to their clients within UAE (Bilal, 2010).

6.10. Implementing IFRSs: challenges and costs

6.10.1 The Requirement of Professional Judgment in Applying IFRSs

Literature shows that the introduction of IFRSs in developing countries requires substantial effort, knowledge, and training in professional judgment (Doupnik and Salter, 1995; Kosonboov, 2004). It has been highlighted by researchers such as Kosmala-Maclullich (2003) that in countries where accountants principles concentrate on following rules may have some difficulties to adopt the IFRSs, therefore, and in many cases, they may be required from those accountants before becoming familiar with IFRSs (Kosmala-Maclullich, 2003). This research argues that one of the main issues that other listed companies in UAE usually have to deal with is that accountants are not usually used to exercising specialized judgment. This issue was of concern for certain respondents. This shows that certain issues may become visible more in UAE than in some other developing countries (could be for educational and cultural reasons).

Individual's ability and judgement may also be influenced by the education system. A number of the respondents (29% of total respondents) recognized local accountants' unfamiliarity in regards to professional judgment, in relation to the education in UAE, which is based primarily on US education programmes and materials, and mainly concentrates on accounting based on rules and regulations, as well as a system that offers strategies and in depth directions. Likewise, US literature has been extensively used within local universities for an extensive period of time, with some of them being translated to Arabic, besides the fact that, IFRSs are not usually dealt with in local universities (Ghataas, 2008).

It is believed that cultural and traditions of thoughts influence professional judgment (Tyrrall et al., 2007). The results of the present research show that sections of Emirati culture plays a significant role in the adoption of IFRSs and adds to the tendency not to make decisions that are based on judgement, as majority of people in UAE are respectful to their leaders. As observed in the research literature, UAE society is separated into a number of tribes, and commonly the guidelines of these tribes depend on the character of the tribe's influence (Sabri, 1995). The elements of the tribes must pay attention to the leader of the tribe and take recommendations from him. This is in line with Hofstede's (1980) categorization of Arab countries, including UAE, as high power distance societies. Some respondents stated that accounting based on principles might be linked to individual ethics; accounting preparers have a tendency to put economic purposes over religion. This may imply that decisions could be subject to personal priorities. Gray's framework indicated that increasing the level of power distance in a society such as the UAE will influence positively on the level of uniformity and secrecy (Street and Gray, 2001).

It was stated that expert judgements would be more commonly used with IFRSs, mainly with more multifaceted values such as IAS 39 (which was replaced by IFRS9 in November 2009), 40 and 41 (IFRS website, 2009b). These values have previously been stated in this research as being complicated and difficult compared with the US GAAP standards that were used in UAE listed firms. This could help to understand the reason of stating these standards by some respondents as more complex than others.

• **Problems related to Standards**

Other issues that arise from the application of IFRSs in the UAE are also linked to education. In particular IFRSs need a high-level degree to understand and acknowledge the two standards; IAS 32 and IAS 39, were stated as being most complex by questionnaire respondents (19 times). Many of the respondents that

were from Dubai also stated that there have been many modifications to these standards in the past few years, which then lead to more difficulty, knowledge of the standards has to be updated. A number of respondents from the Abu Dhabi banking sector mentioned that IAS 39 is very difficult. The other standards are not that complicated. IAS 39 debates about all financial instruments. IAS 39 discusses about the hedge accounting, derivatives, options, loans, impairment and other issues that are related. In some situations the rules can be seen as slightly diverse.

Around 10 respondents indicate that some standards such as IFRSs 2 and 7 are very complex to understand in the UAE. A number of respondents stated that these standards are complex not only for UAE, but also for those who are in developed countries, for example in France, where performance of IAS 39 was amended for its difficulty. French bankers have reported with the efforts of the other European Banking Federation the fears of threaten the widely used of risk management strategy which is known as macro hedging, {Thus the IASB has amended this standard in 2009 and replaced it with IFRS 9 (UNCTAD Secretariat, 2010)}. These findings are consistent with literature, such as Srijunpetch (2004); Tyrrall et al. (2007); and Dunne et al. (2008), who find that IAS 39 can create problems in some developed and developing countries. However the replaced standard (IFRS9) has removed the complexity of IAS 39 in the developed countries, but has not been investigated yet in the UAE.

6.10.2 The Use of Fair Value

It is appropriate to state that in the majority of developing countries, to obtain fair value is complicated, the main reason being lack of a functioning market for most assets. This could be classed as being one of the main disadvantages of the fair value method (Kosonboov, 2004), which therefore, reduces dependability compared with costs historically (Barth and Clinch, 1996).

The findings suggest that most respondents approved the benefits of fair value over historical cost. Even though the majority of them were worried about the fair value measurement of assets within UAE when adopting IFRSs. It was agreed by them that the historical cost would enhance the current Emirati environment for a number of reasons. Firstly, beginning with the amount of economic growth that has an impact on establishing fair value within UAE, as there is no mention for the charge or market for these assets apart from the stock market in UAE. Secondly, it is indicated by the respondents from the listed company that it is difficult to depend on fair value to make a decision. Thirdly, there is no measurement of fair value in UAE because there is no functioning market, no qualified people to carry out the valuation and no persons to manage the measurement methods. However, an auditor respondent suggested that although management of fair value is significantly favoured as it provides dependable information to the users. The majority of resources do not have an active market and it is tough to determine fair value, in which historical cost must be used in UAE market.

It has been pointed out that fair value figures to some extent can be reliable and mistaken for decision-making reasons even with the existence of the stock markets. The reason is that even though the markets are very large in comparison to those of some other Arab countries, recent research has established that, like in most developing countries, it is not efficient (Dahel, 1999; Onour, 2004). For this reason, the ADX and DFM are still being developed and the majority of user respondents understood that the cost of shares in most listed companies might not represent the true fair value of the companies' shares. The reason is that some fundamental elements of the Emirati culture control most individual investors in ADX, which is different in regards to DFM, as the culture in Abu Dhabi one that follows others (even in relation to buying or selling shares) and even proceed in accordance to hearsay, which could also enhance or reduce some companies' shares without looking at their fair price. The culture in Abu Dhabi stresses the uniting of groups and asking others about any issue, as Hofstede (1980) stated Arab countries as being

resiliently collectivist; then again, from time to time these groups do not have considerable knowledge or experience of the stock market. This is different in Dubai's culture as large numbers of people are from other countries and with their own beliefs and examination when they make their decisions.

The lack of a market for the prices of all assets is seen as an obstacle in the use of fair value in UAE, many respondents (9% of total respondents) stated that there is no regulating body to implement and manage the assessment method, which is also seen as a problem. Lastly, a number of respondents (20 respondents) believed that experienced and qualified valuers were limited in both states, and that several of the respondents also highlighted that the view of valuers may even be subject to company management which could also have an influence on their decisions as the valuers.

On the whole, the findings highlight that there is a general agreement on the benefits of using fair value in UAE. Though, many respondents (9% respondents) {see appendix four} were worried about fair value measurement because of the lack of measuring methods available including the non-existence of an active market for the greater part of assets and the lack of skilled and qualified valuers and any strong regulatory body. Consequently, majority of the respondent's recommended that the abovementioned issues must be highlighted and resolved. Appropriate guidelines need to be provided to calculate fair value, and the information systems must be enhanced in order to help in the stipulation of consistent information about assets to facilitate correct decisions being made.

It is worth mentioning here that the IFRS has announced a new standard (IFRS13) in middle of May 2011 which aims to state the use of fair value measurement. The standard will be effective from 1st of January 2013. The standard has set a framework for measuring fair value and requires disclosures regarding the fair value measurements. The standard does not require items to be measured at fair value unless stated in other IFRS standards. This standard was part of the communication between the SEC and the IASB (IFRS website, 2011)

6.10.3 The Limited Knowledge about IFRSs

It is stated by previous studies that the primary issue that is faced by majority of developing countries during the adoption of IFRSs is accountants' limited knowledge of these standards (Kosonboov, 2004; Halbouni, 2005).

The findings of this study indicate that commonly there are low numbers of qualified accounting personnel within UAE and in listed companies in particular, and it shows that it is this that may possibly lead to limitations in the adoption of appropriate accounting standards. Even though the education levels are increasing, and many people are studying abroad, the majority of respondents (23.4% of total respondents, which was also ranked as number one of the problems of adopting IFRS) agreed that local accountants' comprehension of IFRSs is inadequate due to the lack of training and education about IFRSs, and that there is no attention given to these standards by local universities. This indicates that the education system within the UAE is seen as one of major problems in applying an accounting system (like IFRSs); to date, many respondents stated that there is no suitable system to assist in overcoming possible complications should the UAE adopt IFRSs. Some services that may assist in improving the quality of education, such as seminars or conferences and use of computers, are still reasonably limited.

It is stated that after deciding to use IFRSs, Abu Dhabi is offering inadequate and unsuitable courses with regard to IFRSs especially compared to the number of courses that are provided in Dubai. These results raise questions about the capability of SCA to manage the full operation of IFRSs in all states of the country. It is pointed out by a respondent that there was inadequate information on IFRSs in a few of the courses that were consequently organised by SCA. The respondent stated that some of the training courses give the wrong impression about people who have a desire to attend or that the information that is provided for within the course does not match with the title of the course.

An additional finding suggests that regulators to highlight their interest in and liking for accounting standards in UAE might use the courses that are related to IFRSs in UAE. Many respondents (13.2% of total respondent) stated that the Abu Dhabi Chamber of Commerce and Industry (ADCCI) organised a few sessions on IFRSs in Abu Dhabi in comparison to the number of sessions organised by Dubai Chamber of Commerce and Industry (DCCI).

It was also indicated that this issue of limited knowledge of IFRSs is caused by the lack of support and materials given on IFRSs, such as literature. They believed that these have to be provided by SCA. It is now commonly known that US textbooks have been extensively used in UAE universities for an extensive period of time, with several of them having been translated into Arabic. In addition to this, within local universities there is an insignificant amount of appreciation of accounting standards; there is a need for direction on IFRSs in UAE curricula. It is argued by McGee and Preobragenskaya (2003) that some courses within the universities make a considerable contribution to diminishing the complications of the original implementation of IFRSs.

• **Training of Accounting Staff**

The results show that training of accounting staff symbolize and characterise the main expense in IFRS implementation, the banks had to deal with, along with other listed companies. Many respondents have mentioned that training must include all staff, which includes managers. A CFO of a Bank suggested that the primary issue in his bank was the level of education that is required. It is suggested by some of the respondents that the costs will be incurred not only for training accounting staff in UAE companies but also in relation to the training for auditors in local accounting firms, as their knowledge may be lacking on IFRSs than staff working in the Big Four. In spite of this, respondents stated that the expenses of training accounting staff would change depending on the size of the company.

Therefore, some small listed companies will experience more challenges when implementing IFRSs, predominantly because they will not probably receive support from the accounting body because of the limitations that they have. This raises the question of whether or not all other companies that are listed in both ADX and DFM ought to adopt IFRSs presently. It is believed that if small listed companies do not implement IFRSs efficiently, the advantages of adoption would decrease.

Simultaneously training is seen as an essential method for overcoming the difficulties of implementation. Nevertheless, this result is not consistent with Joshi and Ramadhan (2002), who established that increased costs did not occur in Bahrain when companies adopted IFRSs. Though, their research was carried out in small companies, where the cost of training was unavoidable. The majority of developing countries experience difficulties due to lack of education and teaching resources; these difficulties include a need for qualified teachers at nearly all-educational levels (Solodchenko and Sucher, 2005).

• **Management and new Disclosure**

Some of the respondents (2.8% of total respondents) identified the willingness of management and the management community for disclosure as a problem. Other respondents believe that companies might not desire to modify their current accounting standards because this change will increase expenses. The difficulty of accepting the changes by these companies is due to the lack of understanding to the new standards because the new standards have come from overseas and may not have enough knowledge which can help to implement the changes.

Kosonboov (2004) argues that companies that are considering the costs and advantages of the changes to accounting preparation could influence their answer. They may be worried about the added disclosure, which could lead to difficulties compared to other companies. Small companies had experience more problems than large companies during the adoption of IFRSs in UAE for many

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reasons such as, the limits of their systems in handling new requirements of disclosure, which could add a significant cost.

6.10.4 Other Costs of IFRSs Implementation

Results suggest that same costs that are needed in most cases, for example the costs that are involved in modifying software systems are significant (JermakoDicz and Gornik-Tomaszewski, 2006). However, the results reveal that the comparison between respondents from the banking sector and those from other listed companies, 64.3% of persons from the banking sector had made modifications to their software while only 40% of those from listed companies had made such changes. This indicates that the knowledge of individuals in the banking sector impacted their answers, while companies were seen to be unaware of the problems that results from the transition to IFRSs from current accounting practice.

IFRS has stated that unsuitably designed actions and systems are amongst the difficulties that accounting systems in developing countries put up with (Chandler and Holzer, 1984). Many respondents (37.1% from banking sector (table 6.19), and 42% from other listed firms (table 6.20)) mentioned that their system had a number of limitations when it came to the disclosure of needs in relation to IFRSs. Modifications in IT systems may be essential as IFRSs normally need a better level of disclosure on, for example, consolidation and financial instruments (Deloitte, 2007). Other respondents for example stated that before implementing IFRSs they had to change their systems and software, as their systems were not only necessary to gather information and record transactions but also to offer more examination of data in order to fulfil the requirement for increased levels of disclosure of information.

6.11. Benefits of IFRSs Implementation

The benefits that resulted from the changeover to IFRSs in UAE were examined. Firstly, the development of the quality of financial reporting, and other benefits

was discussed i.e. the adoption of high-quality standards, and the improvement in the levels of disclosure.

6.11.1 The Quality of Financial Reporting

It is indicated through literature that the level of quality of financial reporting in developing countries will progress with the adoption of IFRSs, as these will assist in increasing competitiveness between different countries' capital markets (Saudagaran and Diga, 2003). The implementation of IFRSs will improve the overall competence of the stock market when companies issue financial statements that can be effectively and simply compared, understood and relied upon.

There is clearly an agreement on all levels amongst the respondents that the quality of financial reporting will inevitably be increased after the adoption of IFRSs. There was only a minimal disagreement of this fact by a few respondents, whilst also many respondents commented on the influence and improvements made by adopting IFRSs.

In relation to comparability, many user respondents stated that the adoption of IFRSs in UAE could produce greater comparability and transparency, and essentially ensure that financial reporting is more dependable. The biggest advantages seen are the evaluation agencies and research analysts, who find it easy to compare accounts of a company with any other accounts across the world. This would result in foreign investment increasing, which would be a great benefit, with as almost 87% of respondents suggesting that FDI is the element that has benefitted most from the adoption of IFRSs in the UAE.

In addition to the advantage of comparing financial reports between listed companies in UAE and those outside the country, some respondents (level of agreement 81%) pointed out that the comparability among companies within two stock markets in the UAE had improved, which compels these companies to

prepare their financial reporting on issues based on IFRSs. This indicates that the adoption of IFRSs within UAE stock markets has helped and improved these companies better than other companies in other sectors. It is these companies that are increasing on the UAE market (SCA, 2011).

• **Adopting High-quality Standards, Increasing Capital and Entering International Markets**

Many of the respondents (32.1% of total respondents (9.7% strongly agree and 23.3% agree) {see appendix four} also confirmed the findings stating that when the UAE was following the US GAAP, only the setter of these standards was improving the quality of it. Thus, one of the benefits of international accounting for developing countries is the ability to adopt the most well designed standards (Jubori, et. al., 2005). Many individuals responded (25.2% of total respondents (10.1 strongly agree and 15.1 agree) {see appendix four} stating that this benefit is even more essential for UAE as IFRSs are frequently updated, which would benefit the accounting system in the country.

Some respondents (14% of total respondents) believed that the changeover to IFRSs in UAE has assisted in the transfer of accounting information and experiences both to and from UAE (known as knowledge transfer). This is related with previous research that states that adoption of a single accounting system assisted in capital and other sources to move across boundaries, and reduce the price of accounting statement preparation (Tyrrall et al., 2007).

• **Increasing the Level of Disclosure**
The majority of respondents (59.5% of total respondents) (see table 6.12) believed that the changeover to IFRSs has improved disclosure levels and indicating that IFRSs have reacted positively to the demands of users. It is also understood that from 2008, financial reporting under IFRSs developed into more transparency and featured more disclosure than in what it did the year before in 2007. This was linked to modifications and enhancements to IFRSs. Good

practice in disclosure has already been seen. For example, in IFRS 7, the disclosures in relation to the financial instruments improved. Enhanced disclosure was also stated as an advantage in adopting IFRSs in UAE, principally for shareholders and investors. Whilst, a number of respondents (42.8% of total respondents), from Banking sector and External auditors tended to agree that increasing the levels of disclosure even more was good, but that could misinform readers that may have trouble understanding the reports.

Other companies that are listed on ADX may not necessarily favour the improvement in disclosure as it may lead to disadvantages for them in some cases. Some companies tend to keep undisclosed information that could influence their investors' confidence. This may be the situation in ADX as most companies are fundamentally family-owned (Chang, 1998). Levels of disclosure may be reduced for this reason. It could be highlighted that improving the level of disclosure could add to the growing accountability of companies. This could then result in companies in ADX discharging their own accountability to users more than they may currently do so. Also by improving the level of disclosure also influence the decision made by accounting users. This is not necessarily the case in DFM, wherein the greater part of listed firms are owned by non-Emiratis who only own a small quantity of shares, therefore disclosure is more essential when investing within DFM and ADX who interested in a family businesses as most of the listed companies are owned by families or the government itself as the regulation of Abu Dhabi require all firms in the state to be owned by citizens.

6.11.2 Decision Usefulness

The primary reason for accounting standard setters, like IASB and the FASB, is to offer financial reporting that assists investors to make effective decisions. However in UAE there are certain organizations like the SCA, ADCCI, and DCCI, who aim to assist local investors to make appropriate decisions. Nevertheless, the results of this research highlights the leading accounting users

in both ADX and DFM; stating that commonly they were incapable of acquiring sufficient information from the financial reporting of firms on both stock markets to assist them to make decisions. The questionnaire results also suggest that listed firms do not desire to clearly indicate to the term of 'interest' into their statements as the nature of UAE's culture refuse the term of 'interest' lead banks to use different euphemistic terms in their statements. Therefore, it is suggested that firms do not recommend sufficient disclosure helping users to make suitable decisions. Consequently, users are then unable to make accurate decisions. This finding suggests that firms on the stock markets are presently in disagreement with the main objective of financial reporting as mentioned above. Users have genuinely expressed the need for firms and banks to be more revealing with clearer information. When the users were asked in the questionnaire about their choice in relation to financial reports that were prepared under IFRSs and financial reports that were prepared under US GAAP, they mentioned that the financial reports that were from the banking sector gave more information under the IFRSs.

The results also indicate that on the whole agreement between all the respondents in the adoption of IFRSs will improve the effectiveness of investment decision-making. This study argues that the majority of respondents suggest that the adoption of IFRSs would give accounting users with equal, dependable and understandable accounting information. The level of disclosure would improve compared with the present circumstances. Respondents from the banking sector who mentioned that all new standards, such as IFRSs 7 and 8, required banks to provide greater disclosure for accounting users confirmed this. The study further suggests that there is agreement relating to the advantages of the use of fair value within UAE, the majority of respondents tended to also agree with the fact that fair value provided effective and correct information for economic decision-making. However, the use of fair value is more suitable than historical cost according to Islamic needs, which highlighted the use of fair value of statistics in balance sheets for Zakat purposes.

Whilst some of the user respondents were exclusively influenced to believe that the adoption of IFRSs would not be useful. The benefit tends to be limited due to the fact that there are numerous changes within some of the standards. It was recommended that ADX companies might use the suitable option in order to safeguard their self-interest. It was further argued that financial reporting under IFRSs could be complex to comprehend, mainly for users with limited knowledge of IFRSs. This is regarded as being one of the main problems that are facing local accountants, predominantly with the present inadequate levels of education and lack of sufficient, comprehensive-training sessions.

It is also perceived by some of the respondents that the use of fair value in UAE currently, would be a risk for the management of the cost of assets and would provide incorrect information for decision makers. They stated that this risk exists because of the limits of fair value measurements, lack of a strong regulatory body and experienced valuers, as well as the lack of an active market. It is suggested by these respondents that even if IFRSs were implemented in UAE, there would be a reduced element of disclosure which could have an effect on investors' capability to make suitable decisions, because of the same reasons that were stated above.

Based on the findings and discussion, it can be argued that the effectiveness in judgements of financial reporting under IFRSs will improve the adoption of IFRSs, yet, this development would be limited. Some Emirati cultural features that dominate accounting practice through accounting regulators and preparers may affect the decision-usefulness framework in both stock markets. For instance, friendship and family relationships, patriotic bias and a natural lack of clarity, allows preferential treatment and kinship to dominate economic reasoning, and allows confidentiality to disclose any critical reports of improper accounting practices (Al-Rumaihi, 1997). It could be stated that accounting regulators and preparers may try to safeguard their interests whilst also weighing the costs and benefits in spite of the needs of accounting users, as it is stated that a weak regulatory body makes this situation worse. This has resulted in the

IASB's aim of decision-usefulness being based on financial reporting and achieved with some restrictions if the adoption of IFRSs is carried out.

6.12. Summary

In relation to question "*What is the main motivation of the UAE to adopt the IFRSs into its stock exchanges?*" the results show that there was total agreement that the advantages of IFRSs in UAE would inevitably outweigh the difficulties and costs. The findings show that the adoption of IFRSs in UAE stock markets has changed and improved the level of quality of financial reporting, which assisted in attracting investors to invest with the UAE stock markets. However, there are other advantages of IFRSs adoption, such as improving the level of disclosure compared with US GAAP, and decreasing the cost and period that is needed to publish more than one financial report. From all these advantages it has been agreed that to fully benefit from the adoption of IFRSs there has to be a strict enforcement body. This was a worry for the majority of respondents. Even though financial reporting based on IFRSs might be effective for decision-making, many respondents were still apprehensive that decision effectiveness is affected by the level of education of accounting users, the unconventional methods offered by some IFRSs, and the frail enforcement mechanism.

It is these results that assist with the understanding of the influence of IFRSs adoption on the quality of financial reporting in UAE. However, they help to investigate the extent to which financial reporting based on IFRSs has improved decision effectiveness following their adoption to complement to the past.

Chapter 7 : Results and discussion from secondary data

7.1. Introduction

This chapter discusses the second methodology adopted by this study. It highlights variables that are most important for providing an explanation of the variations in share prices, both pre and post-adoption of IFRSs. This chapter aims to explore the impact that the adoption of IFRSs has upon key measures of the performance of companies listed on the ADX and DFM. Furthermore, attention is given to the need for an investigation of the impact that adoption of IFRSs has upon the trading volume of shares of those companies under the current study.

Therefore, an analysis of the Ohlson's model, the modified Ohlson's model, company performance and the ANOVA test of trading volume for both DFM and ADX are introduced within this chapter, for both the pre (period from 2002 to 2004) and post adopting of IFRSs (from 2005 to 2007).

Firstly, the investigation of the two main variables that make up the Ohlson's model, focuses on: the earnings per share (EPS) and the book value per share (BVPS) to see the relation to their impact on the prices of shares. Secondly, to develop a modified Ohlson's model, further variables are added, i.e. leverage, firm size, accruals and dividend payout.

Consideration was given to correlations between independent variables for both DFM and ADX data sets. An orthogonalisation test has been employed, prior to the adoption of IFRSs, by replacing actual values with residual values of the accruals. This was done due to the high correlation in the data set for ADX between the accruals and the other three independent variables, i.e. EPS, BVPS

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and dividend payout. Also, following the adoption of IFRSs between accruals and BVPS, observation of a problem of multicollinearity is made in the ADX data set. Following the orthogonalisation of both data sets for the ADX, the problem of multicollinearity between all the independent variables was eliminated, with no correlations having absolute values that were greater than 0.05. On the other hand, for the data set for the DFM, prior to the adoption of the IFRSs, the problem of multicollinearity between accruals and EPS was eliminated, with no correlations having absolute values that were greater than 0.05. It ought to be emphasised that following the adoption of IFRSs in the DFM, there was no problem of multicollinearity between the different variables of prediction.

Moreover, different measurements of performance were selected from the literature review in order to measure the impact that the adoption of IFRSs had upon the performance of companies in the major areas of profitability and liquidity. The measurements chosen were the current ratio, the debt to equity ratio, the operating profit percentage, the return on equity and the return on invested capital. The aforementioned variables are used in the employment of a logistic regression, with the addition of a dependent dummy variable, in order to reflect the two different eras, i.e. pre and post adoption of the IFRSs. In addition, an ANOVA test was used for an exploration of whether there were statistically significant differences between the two different eras for performance measures. Finally, an ANOVA test was conducted for the investigation of whether the adoption of IFRSs has brought an improvement to the trading volume of shares of the companies that were chosen of both the DFM and the ADX. STATGRAPHICS Plus 5.1 and SPSS 17.00 were used in this research study in order to run different models and analysis. The different results of the investigation are summarized below.

7.1.1. Heteroscedasticity tests

For the purpose of using multiple regression tests, there is an assumption of regression which should be tested before starting any regression test which called homoscedasticity test. Homoscedasticity test aims to ensure that variance of the residuals is homogeneous across levels of the predicted values (Tofallis, 2008). Therefore, if the null hypothesis that *'the error variances are all equal versus the alternative that the error variances are a multiplicative function of one or more variables'* was more than 0.05, then the result indicates that data is homoscedastic. On the other hand, if the result was less than 0.05, then H_0 will be rejected and replaced by H_1 states that *'the error variances increase (or decrease) as the predicted values of Y increase'* which mean the data is Heteroscedastic (Verardi and Croux, 2009).

From the table 7.1 it can be seen that the Breusch-Pagan test is not significant for both ADX (0.128) and DFM (0.291), which mean that the error variances in data collected from listed firms in ADX are equal. Moreover, Koenker test is also a test can be used to test the heteroscedasticity. Koenker test indicates that data is not significant for both ADX (0.0791) and DFM (0.197) which confirm the results of Breusch-Pagan test in accepting the H0, which in turn give the confidence to the researcher to use the collected data in the analysis.

Table 7-1: Heteroscedasticity tests

	ADX data	DFM data
Regression SS	26.3397	28.9151
Residual SS	103.7420	97.7130
Total SS	130.0817	126.6281
R-quare	0.6725	0.7292
Sample size (N)	68	74
Number of prediction (P)	5	5
Breusch-Pagan test	15.175	11.618
Significance level	0.128	0.291
Koenker test	19.012	16.371
Significance level	.0791	0.197

7.2 Ohlson's Model

7.2.1 Ohlson's model in ADX data-set

The main variables that are employed for the building of the Ohlson's model are the earnings per share (EPS) and the book value per share (BVPS), with share price being used as the dependent variable. The results that arose from the multiple regression analysis, using data for the ADX that was pre and post-adoption of IFRSs for the testing of the Ohlson model, are set out in Table 7.2

Table 7-2: Statistical results of Ohlson Model for the ADX data-set

Variables and measures	Pre IFRSS				Post IFRSS			
	Estimate	t stat.	p-value	ANOVA P-value	Estimate	t stat.	p-value	ANOVA P-value
Constant	6.8969	4.2166	0.0000		4.4917	1.6900	0.0910	
EPS	1.4145	9.1326	0.0000		6.8875	7.7850	0.0000	
BVPS	1.1700	19.3800	0.0000		1.0870	10.4240	0.0000	
Model				0.0000				0.0000
R square	62.530%				71.090%			
R square Adj.	62.370%				70.900%			
Akaike info Criterion	9.8160				10.2400			
Schwarz Criterion	9.8341				10.2900			

The analysis of the variance P-value provides an indication that the overall model of the ADX is significant at 99% level of confidence. Both the EPS and BVPS are significant at the same degree of confidence. The very high T-statistic (19.38%) for BVPS indicates that it is even more informative than EPS. An explanation of 62.37% of the variation in share prices is provided by the model, as the adjusted R^2 indicates.

The overall Ohlson's model was very significant, after the adoption of IFRSs in the ADX, with an ANOVA P-value that was less than 0.01 and it was therefore significant with a confidence level of 99%. With a confidence level of 99%, EPS and BVPS are individually significant again, with the BVPS still being more informative with having a higher t-statistic. A higher level of explanatory power

is revealed by the score of 70.90% for the adjusted R^2, which is consistent with the hypothesis *H3/1, the independent variables have no significant increased effects on the value relevance of accounting information in ADX* {see table 1.1}.

A method of comparing models is provided by the Akaike Information Criterion (AIC), and based on this the recommendation is for the choosing of a model that has the lowest value of AIC. Following on from this, the pre-Ohlson model for the ADX is a better model than the post-model one, even though the R^2 is at a lower value.

7.2.2 Ohlson's Model in the DFM data-set

For the building of the Ohlson's model, the same variables are used for the data sets of the DFM as those used in the data sets for the ADX. Table 7.3 provides a summary of the statistical results. The overall Ohlson model is significant at the level of confidence of 99%, under the US GAAP. This is indicated by the ANOVA P-value being less than 0.01, with EPS being significant at the 99% level of confidence and with BVPS, which has a higher t-statistic, being even more significant at the same level of confidence. The model provides an explanation of 42.42% of the share price variation under the US GAAP, as the R^2 of the Ohlson model indicates.

Table 7-3: Statistical results of Ohlson Model for the DFM data-set

Variables and measures	Pre IFRS				Post IFRS			
	Estimate	t stat.	p-value	ANOVA	Estimate	t stat.	p-value	ANOVA
				P-value				P-value
Constant	1.3891	7.8190	0.0000		1.7890	1.6900	0.0910	
EPS	2.3622	8.9321	0.0000		4.1785	7.7850	0.0000	
BVPS	1.1520	15.6420	0.0000		0.9692	10.4240	0.0000	
Model				0.0000				0.0000
R square	42.590%				61.240%			
R square Adj.	42.410%				61.050%			
Akaike info Criterion	14.5420				14.8100			
schwarz Criterion	14.5690				14.8220			

After the adoption of IFRSs in the DFM, overall, the Ohlson's model is very significant with an ANOVA P-value of less than 0.01, i.e. it is significant at the 99% level. The EPS and BVPS were found to be individually significant at the same level of confidence and with an equal degree of importance (as shown by the similar t-statistic of between 9.0 and 9.5). The level for the adjusted R2 is 61.05%, which reveals a model that provides an explanation of 61.05% of the variations of the share prices in DFM after the IFRSs were adopted. Evidently, the adoption of the IFRSs has led to an improvement in the power of explanation of the Ohlson model, from 42.42% to 61.05% in absolute terms, a rise of approximately 19.00% points which, in relative terms is an enhancement of 44%. Such results are consistent with hypothesis H3/2: '*the independent variables have no significant increased effects on the value relevance of accounting information in DFM*' {see table 1.1}.

The results of the Ohlson's model for the period prior to the adoption of IFRSs, for both the DFM and the ADX, show that, in terms of the significance of EPS and BVPS, both models are similar. The model has an explanatory power that is higher, however, and it increases the adjusted R^2 in the environment of Abu Dhabi by around 20% when compared to the environment of Dubai.

The value relevance of accounting information has been improved in both the ADX and the DFM, although the improvement was greater in the case of the DFM as shown by the shift from 42.42% to 61.05%, as compared to the lesser shift in the ADX, from 62.37% to 70.90%. However, the Ohlson model for the ADX following the adoption of IFRSs shows greater value relevance than that shown for the DFM. As such, the H3/3 hypothesis can be rejected '*there is no significant differences in the impact of adopting IFRSs between ADX and DFM*' {see table 1.1}.

This result is in agreement with the findings of Schiebel's (2006), which provided an indication that the US GAAP is, statistically, of more value

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relevance than the IFRSs. This result, however, is an unexpected outcome if it is considered that the majority of previous descriptive theories and empirical studies in relation to IFRSs and the US GAAP have found the contrary.

For both the pre and post-adoption data set for the DFM of the IFRSs, the Akaike Information Criterion (AIC) is relatively similar. However, prior to the adoption of the IFRS it is slightly lower.

7.3 Modified Ohlson's Model

The statistical results that arose from the use of the modified Ohlson model for the data sets of the DFM and the ADX are shown in the following section.

7.3.1 ADX data-set

In order to develop the modified Ohlson model, the following variables have been included: dividend pay-out, leverage, accruals and firm size. A summary of the statistical results of an orthogonalised modified Ohlson model for the dataset for the ADX is shown in Table 7.4.

For the US GAAP, the modified Ohlson model revealed an overall significance with a 99% confidence level, as the ANOVA P-value, that is lower than 0.01, indicates. As shown before with the original Ohlson model, the EPS and BVPS are significant. With the modified Ohlson model, however, there is the inclusion of additional variables. It is found that the leverage ratio is not significant at the 95% confidence level, even though the correct sign is borne by the estimate of the negative regression coefficient. With a level of confidence of 99%, the dividend payout ratio is significant and it is correctly positively related to the share price.

The overall result is consistent with the hypothesis H3/1: *'the independent variables have no significant increased effects on the value relevance of accounting information in ADX'* {see table 1.1}.

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Table 7-4: Statistical results of orthogonalised modified Ohlson model in ADX data-sets

Variables and measures	Pre IFRS				Post IFRS			
	Estimate	t stat.	p-value	ANOVA	Estimate	t stat.	p-value	ANOVA
				P-value				P-value
Constant	24.759	2.008	0.046		-22.845	-2.013	0.045	
EPS	1.512	11.430	0.000		8.844	14.978	0.000	
BVPS	1.138	20.770	0.000		0.832	12.499	0.000	
LEVE	-10.310	-1.205	0.239		-15.366	-2.028	0.035	
DIVI Payout	1.343	11.420	0.000		2.325	9.795	0.000	
Log Size	-1.152	-1.205	0.239		2.571	2.827	0.005	
Accruals	1.058	5.729	0.000		-1.296	-3.931	0.000	
Model				0.000				0.000
R square	79.23%				88.59%			
R square Adj.	78.84%				88.31%			
Akaike info Criterion	9.4740				9.2229			
schwarz Criterion	9.5563				9.3288			

Under US GAAP, there is no significant size effect that contributes to the determination of the prices of shares at the 95% confidence level. In contrast to this, the accruals effect has significance at the level of 99% confidence, which indicates that, under US GAAP, it has an important contribution to make as an explanatory variable relevant to share prices.

Considered overall, the model provides an explanation of 78.84% of the share price variation that is indicated by the adjusted R^2. The presence of multicollinearity was detected, however, and this revealed a high correlation between the accruals variable and the other three independent variables – the EPS, the BVPS and the dividend payout (see Appendix 11). As a consequence of this, as a further stage of analysis, the accruals were replaced by the residuals that arose in the process of orthogonalisation.

As a first stage in the procedure of orthogonalisation, a regression was undertaken of the accruals against the EPS, BVPS and the dividend payout. Secondly, a computation was undertaken to find the residuals that arose from the first stage, which were then saved and labelled as orthogonalised accruals. These

then replaced the original accruals in a modified Ohlson model. Done this way, the orthogonalised accruals did not give rise to a problem of multicollinearity with the dividend payout ratio, which would have been the case previously (see Appendix 12).

Alternatively, instead of undertaking orthogonalisation, one of the two offending variables could have been omitted. Avoiding doing this, however, has an advantage as it is possible that both variables are significant. Indeed, that is the case in several models. It is necessary to mention that the EPS and BVPS were kept as they were considered integral to the basic Ohlson model; they were key variables in the theoretical model, regardless of any problem of multicollinearity.

Following the orthogonalisation, the adjusted R^2 of 78.84% remained at the same level and also the probabilities of the significance of the independent variables remained at the same level. Further to this, the problem of multicollinearity between all the independent variables was not eliminated, there were no correlations that had absolute values that were greater than 0.5. It is noteworthy that, even following orthogonalisation, the accruals variable plays a role that is significant in the model of value relevance.

After the adoption of the IFRSs, the power for explanation of the model was increased to a level of 88.31% as the adjusted R^2 indicated, following consideration of the process of orthogonalisation as discussed above (see Appendices 13 and 14). With a level of 99%, EPS, BVPS, DIVI Payout, Log size and accruals are all significant. Leverage, meanwhile, has a significance with a level of confidence of 95%.

The Bayesian Information Criterion (BIC), also known as the Schwartz criterion, is a yardstick for the comparison of the information quality from different models that employ values that are the same for the dependent variable. The criterion takes account of the number of parameters, the size of the sample and

the residual sum of squares (Schwartz, 1992).By this method, the model that has the smallest BIC figure is considered to have the best quality of information.

Despite having utilised several more variables, the ADX pre-adoption using the modified Ohlson model is considered to have a lower Schwartz criterion than the ADX pre-adoption using the Ohlson model. Therefore, in terms of information quality, the pre-adoption using the modified model for ADX is considered the better model. Also, despite the fact that it has more variables, the post-adoption using modified Ohlson model for the ADX has a lower Schwartz criterion than that of the post-adoption using the Ohlson model of the ADX. Therefore, in terms of quality of information, the modified model is considered better. After the adoption of IFRSs in ADX, the AIC is lower than previously, and this provides a model that is superior in terms of the information quality that is provided.

7.3.2 The DFM data-set

The variables that were employed within the data sets for the DFM were the same as those that had been used previously with the data sets for the ADX. The statistical results are highlighted in Table 7.5.

Table 7-5: Statistical results of orthogonalised modified Ohlson Model in DFM data-set

Variables and measures	Pre IFRS				Post IFRS			
	Estimate	t stat.	p-value	ANOVA P-value	Estimate	t stat.	p-value	ANOVA P-value
Constant	1.119	1.585	0.113		0.975	1.062	0.288	
EPS	2.458	11.595	0.000		4.163	13.795	0.000	
BVPS	1.067	16.513	0.000		0.965	12.684	0.000	
LEVE	-0.895	-1.856	0.068		0.649	1.159	0.245	
DIVI Payout	0.029	0.419	0.675		0.343	2.614	0.008	
Log Size	0.071	1.192	0.241		0.029	0.372	0.721	
Accruals	-6.332	-18.821	0.000		-5.344	-21.590	0.000	
Model				0.000				0.000
R square	64.36%				82.57%			
R square Adj.	64.02%				82.34%			
Akaike info Criterion	14.0884				14.0328			
Schwarz Criterion	14.1487				14.0923			

A similar problem of multicollinearity was observed in the data set for the DFM, both pre and post-adoption of the IFRSs (see Appendices 15 and 16). This issue was dealt with in the same manner as with the data set for the ADX. This was a procedure that resulted in no problems of multicollinearity between the variables after the orthogonalisation was undertaken (see Appendices 17 and 18). The pre-adoption using the modified Ohlson model for the DFM has a Schwartz criterion that is lower that than for the pre-adoption using the Ohlson model for the DFM, even though it used several more variables. Therefore, in terms of information quality, the pre-adoption era using the modified Ohlson model for the DFM is the better model. This result is rejecting the H3/2 '*the independent variables have no significant increased effects on the value relevance of accounting information in DFM*' {see table 1.1}.

Even though it has more variables, the post-adoption using the modified Ohlson's model for the DFM has a lower Schwartz criterion than the post-adoption using the Ohlson's model for the DFM. Therefore, in terms of quality

of information, the post-adoption era using the modified Ohlson's model is the better one. In the DFM, the AIC has a lower value after the adoption of IFRSs than before; this provides a model that is superior in terms of the information quality that is provided.

The models for the ADX are better than the models for the DFM, in terms of providing an explanation of share prices, both pre and post-IFRSS adoption. In terms of the change in the explanatory power of R^2, however, the effects are more pronounced in the DFM than they are for the ADX, with one possible reason being that even prior to the adoption of IFRSs, the models had already been very good in the ADX.

In terms of the impact, however, the introduction of IFRSs has had more of an impact in the DFM than in the ADX. The introduction of IFRSs has improved the value of information that is associated with accounting, in both the ADX and the DFM, however the value that is added is stronger for the DFM. This finding is not consistent with the H3/3 of this study *'there is no significant differences in the impact of adopting IFRSs between ADX and DFM'* {see table 1.1} and, indeed, it is not consistent with the literature. It calls for further investigation that explores the different environment and systems of accounting that exist in various countries.

7.4 Analysis of performance measures

The fifth research question (5.1) is addressed in this section *'Has the adoption of IFRSs influenced the financial indicators?'* And 5.2 *'Has the impact, if any, of IFRSs on financial indicators different between ADX and DFM?'* {See table 1.1}From the main areas of profitability and liquidity, five differing measures of performance have been selected, i.e. return on invested capital, return on equity, debt to equity, current ratio and operating profit percentage.

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An ANOVA test is performed on each of these five measures of performance to find out whether there are statistically significant differences that can be observed after the adoption of IFRSs. Further to this, in order to explore whether, other things being equal, IFRSs adoption has improved company performance, a logistic regression analysis has been employed. The findings for both the ADX and the DFM are summarised below.

7.4.1 Analysis of performance measures in ADX

A summary of the statistics for the ANOVA test for the five main variables employed to measure the performance of companies is shown in Table 7.6. It can be seen that an improvement in the mean ROE exists after the adoption of IFRSs, and this is significant at a level of confidence of 99% (See the ANOVA test in Table 7.6). Also, a reduction in the standard deviation of ROE occurred, which was significant at a level of confidence of 95% (see Cochran's test in Table 7.6).

As there is a violation of an assumption that lies behind ANOVA due to the significant difference in the degree of standard deviations, a Kruskal-Wallis test is used instead. The latter test revealed a significant difference in the median of ROE following the adoption of IFRSs.

Table 7-6: ANOVA analysis results of ADX data-set

	ROE	ROIC	DTER	current Ratio	Gross profit %
Mean					
Pre (1)	-5.254	5.520	53.535	3.130	-9.652
Post (2)	10.477	7.821	113.345	1.530	-6.724
standard Deviation					
Pre (1)	157.442	32.542	2543.430	39.895	156.470
Post (2)	35.523	18.785	1428.800	1.354	129.576
ANOVA					
F-Ratio	3.440	1.850	0.710	1.730	0.080
P-Value	0.046	0.217	0.492	0.189	0.767
Cochran's Test P-Value	<0.05	<0.05	<0.05	<0.05	<0.05
Bartlett's test P-Value	<0.05	<0.05	<0.05	<0.05	<0.05
Levene's Test P-Value	0.047	0.039	0.128	0.219	0.917
Kruskal-Wallis test					
P-Value	0.0000	0.0000	0.3870	0.0000	0.0000

The ANOVA F-ratio for four other variables, i.e. ROIC, DTER, CR and GP% is also revealed in Table 7.6, to be not statistically significant, and this gives the conclusion that, with regard to those four, the adoption of IFRSs makes no difference.

A reduction also occurred in the standard deviation for all these variables, with them being significant at a level of confidence of 95% (see Cochran's test in Table 7.6). An assumption lying behind ANOVA is violated by the significant difference in standard deviations. Therefore, the Kruskal-Wallis test is adopted instead. It revealed a significant difference in the median for all the four variables, following the adoption of IFRSs, except for the debt to equity ratio.

7.4.1.1 Analysis of return on equity in ADX

A summary of the results shown in Table 7.7 shows that the ANOVA analysis does a decomposition of the variance of ROE into two component parts: the between-group component; and the within-group component. The F-ratio is a ratio of the estimate of the between-group component to the estimate of the within-group component, which in this case equates to 3.42. As the P-value of the F-test is greater than or equal to 0.10, there is a difference that is statistically different between the mean ROE, at the level of confidence of 90.0%, between the mean ROE from one level of Dummy Pre and Post to another.

Table 7-7: ROE Statistical analysis for ADX

	Return on Equity		
	Pre (1)	Post (1)	Overall
Count	89	132	221
Average (Mean)	-5.256	9.754	0.006452
Standard Deviation	149.540	39.541	127.372
ANOVA F-Ratio			3.41*
fisher's least significant			-17.117
difference test: Pre (1) - Post (2)			
Cochran's C Test			.95144***
Bartlett's Test			2.0042***
Levene's Test			3.94535**
Kruskal-Wallis Median test Statistic			
Average Rank	345.542	440.857	
Test Statistic			19.8876***
*,**, and *** denotes a statistically significant difference at 10%, 5% and 1% level respectively			

In order to determine which means are significantly different from which other ones, Table 7.7 has an application of a multiple comparison procedure. It also illustrates the estimated difference that exists between each of the pair of means. At the level of confidence of 95.0%, there are no statistically significant differences between any of the means either pre or post-adoption of IFRSs. Fischer's least significant difference procedure (LSD) is currently employed to discriminate amongst the means. In using this method, there is a risk of 5.0% of considering that each pair of means is significantly different when, in fact, the actual difference equals to 0.

As shown by Cochrane's C test, Bartlett's test and Levene's test, for variance analysis, the three statistics shown in Table 7.7 provide a test that the null hypothesis of the standard deviations of ROE (with the same hypothesis for all subsequent variables), within each of the dummy pre and post levels, is the same.

The three P-values are of particular interest. As the smallest of the P-values is less than 0.05, there is a difference that is statistically significant among the standard deviations at the level of confidence of 95%. This finding is in violation of one of the important assumptions that underlies the analysis of variance, and most of the standard statistical tests will be invalidated by it. As there is a difference in the standard deviations of a factor of more than 3 to 1, and since the sizes of the sample are not equal, the significance levels of the tests and the P-values may be significantly off.

A test of the null hypothesis that the medians of ROE within each of the 2 levels of Dummy Pre and Post are the same is provided by the Kruskal-Wallis test. First of all, the data from all the levels is combined and then ranked from the smallest to the largest. For the data at each level, an average rank is then computed. As the P-value is less than 0.05, a difference that is statistically significant exists amongst the medians at the level of confidence of 95%.
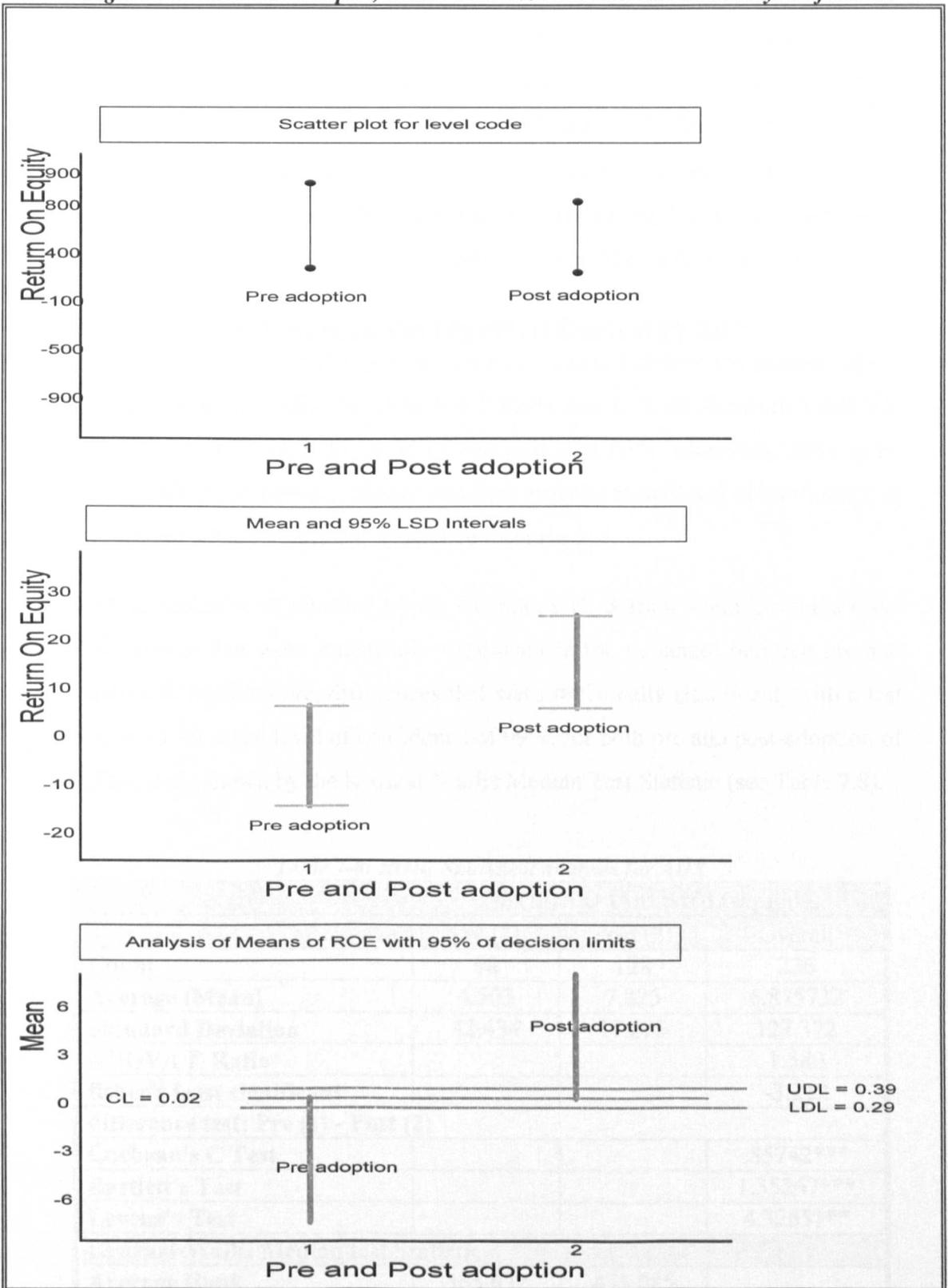
Within the graphical analysis in Figure 7.1, differences can also be observed between pre and post-adoption of IFRSs. A greater spread for category 1 is illustrated by the Scatter-plot by Level Code. Despite the difference in the Means, there is a slight overlap of the 95% LSD Intervals for categories 1 and 2. It is shown by the Analysis of Means plot with a 95% Decision Limit that category 1 is near to the LDL and category 2 is near to the UDL. This result is accepting the H4/1 *'There is no association between IFRSs adoption and Returns On Equity (ROE) in ADX'* {see table 1.1}

7.4.1.2 Analysis of Return On Invested Capital in ADX

There is no evidence of differences that are significant between the periods of pre and post-adoption of IFRSs. The ANOVA F-Ratio was 1.58, as shown in Table 7.7. This was not significant at the level of confidence of 95%. Moreover, there is no significant difference between the pre and post analysis at the level of confidence of 95%, as Fisher's least significant difference test revealed.

Unequal variances were revealed by the Cochran's C, Bartlett's and Levene's tests, with differences that were statistically significant in the variances between pre and post analysis). Furthermore, differences that were statistically significant, with a test statistic of 21.46 at the level of confidence of 99%, for both pre and post-adoption of the IFRSs, were shown by the Kruskal-Wallis Median Test Statistic (see Table 7.8).

Table 7-8: ROIC Statistical analysis for ADX

	Return On Invested Capital		
	Pre (1)	Post (2)	Overall
Count	98	128	226
Average (Mean)	4.503	7.825	6.875732
Standard Deviation	42.434	17.895	127.372
ANOVA F-Ratio			1.580
fisher's least significant			-3.212
difference test: Pre (1) - Post (2)			
Cochran's C Test			.85742***
Bartlett's Test			1.35267***
Levene's Test			4.32651**
Kruskal-Wallis Median test Statistic			
Average Rank	365.632	455.085	
Test Statistic			21.555
, and * denotes a statistically significant difference at 5% and 1% level respectively			

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*Figure 7-2: ROIC's Scatterplot, means and 95% LSD intervals and analysis of means*
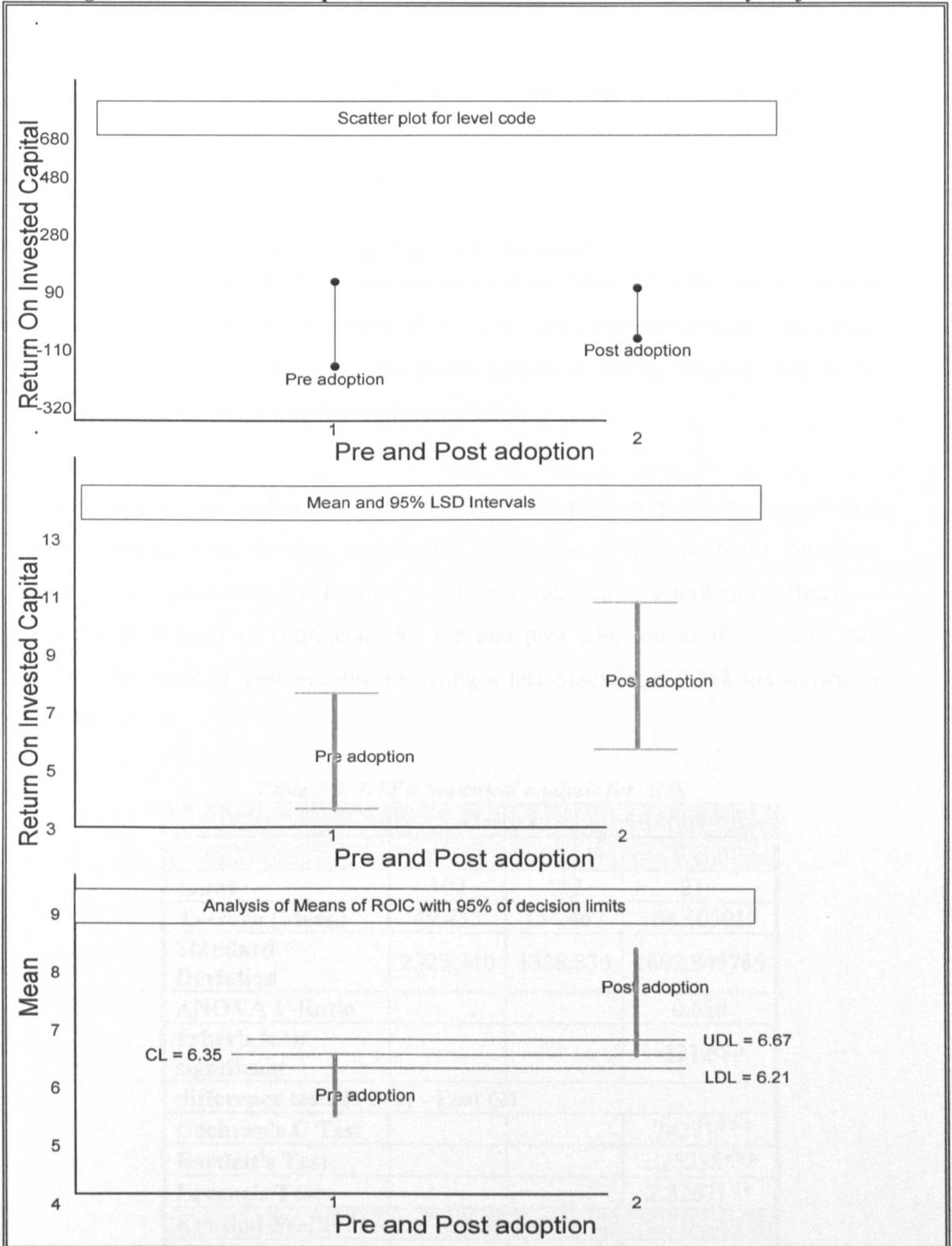
A narrower spread for category 2 is illustrated by Level Code. Despite there being a difference in the Means, there is an overlap in the 95 Percent LSD Intervals for categories 1 and 2. From the Analysis of Means Plot With a 95% Decision Limit, it can be seen that category 1 is close to the LDL and also that category 2 is close to the UDL. This result rejects the H4/2: '*There is no association between IFRSs adoption and Returns On Invested Capital (ROIC) in ADX*' {see table 1.1}.

7.4.1.3 Analysis of debt to equity ratio in ADX

The ANOVA F-Ratio was 0.628, as summarised within Table 7.9. This was not seen to be significant at the level of confidence of 95%. As Fisher's least significant difference test revealed, analysis of both pre and post-adoption of IFRSs are not seen to be significantly different at the confidence level of 95%.

In contrast to this, the Cochran's C test, Bartlett's test and Levene's test showed that unequal variances were showing statistically significant differences in the variances between pre and post analysis. Further to this, no statistically significant differences exist at the 95% level of confidence for pre and post adoption of IFRSs, with the Kruskal-Wallis Median Test Statistic revealing a test Statistic of 0.748 (as shown in Table 7.9).

Table 7-9: DTER Statistical analysis for ADX

	Debt to Equity Ratio		
	Pre (1)	Post (1)	Overall
count	102	112	214
Average (Mean)	49.435	154.467	104.405019
Standard Deviation	2323.340	1328.830	1802.848785
ANOVA F-Ratio			0.628
fisher's least significant			-121.580
difference test: Pre (1) – Post (2)			
Cochran's C Test			.74271***
Bartlett's Test			1.25238***
Levene's Test			2.32671**
Kruskal-Wallis Median test Statistic			
Average Rank	418.180	405.450	
Test Statistic			0.747
*** denotes a statistically significant difference at 1% level			
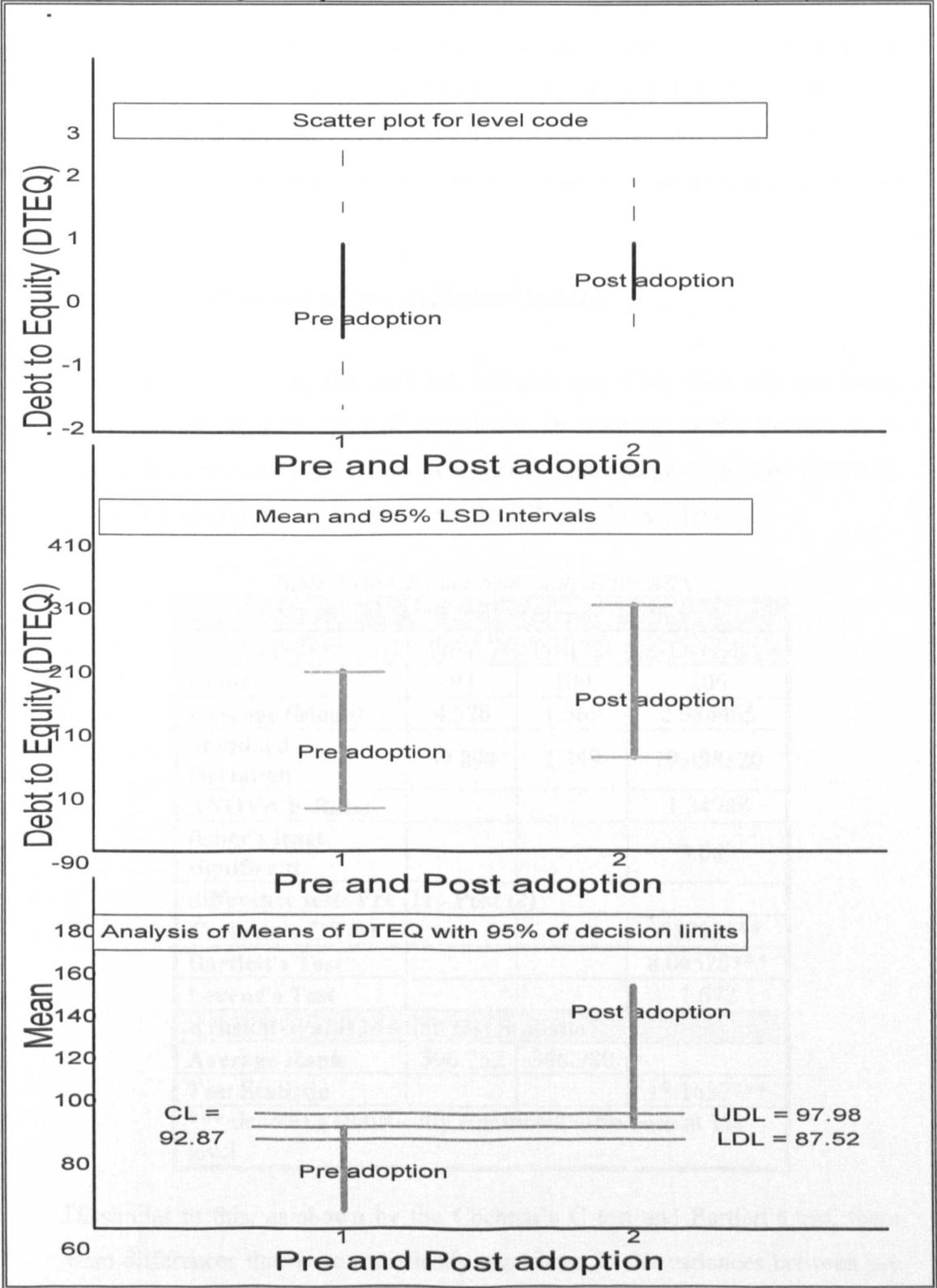
A greater spread for category 1 is shown in the Scatter-plot by Level Code, as shown in Figure 7.3. Despite this, there is a difference in the Means, with no overlap of the 95% LSD Intervals for categories 1 and 2. As the Analysis of Means Plot with a 95% Decision Limit shows, category 1 is close to the LDL and category 2 is close to the UDL. This result rejects the H4/3: '*There is no association between IFRSs adoption and debt to equity ratios (DTER) in ADX*' {see table 1.1}.

7.4.1.4 Analysis of Current Ratio in ADX

As Table 6.10 shows, the ANOVA F-Ratio was 1.34, with this not being significant at the 95% level of confidence. In addition, as the Fisher's least significant difference test revealed, between the pre and post-adoption of IFRSs, there were no significant differences at the 95% confidence level.

Table 7-10: CR Statistical analysis for ADX

	Current Ratio		
	Pre (1)	Post (2)	Overall
count	97	109	206
Average (Mean)	4.576	1.569	2.984465
Standard Deviation	39.894	1.349	19.498820
ANOVA F-Ratio			1.34988
fisher's least significant			3.083
difference test: Pre (1) - Post (2)			
Cochran's C Test			.98992***
Bartlett's Test			8.04520***
Levene's Test			1.672
Kruskal-Wallis Median test Statistic			
Average Rank	396.752	346.980	
Test Statistic			13.1637***
*** denotes a statistically significant difference at 1% level			

Dissimilar to this, as shown by the Cochran's C test and Bartlett's test, there were differences that were statistically significant in the variances between pre and post analysis. Meanwhile, there were no differences that were statistically significant between the two if using Levene's test. Also, as shown by the

Kruskal-Wallis Median Test Statistic, differences that were statistically significant existed at the 99% level of confidence for the medians of the pre and post-adoption of IFRSs, with a test Statistic of 13.1637 (see Table 7.10).

Figure 7-4: CR's Scatterplot, means and 95% LSD intervals and analysis of means
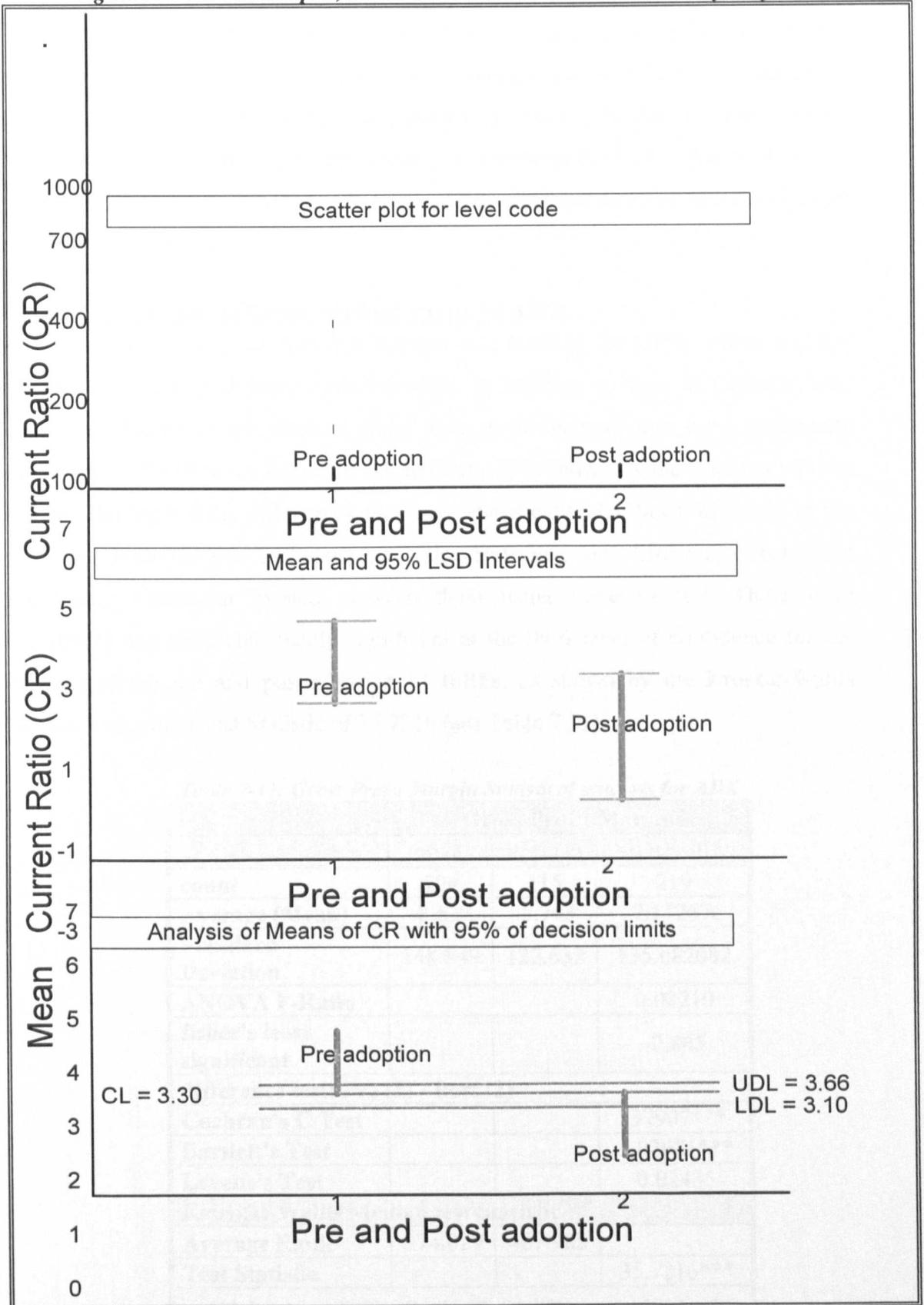
As shown by the Scatter-plot by Level Code, there is almost no spread for category 2 in comparison with a great spread for category 1 (see Figure 7.4). Despite this, there is a difference in the Means, with an overlap occurring with the 95% LSD Intervals for categories 1 and 2. As the Analysis of Means Plot with a 95% Decision Limit shows, category 1 is close to the UDL and category 2 is close to the LDL. This result rejects the H4/4: *'there is no association between IFRSs adoption and current ratios (CR%) in ADX'* {see table 1.1}.

7.4.1.5 Analysis of Gross Profit ratio in ADX

As Table 7.11 shows, the ANOVA F-Ratio was 0.08210 for GP%, which was not significant at the confidence level of 95%. In addition to this, as Fisher's least significant difference test showed, there were no differences that were statistically significant at the 95% confidence level. In contrast, as shown by the Cochran's C test and the Bartlett's tests, differences that were statistically significant did exist in the variances between pre and post analysis. However, no differences that were statistically significant existed between them using Levene's test. There were differences that were statistically significant at the 99% level of confidence for the medians of the pre and post-adoption of IFRSs, as shown by the Kruskal-Wallis Median Test, with a test Statistic of 35.7216 (see Table 7.11).

Table 7-11: Gross Profit Margin Statistical analysis for ADX

	Gross Profit Margin		
	Pre (1)	Post (2)	Overall
count	104	115	219
Average (Mean)	-8.627	-5.743	-7.112676
Standard Deviation	148.849	122.632	135.082082
ANOVA F-Ratio			0.08210
fisher's least significant			-2.845
difference test: Pre (1) - Post (2)			
Cochran's C Test			.57907***
Bartlett's Test			1.02681***
Levene's Test			0.02435
Kruskal-Wallis Median test Statistic			
Average Rank	374.029	467.982	
Test Statistic			35.7216***
*** denotes a statistically significant difference at 1% level			

Figure 7-5: GP's Scatterplot, means and 95% LSD intervals and analysis of means

Scatter plot for level code

Gross Profit Ratio (GP)

Pre adoption   Post adoption

600
200
200
600
1000

1   Pre and Post adoption   2

Mean and 95% LSD Intervals

Gross Profit Ratio (GP)

8
4
0
-4
-8
-12

Post adoption

Pre adoption

1   Pre and Post adoption   2

Analysis of Means of GP with 95% of decision limits

Mean

-3
-4
-5
-6
-7
-8
-9
-10

Pre adoption

CL = -6.56

UDL = -6.32
LDL = -8.01

Post adoption

1   Pre and Post adoption   2

261
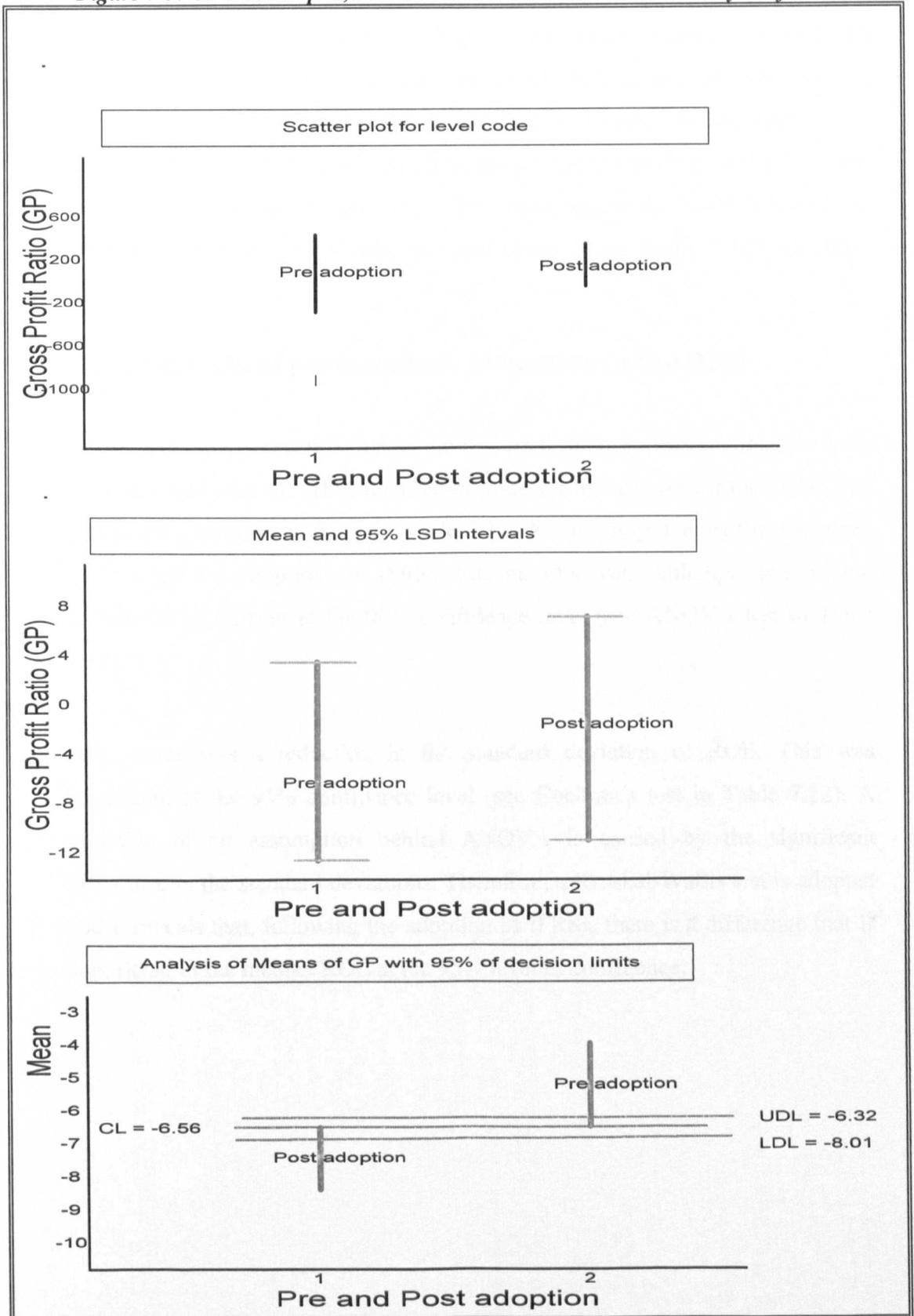
In the graphical analysis in Figure 7.5, differences can also be observed between the pre and post-adoption of IFRSs. A greater spread for category 1 is illustrated by the Scatter-plot. Despite the Means being different, there is an overlap in the 95% LSD Intervals for categories 1 and 2. It is revealed by the Analysis of Means Plot With a 95% Decision Limit that category 1 is close to the LDL and the category 2 is close to the UDL. This result rejects the H4/5: *'There is no association between IFRSs adoption and Gross profit Ratio (GP%) in ADX'* {see table 1.1}.

7.4.2 Analysis of performance measures in the DFM

So that a comparison can be made, the five performance measures that had been used previously for the ADX data set are used for the data set for the DFM. The results are given in summary in Table 7.12. A clear improvement in the mean ROE after the adoption of IFRSs can be observed, although this is not considered significant at the 90% confidence level (see ANOVA test in Table 7.12).

Also, there was a reduction in the standard deviation of ROE. This was significant at the 95% confidence level (see Cochran's test in Table 7.12). A violation of an assumption behind ANOVA is caused by the significant difference in the standard deviations. Therefore, a Kruskal-Wallis test is adopted and it reveals that, following the adoption of IFRSs, there is a difference that is significant in the median ROE at the 95% level of confidence.

Table 7-12: Statistical results of ANOVA analysis in the DFM data-set

	ROE	ROIC	DTER	current Ratio	Gross profit %
Mean					
Pre (1)	2.136	3.746	84.647	2.351	-114.743
Post (2)	11.052	9.346	57.381	2.271	-624.513
standard Deviation					
Pre (1)	143.452	50.421	1042.470	4.368	1332.170
Post (2)	123.871	36.021	289.520	4.368	13287.830
ANOVA					
F-Ratio	1.440	4.240	0.290	0.089	1.580
P-Value	0.233	0.037	0.581	0.748	0.205
Cochran's Test P-Value	0.018	<0.05	<0.05	0.989	<0.05
Bartlett's test P-Value	0.024	<0.05	<0.05	0.989	<0.05
Levene's Test P-Value	0.489	0.427	0.015	0.715	0.213
Kruskal-Wallis test					
P-Value	<0.05	<0.05	0.6450	0.7320	0.0000

The ANOVA F-ratio for DTER, CR, GP% is not seen as significant statistically, as shown in Table 7.12, however, it is significant statistically for ROIC. The conclusion is that the adoption of IFRSs does not make a difference in respect to these three variables, however, it does make a difference in respect to the ROIC.

Also, there was a reduction in the standard deviation of all these variables, and this was significant at the 95% confidence level, except in the case of the CR (see Cochran's test in Table 7.12).

An assumption is violated behind ANOVA by the significant difference in standard deviations. Therefore, the Kruskal-Wallis test is adopted instead. It revealed that, after the adoption of IFRSs, there is a difference in the median that is significant for two variables, i.e. ROIC and GP%. However, it was not significant for the other two variables, i.e. the DTER and CR.

7.4.2.1. Analysis of return on equity in the DFM

The variance of ROE is divided into two components in the ANOVA table, i.e. the between-group component and the within-group component. The F-ratio is the ratio of the estimate of the between-group and the estimate of the within-group, and in this case it equates to 1.34540 (see table 7.13). As the P-value of the F-test has a value that is greater than or equal to 0.05, a statistically significant difference does not exist between the mean of the ROE, at the confidence level of 95%, from one level of Dummy Pre and Post to another.

A multiple comparison procedure is applied by this table in order to determine which of the means are significantly different from which other ones. The estimated difference between each pair of means is shown by Fisher's least significant difference test. Between pre and post-adoption of IFRSs, of means at the level of confidence of 95%, there are no differences that are statistically significant.

The Cochran's C Test, Bartlett's Test and Levene's Test that are displayed in Table 7.13, are statistical tests of the null hypothesis that the standard deviations of ROE are the same, within each of the Dummy Pre and Post levels. The three P-values are of particular interest. As the smallest of the P-values has a score of less than 0.05, at the 95% level of confidence, there is a difference that is statistically significant amongst the standard deviations. As such, there is a violation of one of the important assumptions that underlies the analysis of variance.

The Kruskal-Wallis test, therefore, provides a test of the null hypothesis that the medians of ROE that are within each of the Dummy Pre and Post levels are the same. First of all, the data from all of the levels is combined, and then it is ranked from the smallest to the largest. For the data at each level, the average rank is then computed, and since the P-value has a score that is less than 0.05, a

difference that is statistically significant exists, among the medians, at the level of confidence of 95%.

Table 7-13: ROE Statistical analysis for the DFM

Return On Equity			
	Pre (1)	Post (2)	Overall
Count	132	154	286
Average (Mean)	2.162	12.051	7.487125
Standard Deviation	135.426	122.390	128.406615
ANOVA F-Ratio			1.34540
fisher's least significant			-9.787
difference test: Pre (1) - Post (2)			
Cochran's C Test			.56215**
Bartlett's Test			1.05231**
Levene's Test			0.46591
Kruskal-Wallis Median test Statistic			
Average Rank	445.689	579.279	
Test Statistic			51.3284***
** and *** denotes a statistically significant difference at 5% and 1% level respectively			

Following the adoption of the IFRSs, there was also an improvement in the mean ROE for the DFM; however, this did not have significance at the chosen levels of confidence of 95% and 99%. Also, there was a reduction in the standard deviation of ROE which had significance at the 95% confidence level. This, again, was in violation of an ANOVA assumption with respect to equal variances. However, a significant difference in medians, at the 99% confidence level, was revealed by the Kruskal-Wallis test.

Figure 7-6: ROE's Scatterplot, means and 95% LSD intervals and analysis of means (DFM)
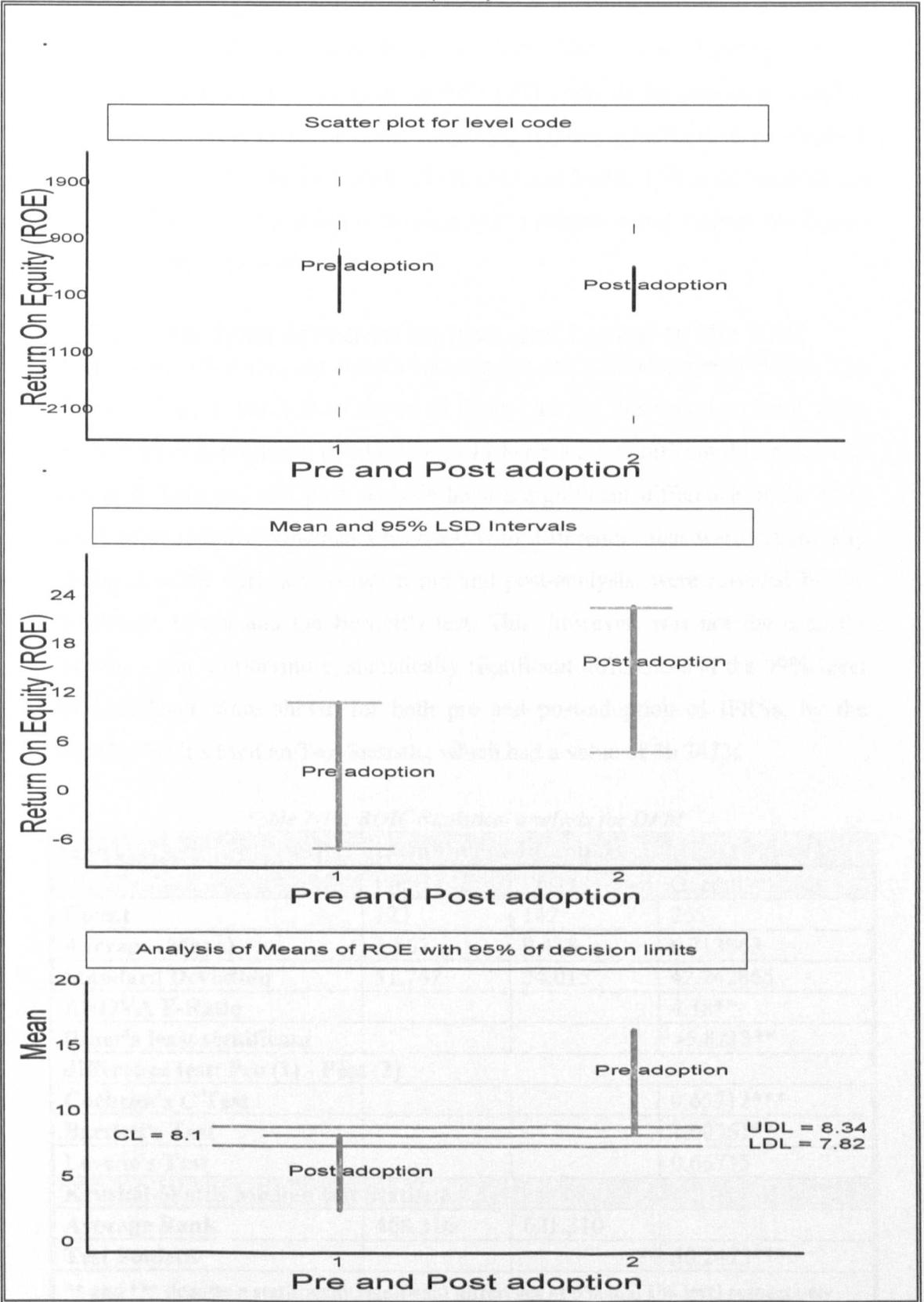
The graphical analysis in Figure 7.6 also shows the differences that exist between pre and post-adoption of the IFRSs. A greater spread for category 1 is illustrated by the Scatter-plot by Level Code. There is no difference in the Means, and there is an overlap or the 95% LSD Intervals for categories 1 and 2. Category 1 is close to the LDL and category 2 is close to the UDL as revealed by the Analysis of Means Plot With a 95% Decision Limit. This result accepts the H4/6: '*There is no association between IFRSs adoption and Returns On Equity (ROE) in DFM*' {see table 1.1}.

7.4.2.2. Analysis of return on invested capital in the DFM

Significant differences are evident between pre and post-adoption of IFRSs. The ANOVA F-ratio was 4.38 as shown in Table 7.14 and this was significant at the 95% level of confidence. In addition, as Fisher's least significant difference test revealed, both pre and post analysis have a significant difference at the 95% level of confidence. Unequal variances, with differences that were statistically different in the variances between pre and post-analysis, were revealed by the Cochran's C test and the Bartlett's test. This, however, was not the case for Levene's test. Furthermore, statistically significant differences at the 99% level of confidence were shown for both pre and post-adoption of IFRSs, by the Kruskal Wallis Median Test Statistic, which had a value of 50.2473.

Table 7-14: ROIC Statistical analysis for DFM

Return On Invested Capital			
	Pre (1)	Post (2)	Overall
Count	123	142	265
Average (Mean)	3.567	9.438	6.713063
Standard Deviation	51.742	34.015	42.242865
ANOVA F-Ratio			4.38**
fisher's least significant			-5.8213**
difference test: Pre (1) - Post (2)			
Cochran's C Test			0.65712***
Bartlett's Test			1.00361***
Levene's Test			0.66715
Kruskal-Wallis Median test Statistic			
Average Rank	468.316	621.310	
Test Statistic			50.2473***
** and *** denotes a statistically significant difference at 5% and 1% level respectively			

Figure 7-7: ROIC's Scatterplot, means and 95% LSD intervals and analysis of means(DFM)

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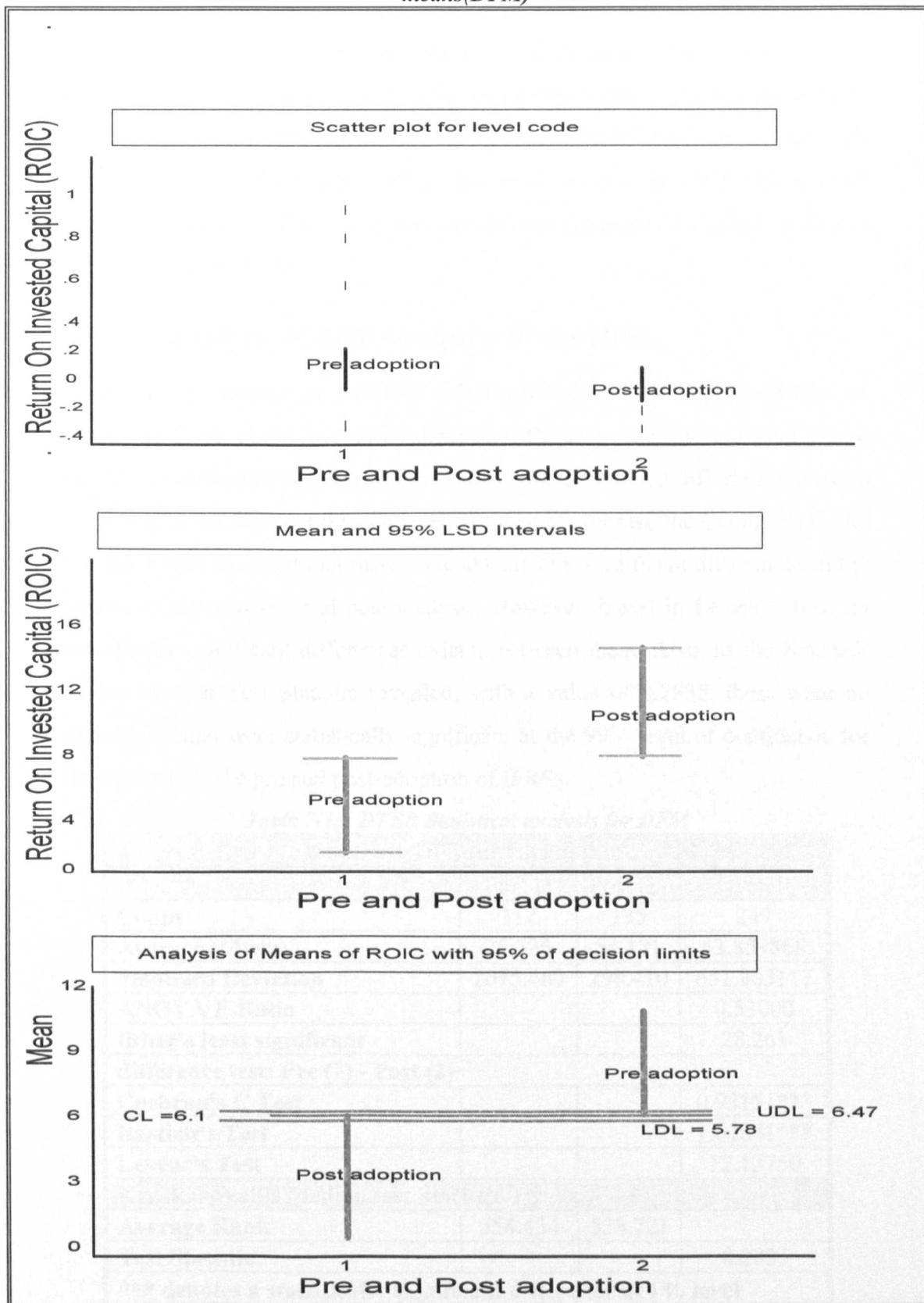
From the observation of the Scatter-plot by Level Code, in comparison to the great spread for category 1, there was little spread shown for category 2, as shown in Figure 7.7. Despite this, there is a difference in the Means; with no overlap for the 95% LSD Intervals for categories 1 and 2. As the Analysis of Means Plot with a 95% Decision Limit shows, category 1 is close to the LDL and category 2 is close to the UDL. This result accepts the H4/7: '*There is no association between IFRSs adoption and Returns On Invested Capital (ROIC) in DFM*' {see table 1.1}.

7.4.2.3. Analysis of debt to equity in the DFM

As Table 7.15 shows, the ANOVA F-Ratio was 0.53 for DTER, with this not being significant at the level of confidence of 95%. In addition, as Fisher's least significant difference test showed, no statistically significant differences were in existence, at the 95% confidence level. By way of contrast, the Cochran's C and Bartlett's tests revealed that there were statistically significant differences in the variances between pre and post analysis. However, based in Levene's test, no statistically significant differences existed between them. Also, as the Kruskal-Wallis Median Test Statistic revealed, with a value of 0.2835, there were no differences that were statistically significant at the 99% level of confidence for the medians of the pre and post-adoption of IFRSs.

Table 7-15: DTER Statistical analysis for DFM

Debt To Equity Ratio			
	Pre (1)	Post (2)	Overall
Count	112	135	247
Average (Mean)	75.526	54.181	63.859868
Standard Deviation	1075.460	299.410	651.303117
ANOVA F-Ratio			0.53000
fisher's least significant			28.261
difference test: Pre (1) - Post (2)			
Cochran's C Test			0.93151***
Bartlett's Test			1.61841***
Levene's Test			12.13750
Kruskal-Wallis Median test Statistic			
Average Rank	554.434	538.721	
Test Statistic			0.2835
*** denotes a statistically significant difference at 1% level			

Figure 7-8: DTEQ's Scatterplot, means and 95% LSD intervals and analysis of means (DFM)

270
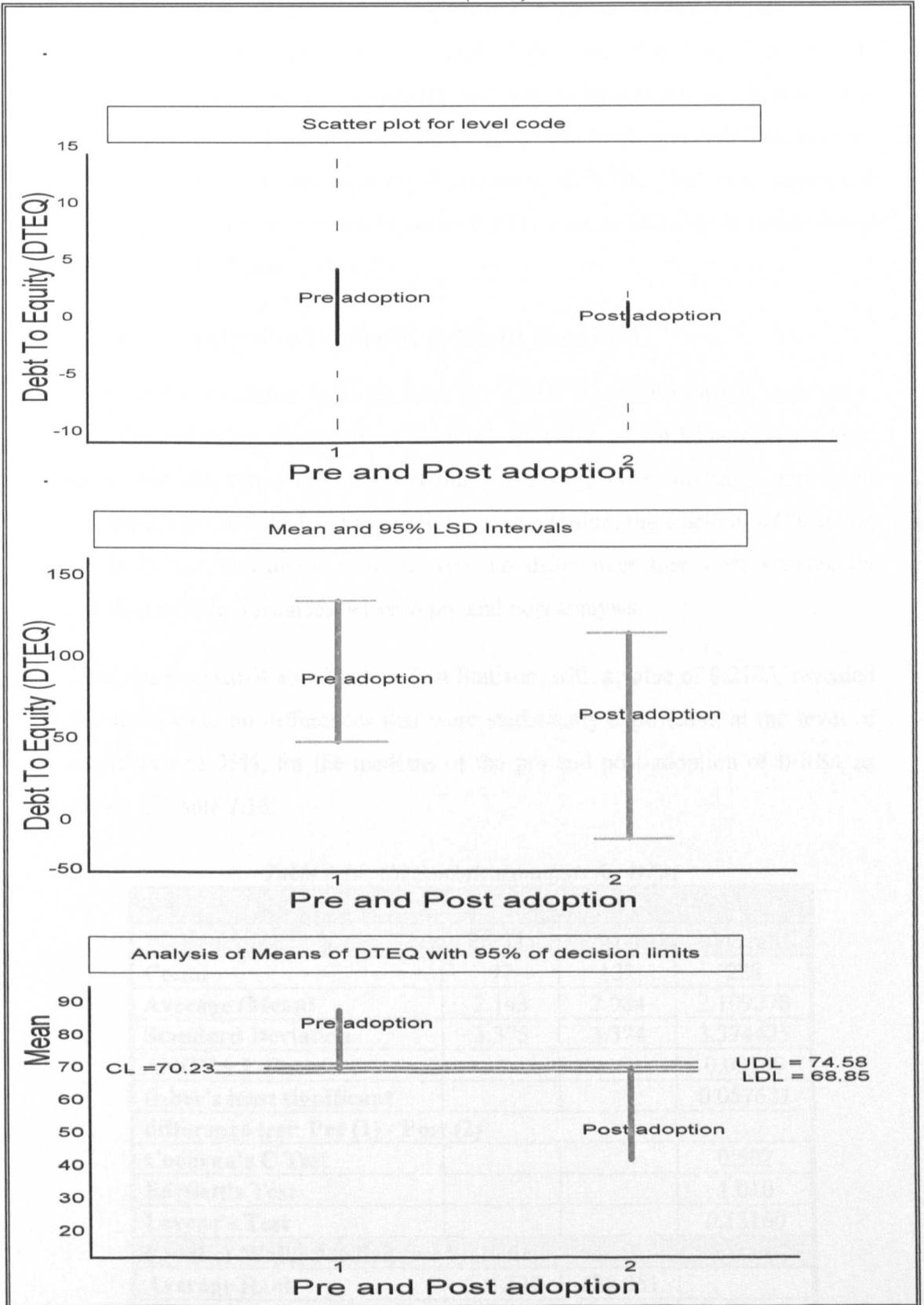
Within the graphical analysis in Figure 7.8, differences between the pre and post-adoption of IFRSs can also be observed. A greater spread for category 1 is illustrated by the Scatter-plot by Level Code. The 95% LSD Intervals for categories 1 and 2 overlap, despite the fact that the Means are not different. It is revealed by the Analysis of Means Plot With a 95% Decision Limit that category 1 is close to the UDL and category 2 is close to the LDL. This result rejects the H4/8: 'There is no association between IFRSs adoption and debt to equity ratios (DTER) in DFM' {see table 1.1}.

7.4.2.4. Analysis of current ratio in the DFM

Additionally, as shown in Table 7.16, the ANOVA F-Ratio for CR was 0.081, with this not being significant at the level of confidence of 95%. Fisher's least significant difference test revealed that there were no statistically significant differences at the 95% level of confidence. In addition, the Cochran's C test and Bartlett's test revealed that there were no differences that were statistically significant in the variances between pre and post analysis.

Also, the Kruskal-Wallis Median Test Statistic, with a value of 0.2183, revealed that there were no differences that were statistically significant, at the level of confidence of 95%, for the medians of the pre and post-adoption of IFRSs, as shown in Table 7.16.

Table 7-16: CR Statistical analysis for DFM

	Current Ratio		
	Pre (1)	Post (2)	Overall
Count	97	131	228
Average (Mean)	2.143	2.084	2.109278
Standard Deviation	3.375	3.374	3.374425
ANOVA F-Ratio			0.08100
fisher's least significant			0.057621
difference test: Pre (1) - Post (2)			
Cochran's C Test			0.502
Bartlett's Test			1.010
Levene's Test			0.13160
Kruskal-Wallis Median test Statistic			
Average Rank	521.518	528.051	
Test Statistic			0.2183

Figure 7-9: CR's Scatterplot, means and 95% LSD intervals and analysis of means (DFM)
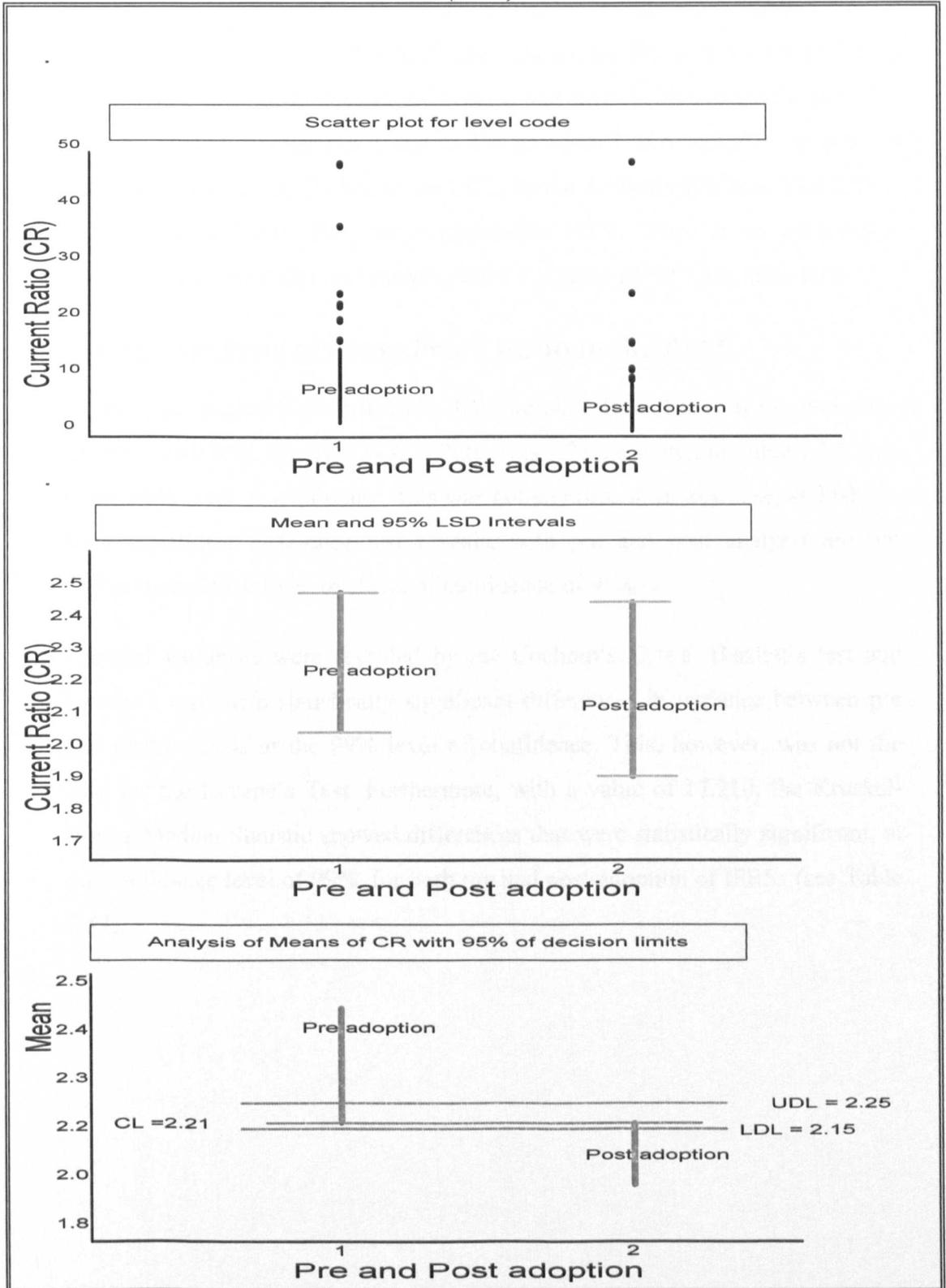
For the differences between the pre and post-adoption of IFRSs, the results can be supported by the graphical analysis, as shown in Figure 7.9. Almost similar spread for categories 1 and 2 have been shown by the Scatter-plot by Level Code. There is no difference in the Means, and there is an overlap for the 95% LSD Intervals for categories 1 and 2. The category 1 is revealed to be close to the UDL, and category 2 close to the LDL, by the Analysis of Means Plot With a 95% Decision Limit. This result rejects the H4/9: *'there is no association between IFRSs adoption and current ratios (CR%) in DFM'* {see table 1.1}.

7.4.2.5. Analysis of Gross Profit Ratio in the DFM

There is no evidence of differences that are significant between pre and post-adoption of IFRSs. The ANOVA F-Ratio was 1.75, as shown in Table 7.17, and, at the 95% level of confidence, this was not significant. In any case, as Fisher's least significant difference test reveals, both pre and post analysis are not different significantly at the level of confidence of 95%.

Unequal variances were revealed by the Cochran's C test, Bartlett's test and Levene's test; with statistically significant differences in variance between pre and post analysis at the 99% level of confidence. This, however, was not the case for the Levene's Test. Furthermore, with a value of 17.210, the Kruskal-Wallis Median Statistic showed differences that were statistically significant, at the confidence level of 99%, for both pre and post-adoption of IFRSs (see Table 7.17).

Table 7-17: GP% Statistical analysis for DFM

Gross Profit Margin			
	Pre (1)	Post (2)	Overall
Count	109	125	234
Average (Mean)	-121.751	-641.132	-399.198115
Standard Deviation	1331.510	14114.800	8160.190556
ANOVA F-Ratio			1.75000
fisher's least significant			617.852000
difference test: Pre (1) - Post (2)			
Cochran's C Test			0.98196***
Bartlett's Test			7.02187***
Levene's Test			1.72158
Kruskal-Wallis Median test Statistic			
Average Rank	509.514	561.348	
Test Statistic			17.2100
*** denotes a statistically significant difference at 1% level			

Figure 7-10: GP's Scatterplot, means and 95% LSD intervals and analysis of means (DFM)

275
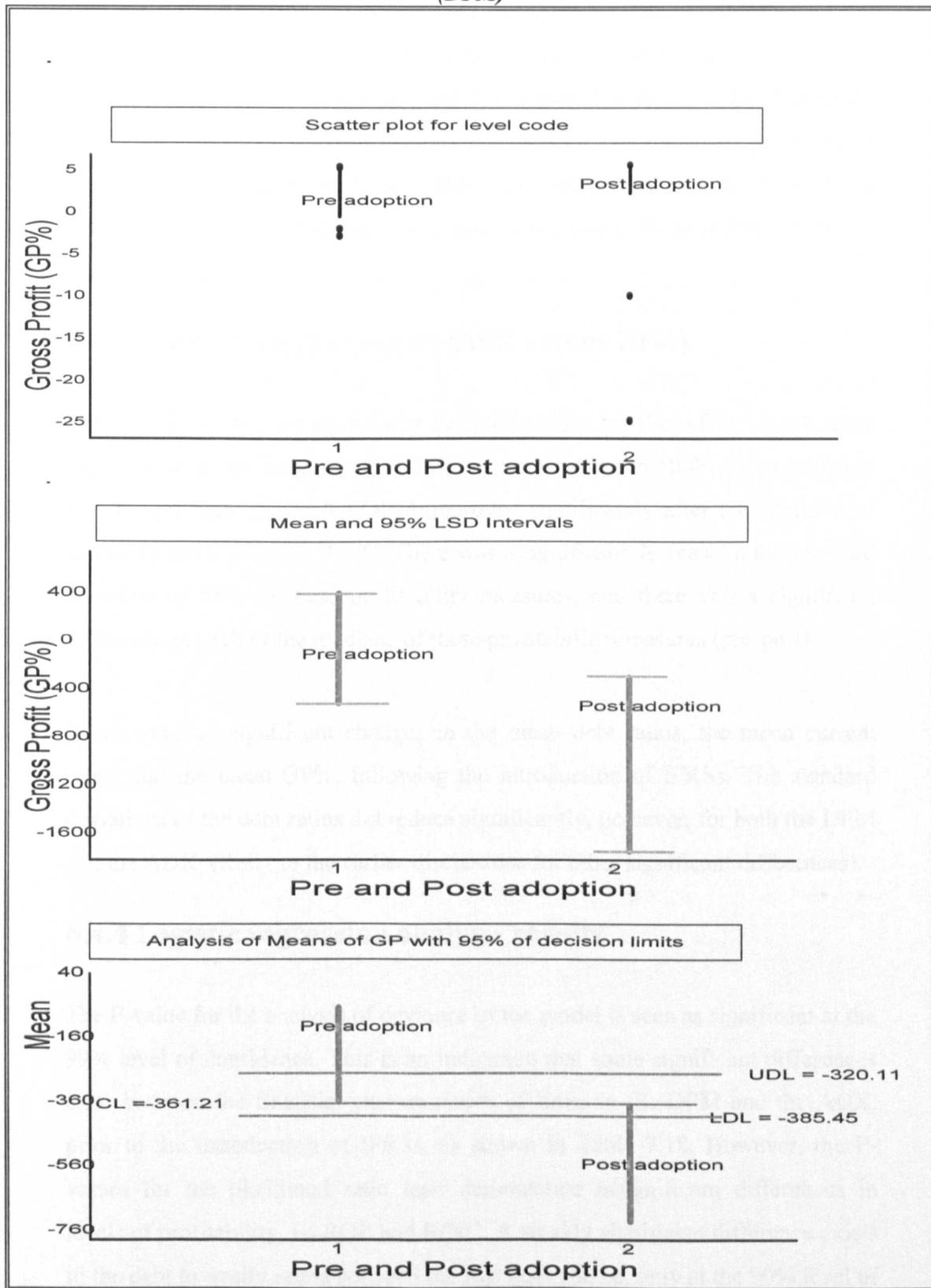
From the graphical analysis in Figure 7.10, differences in the GP% can also be observed. A much narrower spread for category 1 is shown by the Scatter-plot by Level Code. Despite the difference in the Means, there is an overlap in the 95% LSD Intervals for categories 1 and 2. Category 1 is shown to be close to the UDL, and category 2 shown to be close to the LDL, by the Analysis of Means Plot With a 95% Decision Limit. This result rejects the H4/10: *'There is no association between IFRSs adoption and Gross profit Ratio (GP%) in DFM'* {see table 1.1}.

7.4.3. Comparing the results (ADX versus DFM)

The preceding analysis shows that the profitability for the ADX, significantly improved after the adoption of IFRSs, in terms of mean ROE. To accompany this, the profitability for the DFM improved significantly after the adoption of IFRSs, in terms of mean ROIC. There was a significant decrease in the standard deviation of both of these profitability measures, and there was a significant difference in each of the medians of these profitability measures (pre-post).

There were no significant changes in the mean debt ratios, the mean current ratios and the mean GP%, following the introduction of IFRSs. The standard deviations of the debt ratios did reduce significantly, however, for both the DFM and the ADX. (Refer to the earlier discussions for other significant differences).

6.4.4 Logistic regression analysis results

The P-value for the analysis of deviance of the model is seen as significant at the 99% level of confidence. This is an indication that some significant differences exist between the financial characteristics of firms in the DFM and the ADX, prior to the introduction of IFRSs, as shown in Table 7.18. However, the P-values for the likelihood ratio tests demonstrate insignificant differences in levels of profitability, i.e ROE and ROIC. A weakly significant difference exists in the debt to equity ratios between the two markets, i.e. only at the 90% level of

confidence does the P-value have significance. At the 99% confidence level, the P-value is significant for both the current ratio and the GP%.

Table 7-18: Logistic regression (Pre adoption) (ADX = 1, DFM = 2)

| Parameter | Estimate | Likelihood Ratio Tests | | Analysis of Deviance |
		Chi Square	P-value	
Constant	0.452	---	---	---
CR	-0.072	12.445	0.0004	---
DTER	0.0000	3.247	0.0765	---
GP%	-0.001	12.178	0.0005	---
ROE	0.0000	1.791	0.1682	---
ROIC	-0.001	0.054	0.8294	---
Model	---	---	---	0.0000

There is an indication, from the signs of the estimates for the coefficients of the parameters, and the respective P-values of these parameters, that during the period of pre-adoption of IFRSs, companies in the DFM are more likely to be characterised by the significant features of a) a lower current ratio, and b) a lower operating profit %.

As for post-adoption of IFRSs (see Table 7.19), the P-value for the analysis of deviance of the model is significant again at the confidence level of 99%. This is an indication that some significant differences exist between the financial characteristics of firm in the ADX and the DFM, following the introduction of IFRSs, as can be seen in Table 7.19.

Table 7-19: Logistic regression (post adoption) (ADX = 1, DFM = 2)

Parameter	Estimate	Likelihood Ratio Tests Chi Square	P-value	Analysis of Deviance
Constant	0.143	---	---	---
CR	0.087	-1.367	0.0004	---
DTER	0.0000	8.461	0.0765	---
GP%	0.0000	1.005	0.0005	---
ROE	-0.0010	0.445	0.1682	---
ROIC	0.008	5.392	0.8294	---
Model	---	---	---	0.0070

However, the P-values for the likelihood ratio tests show that there are insignificant differences for the current ratio, ROE and GP%. Between the two countries, there is a very strong significant difference in the debt to equity ratios, i.e. at the level of confidence of 99%, the P-value is significant; and the P-value for ROIC has a strong significance at the 95% confidence level.

Signs of the estimates for the coefficients of the parameters show an indication of an increased likeliness for companies in the DFM to be characterised, during the period of post-adoption of IFRSs, as having: A current ratio that is higher (although not significantly so), a debt to equity ratio that is lower, GP% that is lower (although not significantly so), a return on equity that is lower (although not significantly so) and a ROIC that is higher.

A question that now becomes relevant is whether the application of IFRSs has resulted in the values of the performance measures shifting. To address this question, a logistic regression was performed, as shown in Table 7.20. An indication that the model is very significant, overall, is given by the P-value (0.000) of the Analysis of Deviance of the model. The CR is revealed to be significant at the 99% level of confidence, as revealed by the likelihood ratio tests, and it is shown to be negative by the estimate for the coefficient.

Therefore, following the adoption of IFRSs in the ADX, there has been a significant decrease in the CR. However, at the 99% confidence level, the ROIC is positively significant. This provides an indication that the adoption of IFRSs has led to a dramatic upward turn in ROIC. At the selected confidence levels, the other variables in the model do not have significance. This gives an indication that the adoption of IFRSs has had an impact upon DTER, GP% and ROE that is insignificant.

Table 7-20: Logistic regression comparing Pre (1) and Post (2) IFRSs for ADX data-set

Parameter	Estimate	Likelihood Ratio Tests Chi Square	P-value	Analysis of Deviance
Constant	-0.131	---	---	---
CR	-0.2343	13.454	0.0000	---
DTER	0.0000	0.0029	0.9487	---
GP%	-0.0006	0.149	0.6967	---
ROE	0.0012	0.4245	0.5172	---
ROIC	0.0232	7.3448	0.0068	---
Model	---	---	---	0.0000

If the same approach is followed for the data set for the DFM, the P-value (0.000) of the Analysis of Deviance of the model provides an indication that the model is very significant overall. The ROIC is revealed by the likelihood ratio tests to have a significance at the 99% level of confidence, and it shown to be positive by the estimate for the coefficient. So, it follows that following the adoption of the IFRSs in the DFM, there has been a significant increase in the ROIC. Conversely, at the 99% confidence level, the GP% is seen as negatively significant, which is an indication that a dramatic downward turn in GP% resulted from the adoption of IFRSs. At the selected confidence levels, the other variables in the model are not significant, which is an indication that the adoption of IFRSs has had an impact upon CR, DTER and ROE that can be considered insignificant.

Table 7-21: Logistic regression comparing Pre (1) and Post (2) IFRSs for the DFM data-set

Parameter	Estimate	Likelihood Ratio Tests Chi Square	P-value	Analysis of Deviance
Constant	-0.5338	---	---	---
CR	0.0035	0.0169	0.8970	---
DTER	-0.0002	2.117	0.1397	---
GP%	0.0000	6.6534	0.0089	---
ROE	0.0009	1.3931	0.2935	---
ROIC	0.0152	21.992	0.0000	---
Model	---	---	---	0.0000

Therefore, it has been observed that there was a significant improvement in ROIC, in both the DFM and the ADX, as a result of the adoption of IFRSs, especially in the DFM. There were different affects on other variables, such as the CR, which significantly decreased in the ADX, for example; whilst there was a significant decrease in the GP% in the DFM.

7.4.5 Trading volume results

This section provides answer to the research questions 6.1 *'Has the adoption of IFRSs influenced on Trading Volume of shares on both ADX and DFM?'* and 6.2 *'Has the impact, if any, of adopting IFRSs significantly Varied between ADX and DFM?'* {see table 1.1}.

7.4.5.1. Trading volume ADX

A comparison was made of the trading volume before the adoption of IFRSs as opposed to after adoption, as shown in Table 7.22. After adoption, there was an increase in the trading volume from a mean of 8.516 to 9.326; however, the standard deviation showed little change moving from 2.613 to 2.745.

Table 7-22: Trading volume Statistical analysis for ADX

	Pre (1)	Post (2)	Overall
Count	113	132	245
Average (Mean)	8.516	9.326	8.952408
Standard Deviation	2.613	2.745	2.684118
Standard Skewness	4.454	1.880	4.335000
Standard Kurtosis	8.159	3.697	7.391000
ANOVA F-Ratio			7.59000
ANOVA P-Value			0.00700
fisher's least significant difference test: Pre (1) - Post (2)			-0.691**
Cochran's C Test			
Statistic	---	---	0.539
P-Value	---	---	0.421
Bartlett's Test			
Statistic	---	---	1.002
P-Value	---	---	0.419
Levene's Test			
Statistic	---	---	1.791
P-Value	---	---	0.169
Kruskal-Wallis Median test Statistic			
Average Rank	275.549	320.592	
Test Statistic			10.382
P-Value	---	---	0.001
** denotes a statistically significant difference at 5% level			

Non-normality showed some improvement as there had been a reduction in both the standardised kurtosis and the standardised skewness. A significant shift in the mean trading volume, following the adoption of IFRSs in the ADX, was indicated by a F-ratio of the ANOVA test which was highly significant with a P-value of 0.007. Also, at the 99% level of confidence, there are differences that are statistically significant between the mean trading volume pre and post the adoption of IFRSs.

The insignificant P-values of the respective statistics for the Cochran's test, the Bartlett's test and the Levene's test indicated that there was no significant shift in the standard deviation of the LN (trading volume), as a result of the adoption of the IFRSs.

A significant difference in the mean LN (trading volume) was revealed by the Kruskal-Wallis median test, after the adoption of IFRSs, at a confidence level of 99%, with a test statistic of 9.326. It can be concluded therefore that, overall, trading volume increased significantly, following the adoption of the IFRSs (see Table 7.22).

The implication is that, other things being equal, the adoption of the IFRSs has increased the confidence of investors, as they have the perspective that accounts are more value relevant to their investments, in comparison to the situation prior to adoption of IFRSs. As such, the result provides confirmation of the hypothesis H5/1 which is *there is no difference in the beta value of trading volume of shares in ADX following the adoption of IFRSs'* {see table 1.1}.

Figure 7-11: TV's means and 95% LSD intervals and analysis of means (ADX)
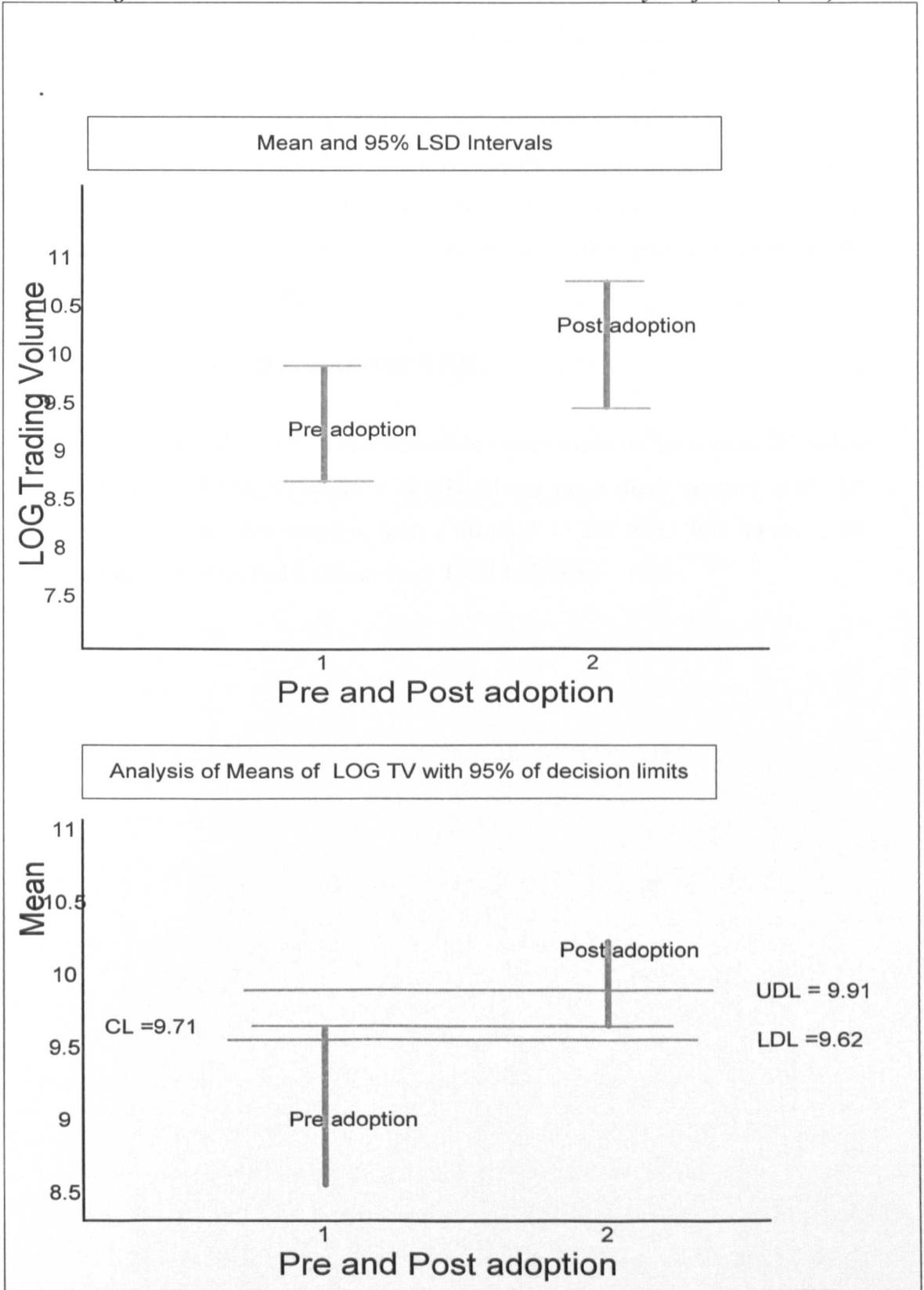
In the graphical analysis in Figure 7.11, differences in the volume of trading can also be seen between pre and post-adoption of IFRSs in the ADX. There is a difference in the Means; and there is no overlap of the 95% LSD (lease significance difference) Intervals for the categories 1 and 2. The category 1 is revealed to be close to the LDL, and the category 2 is revealed as being close to the UDL, by an analysis of Means Plot with a 95% Decision Limit. As shown in Table 7.22, by way of conclusion, the graphical analysis provides support for the previous statistical analysis.

7.4.5.2. Trading volume at DFM

As shown in Table 7.23, a comparison has been made of the volume of trading before and after the adoption of IFRSs. There was a slight increase in the LN trading volume after adoption from a mean of 15.288 to 15.769; however, the standard deviation had a change from 1.751 to 2.106.

Table 7-23: Trade Volume Statistical analysis for DFM

	Pre (1)	Post (2)	Overall
Count	119	141	260
Average (Mean)	15.288	15.769	15.548850
Standard Deviation	1.751	2.106	1.943519
Standard Skewness	-2.114	-3.586	2.982000
Standard Kurtosis	-0.389	-1.592	-1.891000
ANOVA F-Ratio			18.85000
ANOVA P-Value			0.00000
fisher's least significant difference test: Pre (1) - Post (2)			-0.616**
Cochran's C Test			
Statistic	---	---	0.539
P-Value	---	---	0.391
Bartlett's Test			
Statistic	---	---	1.002
P-Value	---	---	0.241
Levene's Test			
Statistic	---	---	2.059
P-Value	---	---	0.149
Kruskal-Wallis Median test Statistic			
Average Rank	359.985	435.629	
Test Statistic			21.990
P-Value	---	---	0.000
** denotes a statistically significant difference at 5% level			

Some deterioration in improvement from non-normality was seen, as there was an increase in the standardised skewness and the standardised kurtosis. Having a P-value of 0.000, the F-ratio of the ANOVA test was seen to be highly significant. This provided an indication that a significant shift occurred in the mean volume of trading in the DFM, after the adoption of IFRSs. Therefore, at

the 99% level of confidence, there exists a difference that is statistically significant, between the mean trading volume pre and post-adoption of IFRSs.

As a result of the adoption of the IFRSs, there was no significant shift to the standard deviation of the LN (trading volume). Indication of this was provided by the P-values that were insignificant from the statistics from the Cochran's test, Bartlett's test and Levene's tests.

Moreover, at a 99% level of confidence, a significant difference in the median LN (trading volume), after the adoption of the IFRSs, was revealed by the Kruskal-Wallis median test, which had a statistic of 21.99. Therefore, overall, it can be concluded that a significant increase in the volume of trading occurred in the DFM, after the adoption of IFRSs (see Table 7.23).

The implication is that, with other things being equal, the adoption of IFRSs has led to an increase in the confidence of investors, which is consistent to the perspective that the accounts have become more value relevant to their investments in comparison to the situation prior to the adoption of IFRSs. The result provides confirmation of the hypothesis H5/2: that *'there is no difference in the beta value of trading volume of shares in DFM following the adoption of IFRSs'* {see table 1.1}.
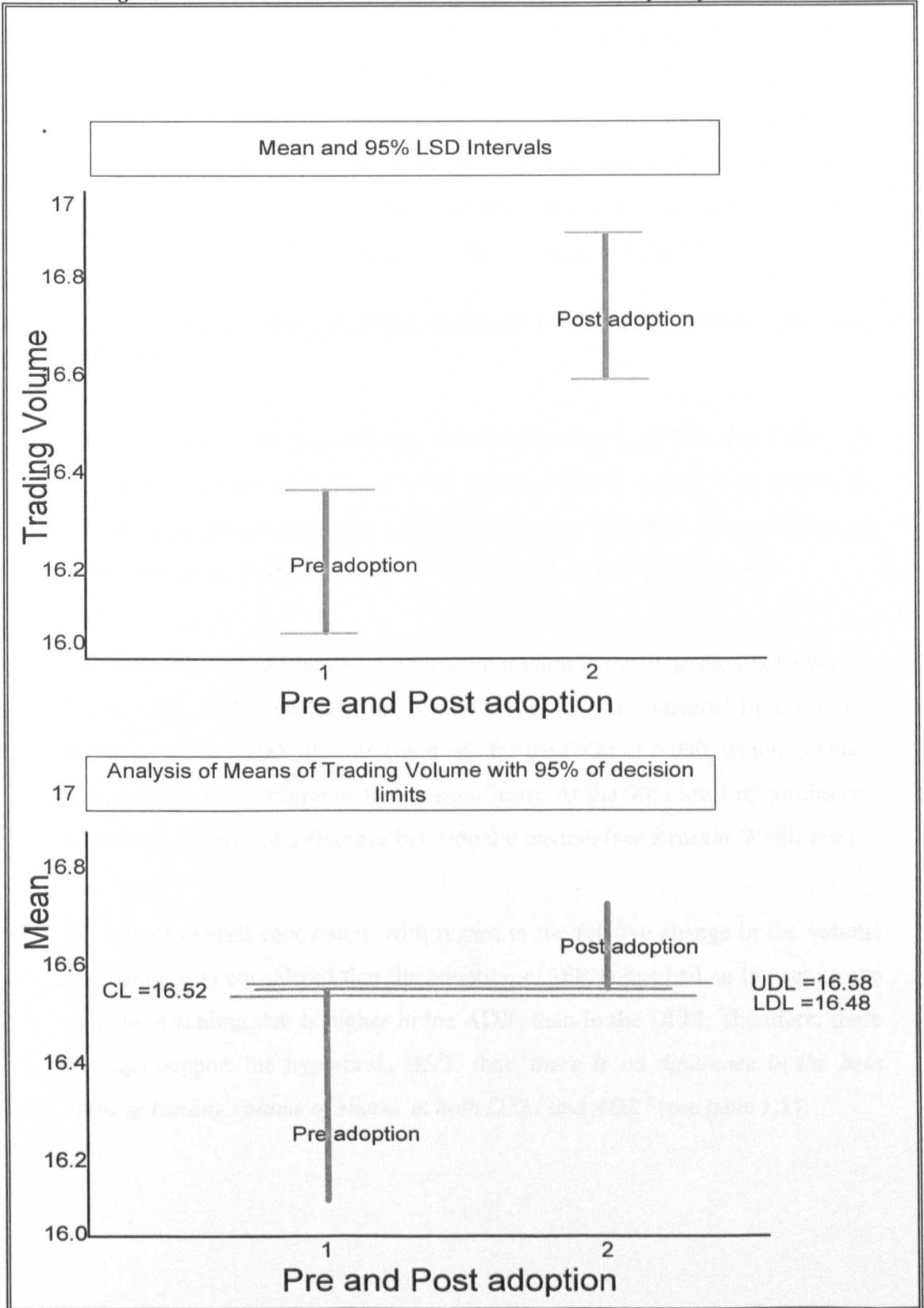
A graphical analysis of the differences in the volume of trading in the DFM, between pre and post-adoption of IFRSs, is shown in Figure 7.12. The volumes of mean trading are clearly different, and there is no overlap of the 95% LSD Intervals for the categories 1 and 2. The category 1 is revealed as being close to the LDL, and the category 2 is shown as being close to the UDL, by the Analysis of Means Plot with a 95% Decision Limit. The previous statistical analysis is supported by the graphical analysis, which is shown in Table 7.23.

7.4.5.3. Comparing trading volume results between ADX and the DFM

The percentage mean change in the volume of trading is revealed, in Table 7.24, to be greater in the ADX than it is the DFM. In fact, it is more than double and this has significance using the ANOVA test at the 99% level of confidence and significant, using Fisher's (LSD) test, at the 95% level of confidence.

The variability in the change of volume in trading is much greater, however, for firms in the ADX than for firms in the DFM. This is indicated by a standard deviation for the ADX of 25.991 and one for the DFM of 6.090, which Levene's test shows to be a difference that is significant. At the 90% level of confidence, there is no significant difference between the median (see Kruskal-Wallis test).

By way of overall conclusion, with regard to the relative change in the volume of trading, it is considered that the adoption of IFRSs has had an impact on the volume of trading that is higher in the ADX, than in the DFM. Therefore, these findings support the hypothesis H5/3: that *there is no difference in the beta value of trading volume of shares in both DFM and ADX* {see table 1.1}.

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Table 7-24: Statistical analysis for the relative change in trading volume in ADX and DFM

	Pre (1)	Post (2)	Overall
count	153	185	338
% change (Mean)	8.621	4.108	6.150867
Standard Deviation	25.991	6.090	15.098441
Standard Skewness	17.991	9.719	2.982000
Standard Kurtosis	42.960	23.182	---
ANOVA F-Ratio			12.870
ANOVA P-Value			0.001
fisher's least significant difference test: Pre (1) - Post (2)			0.045**
Levene's Test			
Statistic	---	---	134.791
P-Value	---	---	0.000
Kruskal-Wallis Median test Statistic			
Average Rank	3.55.184	345.988	
Test Statistic			0.282
P-Value	---	---	0.645
** denotes a statistically significant difference at 5% level			

7.5. Triangulation of the findings

The aim of this section is to highlight how the multi-method approach is used to maintain the validity of the research. Triangulation is defined as a combination of different methods in order to investigate one phenomenon, which help the researcher to formalize the correlation between both quantitative and qualitative research (Flick, 2007).

Hair et. al., (2007) indicate that there are four types of triangulation to help the researcher to effectively achieve the investigation such as theory triangulation,

investigator triangulation, data triangulation and methodological triangulation. Therefore, this research has used methodological triangulation to increase reliability and validity of data through collecting data by different methods, then the findings of these methods compared together to examine similar issues.

The first method was used is questionnaire survey, which was designed in three different copies (for all of CFOs, Auditors and Investors), while the other method was collecting data through the secondary data (from financial statements of listed firms in both ADX and DFM).

The findings of questionnaire indicate that adopting the IFRSs has improved the quality of financial statement. In addition the questionnaire results indicate that following the adoption of IFRSs, firms' performance was improved positively in the favour of investors and external auditors.

The second method used was the multi-regression tests to assess the effect of adopting the IFRSs on share prices, trade volume and ratios. Accordingly, Ohlson model and the modified Ohlson model were used to confirm the findings of secondary data (the effect of adoption IFRSs on share prices), then the multi-regression measure how the trade volume and financial ratios were influenced by the adoption of the IFRSs in both ADX and DFM. The findings of these tests were also confirming that following the adoption of IFRS, share prices and trade volume were improved, while only one ratio was significantly affected by the IFRSs (ROE) in both ADX and DFM.

7.6. Conclusion

This chapter has discussed the impact of adopting IFRSs into the listed firms' performance and the trend of their share prices performance at both ADX and DFM using the pre and post periods of the adoption.

Firstly, Ohlson's model indicates that the value of the accounting information in both ADX and DFM were significantly increased by the adoption of IFRSs. However, the effect of the adoption in relevance to EPS and BVPS were higher in ADX than DFM. The results also indicate that ADX models provide better explanation of share prices than DFM in the two periods. However, the change in level of explanatory was better in DFM because the model in DFM was adequate prior the adoption.

Secondly, the performance measurement analysis indicates that profitability has significantly improved for the ADX after the adoption of IFRSs particularly in mean ROE. However, the DFM's profitability was significantly improved by the mean ROIC. On the other hand, the results did not find any significant changes in the mean of debt ratios, current ratios, and Gross profit ratio after the adoption of IFRSs.

Thirdly, with regards to the trading volume results, it is considered that the adoption of IFRSs has had an impact on the volume of trading that is higher in the ADX than in the DFM. Thus the adoption of IFRSs has stronger impact on the volume of shares in the ADX than DFM.

Chapter 8 : Summary and Conclusions

8.1 Introduction

This chapter presents the findings and conclusions of the study. It brings together and accentuates the primary conclusions related to the objectives of the research. Accordingly, in section 8.2 a summary of the literature review and the research methods, followed by summary of the research questions in section 8.3. Section 8.4 presents research contribution. Section 8.5 presents the research limitations and implications, as well as some suggestions for future research.

8.2. Summary of the study

The purpose of this study is to examine the effects of converting from US GAAP to International Financial Report Standards (IFRSs) in both Abu Dhabi and Dubai stock markets. The study also investigated the level of awareness about the new standards by its users such as Chief Executives, Auditors, and Investors. Thus the following is a summary of the answers of the main research questions of this study.

8.3. Summary of research questions

The main objectives related to the research questions were stated in chapter one. These objectives are as follows:

- **What are the different theories, concepts and strategies related to the impact of adoption of IFRSs on the performance of listed firms?**

Once the announcement of the European Union was made in 2002 about their desire to adopt the IFRSs into their listed firms in 2005, many other countries have followed them for the purpose of attracting foreign direct investment. However, the research in the subject was arguing about the advantages and disadvantages of harmonisation of financial standards.

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While researchers such as Ball, (2005) indicate that the integration between the financial standards would help investors to easily compare between different markets, they found that IASs adoption had significantly decreased return on equity, return on assets and asset turnover due to the book value of equity and the total assets being relatively larger under the IASs. On the other hand, Beuren, et. al., (2008) argue that this step would be more costly than the benefits of harmonising the accounting standards.

Fontes, et. al. (2005) indicate that the capital raised by companies, comes directly from the public, and there is a presumption that investors rely on information that is in the public domain. As a result of this, there is a tendency towards a high standard of the disclosure needs of shareholders, both existing and prospective ones, determining the rules of accounting. Within the literature related to accounting, many researchers such as Ampofo and Sellani (2005) and Illiano and Thornton (2007) state the distinction between two standards of accounting used in preparing the financial statements namely: the US Generally Accepted Accounting Principles (GAAP) which are mainly used in the United States and the International Financial Reporting Standards (IFRSs) which have been issued since 2001.

The study highlighted some differences between the two standards which related to the stock performance, there are several important implications to accounting standards borne out of the differing roles of the accounting systems. For example, contractual contingencies are generally recognised by US GAAP as at fair value (minus the 'reliably measurable' filter), however, non-contractual contingencies are only recognised if they are likely to be defined as an asset or a liability by the date of acquisition (KPMG, 2009). Following sucha recognition, the initial measurement is retained by the entity until the receipt of new information, at which point liabilities are measured at the higher fair value and the amount recognised under the FAS 5 (Nellessen and Zuelch, 2011). However, assets are measured at the lower fair value and the best estimate that can be ascertained for an amount for future settlement (Songlan and Kathryn, 2010).

On the other hand, the contingent liabilities at fair value are recognised by IFRSs so long as their fair values are measured reliably (Al-Yaseen and Al-Khadash, 2011). As such the contingent liability is measured at the amount that is higher from that originally recognised and higher than

the amount that would be recognised when ascertained under IAS 37, with the contingent assets not being recognised (Molland and Clift, 2008). Also, under the US GAAP there is no requirement for any captions for the income statement, with either the single or multiple step format sufficing to show the income (Bishop, et. al., 2005), whilst for IFRSs there is a requirement for minimum captions in income statement (Hassan, 2008). A further main difference between US GAAP and IFRSs, in respect of the unusual income and the definition of the discontinued operations, is that the former system has a definition of discontinued operations that is wider as it includes reportable business or geographical segments or major components (Mansfield and Lorenz, 2004).

In conclusion, whilst both U.S. GAAP and the IFRSs are primarily set by the private sector, with a focus upon the needs of investors, differences do exist between the two sets of rules in which it has direct and indirect effects on the stock performance.

This study has used two main tools of methods to gather primary data. The first method was through distributing survey in the two stocks to gather the views of financial managers, External Auditors, and investors about the impact of adopting IFRSs. The second method used was secondary data aiming to examine the impact of IFRSs on share prices of the listed firms in both ADX and DFM.

The survey questions were analysed using the SPSS software using different tests such as Frequency, t-test, ANOVA test and correlation test to find out the differences in the views of both respondents from Abu Dhabi and Dubai in order to answer the research questions number two and three. In addition, the research used both univariate and multivariate analysis to test the hypothesis. A multiple regression model was used based on Ohlson model and modified Ohlson model to study the impact of IFRSs adoption on share prices in both ADX and DFM which will provide the answer for research questions four, five and six.

ANOVA test was used to examine the statistical characteristics of the performance indicators in order to evaluate whether the main five performance measures chosen in this study, namely return on equity; return on invested capital; debt to equity ratio; current ratio and Gross profit margin have significantly changed following the adoption of IFRSs. This was performed for both

markets. The researcher also performed a number of tests to evaluate changes in the standard deviation and the median of the five chosen performance measures following the adoption of IFRSs to evaluate any significant changes in the two markets pre and post the adoption.

- **What are the main problems facing the understanding the implications of adopting the IFRSs on the accounts of listed firms in the developing countries?**

It appears from the overall findings that the majority of respondents agreed that the adoption of IFRSs would be beneficial to UAE. Most respondents agreed that financial reporting would improve in terms of relevancy, reliability, comparability, understandability, and as a result both foreign investment and investor confidence would increase. However, some participants disagreed that the adoption of IFRSs would improve the quality of financial reporting of other listed companies. The results also suggest that although in some cases US GAAP provide as much disclosure as IFRSs do or more, IFRSs provide more disclosure in general than US GAAP and cover most cases in detail. This result is associated with the questionnaire results that confirmed that the level of disclosure has increased compared to the US GAAP, which consistent with the Sharia requirement of full disclosure (Lewis, 2001; Napier, 2007).

However, some participants suggest that the level of disclosure may be affected by political influence and the effort of accounting preparers to guard their own self-interests by trying to reduce the costs which greater disclosure may incur. This may be particularly true in view of the weak regulatory and enforcement mechanism in place. As a result, users may not find the information that they require, which would be reflected in their ability to make decisions.

Regarding the usefulness of IFRSs, it appears from the findings that there is overall agreement that financial reporting based on IFRSs may be useful for decision-making. As with the adoption of IFRSs, the results suggest that the quality of financial reporting and level of disclosure has improved. However, some respondents suggest that level of usefulness is influenced by the weakness of the enforcement body. Moreover, these respondents think that decision usefulness is also influenced by the strong lobbying of accounting regulators and preparers. In addition, it is affected by the education levels of users and their lack of knowledge of IFRSs. Therefore, they think that even after the adoption of IFRSs, this objective may still be questionable.

On the other hand, the study found many problems occurred due to the adoption of IFRSs. The findings suggest that the adoption of IFRSs will be associated with some difficulties and costs for some companies on both stock markets. However, the results indicate that these problems and costs may apply more to small companies and local accounting firms rather than the Big Four, for whom the adoption of IFRSs will be advantageous.

The results suggest that one problem is accountants' unfamiliarity with the use of professional judgement, particularly regarding especially problematic standards, such as IAS 32 and IAS 39; these two standards are highly technical. Other standards that could also cause problems are IFRS 2, IFRS 7 and IFRS 8. It may be suggested that some dimensions of Hofstede (1980) and Gray (1988), such as high power distance and high levels of statutory control and secrecy, may dominate some accounting practices at present, in addition to the weakness of accounting education, contribute to exacerbating this problem related to the adoption of IFRSs. It suggests that accounting users may find decision-making difficult, as their ability to do so may be affected by professional judgement or the lack thereof.

Another problem may arise from the use of fair value. Although most participants agreed on the advantages of fair value over historical cost, this is inconsistent with the questionnaire results. They expressed their concern about the use of fair value measurements, as currently there is a lack of an active market, a lack of suitably qualified individuals and a weak regulatory body.

The findings also revealed that there is limited knowledge of IFRSs on the part of accountants, which may be attributable to the lack of appropriate education and training. Some respondents argue that even with the current training sessions on IFRSs, the number and content of training sessions is inadequate.

This raises questions regarding the benefit of the content of current training sessions to increasing knowledge of IFRSs among accountants. The findings also show that the dearth of materials on IFRSs also contributes to creating this problem. The results suggest that training accounting staff will be the main expense other listed companies will incur, although this will be a way in which other listed companies will increase their knowledge of IFRSs. Furthermore, the findings underline that alternative methods of IFRSs may present a problem, as there are some

IFRSs which may limit the compatibility that the IASB is attempting to achieve through accounting harmonisation. Some participants mentioned, as an example, that some standards allow use of fair value or historical cost. Moreover, more than one method can be used to measure the cost of inventory. However, some of the participants in this study suggested that alternative methods may be advantageous, as it would become possible to choose methods appropriate to the UAE environment while at the same time achieving accounting harmonisation. The results also reveal that other costs, such as changes in software systems and consultation services, were incurred by listed companies in both markets, as they will need to adjust their systems to be compatible with new disclosure requirements.

- **What is the level of users' understanding towards the benefits and disadvantages of adoption of IFRSs?**

The main users of the UAE are institutional investors financial analysts, "International chamber of commerce in UAE" (ICC), creditors, individual investors, the government, and academics in the accounting field, these have been identified through the findings of this study. It is suggested in this study that even though they are acknowledged as being key users by preparers, generally key users in UAE, such as those who symbolize the private sector (e.g. financial analysts and fund managers), experience a lack of disclosure and transparency on the part of companies at ADX more than DFM.

A few respondents stated that there is inadequate access during the previous few years. In relation to this, financial analysts could attain additional information from the SCA as well as from financial reports. The SCA supports financial analysts in receiving information as it is of relevance when making investment decisions, possibly because they consider that this will help develop and grow the DFM performance. The respondents stated that when the SCA was established in 2003 they began encouraging listed companies on the DFM and observing their disclosure; as a consequence there was an increase of information for investors.

The relations between FDI, multinational companies (MNCs) and big accounting firms, can be seen to work together in the direction of the adoption of IFRSs. Many have stated that investors have much more confidence in the dependability of financial statements that have been audited by international accounting firms that are associated with one of the big International Accounting

Firms (IAFs) than in those that have been audited by local accounting firms with no such an association (Al-Shammari, et. al., 2007).

Although there are numerous organizations in the UAE like the SCA, ADCCI, and DCCI, who have the aim to assist local investors making appropriate decisions; the results of this research highlights the leading accounting users in both ADX and DFM stating that commonly they were incapable of acquiring sufficient information from the financial reporting of firms on both stock markets helping to assist them to make decisions. Consequently, users are then unable to make accurate decisions. Users have genuinely expressed the need for listed firms to disclose more and clearer information.

- **What is the performance of shares pre-adoption and post adoption of the IFRSs in both ADX and DFM?**

Both EPS and BVPS were individually very significant in ADX, although at the BVPS was even more informative than EPS. The model provided a good explanation of the variation in share prices. Following the adoption of IFRSs in Abu Dhabi, the overall Ohlson's model was also very significant in explaining share price. Once again EPS and BVPS were individually significant explanatory variables in share price determination. On the other hand, overall Ohlson's model is highly significant in DFM. EPS is individually very significant and BVPS is even more significant. This model explains 42% of the variation in share prices in Dubai, as indicated by the R^2 of the Ohlson model. EPS and BVPS are individually significant with equal importance. The model explains 61.05% of the variations in DFM share prices following the adoption of IFRSs. It follows that there is support for H3/1 *'the independent variables have no significant increased effects on the value relevance of accounting information in ADX'* and hypothesis H3/2 *'the independent variables have no significant increased effects on the value relevance of accounting information in DFM'* {see table 1.1}.

The results of the Ohlson's model for both ADX and DFM prior to the adoption of IFRSs indicate that both Markets have similar significance of EPS and BVPS. However, ADX has a higher explanatory power, increasing the adjusted R^2 by around 20% when compared with DFM.

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Additionally, although the adoption of IFRSs has improved the value relevance of accounting information in both markets and although the improvement has been greater in DFM, indicated by a shift from 42% to 61 % compared with a smaller shift from 62% to 71 % in Abu Dhabi, nevertheless the Ohlson model for ADX after IFRSs adoption exhibits greater value relevance than that for the DFM. It follows that hypothesis H3/3 *'there is no significant differences in the impact of adopting IFRSs between ADX and DFM'* is rejected.

- **What is the main impact of adopting IFRS on the share price and firms performance in both ADX and DFM?**

The results of this study are significant. This is the first study that actually tries to measure the effectiveness of IFRSs in Middle East following their compulsory adoption, comparing the value relevance of US GAAP with that of IFRSs in two different environments, using newly published annual financial reporting data from post-adoption periods.

IFRSs promised to increase the transparency of financial statements and its usefulness to investors and, according to the research results, they indeed increased the value relevance of accounting information. This provides an answer to this research question. However, the relative impact of IFRSs adoption on share prices was higher in Dubai than in Abu Dhabi, a result that rejects the second research hypothesis.

The second stage was achieved by employing the modified Ohlson's model to both stock markets. On the whole, the model explains 79% of the variation in share prices as indicated by the adjusted R^2. However, the presence of multicollinearity was detected revealing high correlation between the accruals variable and three other independent variables namely EPS, BVPS and dividend payout. Consequently, as a further stage, in the analysis the accruals variable was replaced by the residuals arising from an orthogonalisation process. Following orthogonalisation, the adjusted R^2 of 79% remained the same and similarly the significance probabilities of the independent variables remained the same.

Following the adoption of IFRSs, the explanatory power of the model is increased to 88% as indicated by the adjusted R^2 after considering the orthogonalisation process. EPS, BVPS, DIV

Payout, Log size, leverage and Accruals are all significant. In terms of explaining share prices, the ADX is better than DFM which holds both pre IFRSs and post IFRSs. However, in terms of the change in the explanatory power R^2, the effects are more pronounced in DFM than in ADX. This indicates that IFRSs has had a bigger impact in DFM than in ADX. In both markets the introduction of IFRSs has improved the information value associated with accounting information.

- **What are the key implications for adopting IFRSs on the profitability of firms in both ADX and DFM?**

To address this research question, five different measures of performance were selected in the main areas of profitability and liquidity, namely return on equity; return on invested capital; debt to equity; current ratio and Gross margin. The ANOVA test statistics for the main five variables used to measure companies' profitability in ADX revealed that there was an improvement in the mean ROE following IFRSs adoption. There was also a reduction in the standard deviation of ROE. The significant difference in standard deviations violated an assumption behind ANOVA and so Kruskal-Wallis test was adopted instead, and revealed a significant difference in the median ROE following IFRSs adoption.

The ANOVA F-ratio for the other four variables, namely ROIC, DTER, CR, GM was not statistically significant at the prescribed level. This concludes that the adoption of IFRSs makes no difference with regard to these four variables. There was also a reduction in the standard deviation of all these variables. The significant difference in standard deviations violated an assumption behind ANOVA and so Kruskal-Wallis test was adopted instead, and revealed significant difference in the median for all these four variables, except debt to equity ratio following IFRSs adoption.

For the sake of comparability, the same five performance measures previously used with the ADX were used for the DFM, the results of which indicated that there was some improvement in the mean ROE following IFRSs adoption. There was also a reduction in the standard deviation of ROE. The significant difference in standard deviations violated an assumption behind ANOVA and so Kruskal-Wallis test was adopted instead, and revealed a significant difference in the median ROE at the 95% confidence level following IFRSs adoption. The ANOVA F-ratio for

DTER, CR, GM were not statistically significant, but it was statistically significant for ROIC. It can be concluded that the adoption of IFRSs, there is no difference with regard to these three variables, but it makes a difference for the ROIC. There was also a reduction in the standard deviation of all these variables, except for the CR. The significant difference in standard deviations violated an assumption behind ANOVA and so Kruskal-Wallis test was adopted instead, and revealed significant differences in the median for these two variables, namely ROIC and GM, but no significant difference for the other two variables, namely DTER and CR, following IFRSs adoption.

From the preceding analysis, it can be seen that the profitability for ADX in terms of mean ROE significantly improved following IFRSs adoption. Correspondingly, the profitability for the DFM in terms of ROIC's mean, it has significantly improved following IFRSs adoption. In each case the standard deviation of these profitability measures substantially decreased. Also the medians of these profitability measures (pre-post) were each very different. Following IFRSs there were no major changes in the mean debt ratios, the mean current- ratios and the mean GM. However, the standard deviations of the debt ratios significantly reduced for DFM and ADX.

- **To make recommendations for both practitioners and policy makers based on the findings of the study to show the impact of adopting IFRSs on the firms' profitability and share performance.**

As this research has discussed many points that are related to the adoption of IFRSs and its impacts on share prices and performance of listed firms in both ADX and DFM, this objective highlights the main recommendations that have been drawn from the findings of this research.

The first recommendation is regarding the benefits of adopting IFRSs into the UAE stock exchanges. The findings of the research examined that adopting the IFRSs has improved the level of disclosure and the quality of financial performance. However, the lack of training and experience about the IFRSs has limited these advantages of the IFRSs. Simlai (2009) indicates that the quick pace of globalization over the last decade has enforced the FASB and IASB to quickly improve the quality of IFRSs to provide truly comparable and consistent standards. Therefore, it is advised for the practitioners in both ADX and DFM to increase the number and

quality of training courses for their staff in order to have an efficient skill that meet with the quick updating of the IFRSs standards.

In regards to the investors within the UAE stock exchange, it is advised for them that adopting the IFRSs into the UAE gave them the opportunity to compare the performance of the listed firms in the UAE stock exchanges with other listed firms from the same sector across different countries. This advantage increases the opportunity to gain a better return ratio for their investments. Moreover, the new disclosure required by the IFRSs improves the clarity of liabilities which in turn provides the investors with greater reassurance of the real values of firm's assets. However, investors are advised to attend some courses that help them to learn how the IFRSs affect their invested decision making.

In regards to the recommendations of this research that are provided for the policy makers in the UAE, it was examined in the findings of this research that both preparers and users of the financial statements in the UAE were supporting the AAA's decision to implement the IFRSs into the UAE listed firms. However, the policy makers in the UAE should consider the disadvantages of the IFRSs implementation in the UAE which have been discussed in this research in order to design an effective programme to the whole country to overcome such barriers. In addition, policy makers are advised to encourage the government to change the current materials within local universities and focus more to educate their prospective accountants about the new single accounting standards (IFRSs).

Moreover, the policy maker are advised to encourage more researches to be undertaken in order to examines ways to improve the performance of listed firms in both ADX and DFM, particularly to investigate how IFRSs could help the country to overcome the current financial crisis which has started since 2009, wherein the stock markets in the UAE have been witnessed a critical decline of the trading volume since the beginning of the financial crisis (Louh, 2011).

8.4. Contribution to knowledge

This thesis makes an original contribution to knowledge on the impact of IFRSs on shares' performance and financial indicators in four respects:

1. Firstly the findings of this study contribute to a greater understanding of the factors affecting the adoption of IFRSs in UAE stock markets (ADX and DFM) as well as assessing the extent to which IFRSs are suitable for the needs of United Arab Emirates. The results also contribute to a comprehension of the factors that impact on the accounting system in the country, and the extent to which this system is appropriate for local users' requirements by offering them sufficient information.

2. Moreover, the findings contribute to an awareness of the problems that may arise when developing countries make the transition to IFRSs. This study highlights the reasons for these problems and how they can be resolved. One of these reasons, according to the findings, is the lack of study material on IFRSs. This study therefore contributes to the literature through its investigation of IFRSs adoption in the developing country of UAE. The findings also contribute to understanding the effect of IFRSs adoption on the quality of financial reporting in UAE stock markets. It assists in exploring the degree to which financial reporting based on IFRSs could enhance the users' decision.

3. Within an Ohlson and modified Ohlson's framework, a comparison is made between Dubai and Abu Dhabi stock markets. This comparison is important because although the two states are located in one country, they are very different in the nature of the accounting system in the two states. So the study adds to the value relevance debate and provides evidence as to whether the nature of the accounting system employed really matters to share price determination with regard to the adoption of IFRSs.

4. An evaluation is made of the impact of IFRSs adoption on trading volume, an aspect which is usually neglected in value relevance research pertaining to stock performance.

5. An analysis is performed of the impact of IFRSs adoption on companies' performance as measured by selected financial indicators; an area which again is not yet extensively covered in the literature.

8.5 Research limitations

It is often acknowledged that every research is limited and this study is no exception. As this research focuses primarily on the accounting variables, it therefore does not examine the potential impact of the political and economic factors on share price. These are broad and major areas of study which are beyond the scope of this study and could be examined in future research. On the other hand, sources of finance, the link between accounting and taxation and cultural differences may have an impact on share prices as well as companies' financial performance and may constitute significant variables that affect share prices pre and post IFRSs adoption. The impact of those factors on share prices is beyond the swipe of this research and calls for further investigation in future research.

Secondly, the research focuses on two markets in UAE which is part of the Middle East countries and also is a developing country. The results of this research must be interpreted with caution and not generalised to all Arab countries and developing countries as different countries have different environments. Further researches must examine more countries in the Middle East in order to better understand the significance of the impact of IFRSs adoption on company and stock performance in Arab countries.

8.6. Research implications

This research has several implications. Firstly, it helps the investment community to better understand the role of financial reporting in leading investment decisions. Secondly, it motivates the standard-setting bodies in those countries where the adoption of IFRSs is not compulsory to consider passing laws and regulations that mandate the adoption of IFRSs, which will lead to more convergence of accounting standards all over the world and more benefits to all participants. Thirdly, it enhances financial statement analysis by companies in assessing potential mergers and takeovers, and in evaluating their own performance against competitors.

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8.7. Suggestions for future research

The researcher believes that this research study provides scope for further research to explore the value relevance of accounting information in the Middle East, following the compulsory adoption of IFRSs. Future research could be undertaken along these lines:

1) This research could be extended to cover more years (forwards). This helps to identify a clear trend on how the adoption of IFRSs in the Middle East changes the value relevance of accounting information over time. It will also help the new research to detect the impact of the recent global economic recession on the share performance, and what will be the ability of the IFRSs to face up this crisis.

2) Moreover, comparison between different countries in the Middle East must be considered in order to gain better insights on the comparative impact of IFRSs on share and company performance in the Middle East to find out the impact of IFRSs in the different accounting systems.

3) Additionally, researchers could look closely on how scale effects (market capitalisation) affect the value relevance of accounting information and make more comparisons across small, medium, and large capitalisation groups.

4) Another area for future research is to observe whether IFRSs adoption affected sectors within each country or across countries differently.

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The impacts of adopting IFRSs into UAE listed companies' profitability performance

Dear Manager

This questionnaire seeks your views and opinions about your work and experience as a financial manager in regards to the impact of the announcement from the UAE government to adopt the International Financial Reporting Standards (IFRSs) into its listed companies in both ADX and DFM. The survey, which forms part of my PhD, seeks your personal views, with there being no right or wrong answer. The survey is voluntary, although if you choose not to take part you will be giving up your chance to have your voice heard.

All your answers will be treated as completely confidential and results will be grouped together so no individual responses can be identified. The data will be analysed in a confidential way, at Liverpool John Moores University, in the United Kingdom, and no individual will be able to be traced.

The questionnaire should take no longer than 20 minutes to complete. Please, try to give as accurate answer as you can because your views will affect the theory we are trying to generate regarding the UAE environment. If you cannot answer any of the questions, please tick (I do not know) or just leave it blank)

Thank you for your responds and it is much appreciated

Glossary
IFRS = International Financial Reporting Standards
GAAP = Generally Accepted Accounting Principles
UAE = United Arab Emirates

1. What is the highest level of Education you have gained
   - ☐ Below Bachelor
   - ☐ Bachelor
   - ☐ Master
   - ☐ PhD or higher

2. How many years of experience do you have?
   - ☐ Less than 5 years
   - ☐ 5-10 years
   - ☐ 11-15 years
   - ☐ 16 years or over

3. Do you have accounting or finance professional qualification
   - ☐ None
   - ☐ UAE-CPA
   - ☐ CPA
   - ☐ Others

4. Please indicate the UAE's state of residence for your firm
   - ☐ Abu Dhabi
   - ☐ Dubai
   - ☐ Other, please indicate which state

5. Please indicate your company's industry sector
   Financial services;
   Health services and government;
   Consumer and industrial products;
   Energy and resources;
   Technology,
   media, and telecommunications
   Other (specify).................

6. When did your company adopt IFRS in its consolidated financial statements for the first time?
   - ☐ Before 2005
   - ☐ After 2005

7. What would you say has been the impact of IFRS on your company's consolidated loss and profits statement?
   - ☐ Higher profit
   - ☐ Higher loss
   - ☐ no change
   - ☐ Lower profit
   - ☐ Lower loss

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8. Is adopting IFRS providing information with more transparency and consistency than national GAAP?
- ☐ Yes
- ☐ No

9. Please rank the following users of your financial Reports (FR) (number 5 is very significant user and 1 is the least significant user)

Groups of users	1	2	3	4	5
Institutional Investors					
Central Bank of UAE					
Government					
Financial analyst					
Individual investors					
Creditors					
Academics in accounting fields					
Customers					
Employees					
Suppliers					

10. To what extent do your Financial Reports (which were prepared under US GAAP) meet the users' needs? (number 5 is fully met their needs and number 1 is not meeting their needs at all)

Groups of users	1	2	3	4	5
Institutional Investors					
Central Bank of UAE					
Government					
Financial analyst					
Individual investors					
Creditors					
Academics in accounting fields					
Customers					
Employees					
Suppliers					

11. To what extent do your Financial Reports (which were prepared under IFRSs) meet the users' needs? (number 5 is fully met their needs and number 1 is not meeting their needs at all)

Groups of users	1	2	3	4	5
Institutional Investors					
Central Bank of UAE					
Government					
Financial analyst					
Individual investors					
Creditors					
Academics in accounting fields					
Customers					
Employees					
Suppliers					

12. In regards to calculating Zakat; what are the sections should be included in the Financial Reports (please give number 5 for the most important and 1 for least important)

	1	2	3	4	5
full disclosure of the relevant					
information to help in making decision					
financial instruments not related to interest					
information that helps to calculate Zakat					
disclosure of interest paid					

13. What do you think the suitable method of providing the users the suitable information to calculate their zakat

....
....
....
....
....
....

14. Please refer to the extra costs was incurred during IFRSs implementation

- ☐ Training of accounting staff
- ☐ Consulting service
- ☐ Others; ....
- ☐ Purchase of technical literature
- ☐ Changes to software systems

15. What are the cultural factors that may influence the adoption of IFRSs in UAE listed firms and what issues may act as barriers to their adoption (please give number 5 for the highest influence factor and number 1 for the lowest)

Culture issues	1	2	3	4	5
Zakat requirements					
Language issues					
UAE Pride					
Unsuitability of some IFRSs procedures to the environment in UAE					
Lack of accounting knowledge on part of the financial statement users					
Other cultural issues, please specify					

16. Which influences (cultural issues) do you think may be barriers to the full adoption of IFRSs by UAE? And Why

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17. In your view, to what extent will each of the following groups influence the adoption of IFRSs in UAE?(please give number 5 for the most powerful factor and number 1 to the least powerful)

Factors	1	2	3	4	5
International auditing firms					
Foreign investments					
Multinational companies					
Global capital market					
Stock exchange					
Academic in accounting fields					
International lending organisations					
Local users' needs					

18. In your view, which of the following will benefit from the IFRSs adoption in the UAE listed firms? (please give number 5 for the highest benefit and number 1 to the lowest)

factors	1	2	3	4	5
Multinational companies					
Foreign investments					
International auditing firms					
Global capital market					
Stock exchange					
International lending organisations					
Academic in accounting fields					
Local users' needs					

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19. Please rank the following as your thinks regarding the affects of adopting IFRS into financial statements. (Give number One to the most important and Five to the lowest)
   - ☐ Decreased cost of capital
   - ☐ Greater mobility of capital
   - ☐ Greater efficiency in the allocation of resources
   - ☐ Improved comparable financial reporting
   - ☐ Decrease the opportunities for earnings management

20. If you are given a choice between US GAAP and IFRS to prepare your company's financial statements reporting, which standards would you prefer,
   - ☐ US GAAP
   - ☐ IFRS
   - ☐ Either US GAAP or IFRS

21. Rank the following in order to the most significant, What do you see as the most significant obstacle/reason which facing adopting IFRS, (give number One to the most significant and number six to the lowest)
   - ☐ Total cost and complexity of conversion
   - ☐ Your competition does not use IFRS
   - ☐ Lack of a consistent IFRS application globally;
   - ☐ IFRS is not as comprehensive as national GAAP;
   - ☐ IFRS is not viewed as acceptable as national GAAP by investors and analysts;
   - ☐ Other

22. Do you use IFRS accounting for your internal reporting?
   - ☐ Yes
   - ☐ No
   - ☐ Do not know

23. If yes, has this been beneficial for management purposes?
   - ☐ Yes
   - ☐ N/A
   - ☐ No
   - ☐ Do not know

24. Did your company make a presentation or hold other meetings with investors to inform them of the implications of transition to IFRS on your company's consolidated financial statements?
   - ☐ Yes
   - ☐ No

25. Thinking about your company's first IFRS consolidated financial statements only what has been the effect of the introduction of IFRS on the amount of dialogue between your company and investors? There has been
   - ☐ Much less dialogue
   - ☐ Slightly less dialogue
   - ☐ No change in dialogue
   - ☐ Slightly more dialogue
   - ☐ Much more dialogue

26. Do you believe that your company's share price has been affected by the introduction of IFRS?

☐ The share price has fallen by a large amount
☐ The share price has fallen slightly
☐ No, there has been no effect on share price
☐ The share price has risen slightly
☐ The share price has risen by a large amount

27. Please indicate the extent to which you agree or disagree with the statements below

	Strongly disagree	Slightly disagree	Neither	Slightly agree	Strongly agree
IFRS has improved the efficiency of capital markets	1	2	3	4	5
IFRS has made consolidated financial statements easier for investors to understand	1	2	3	4	5
IFRS has made financial statements easier for regulators and supervisors to use	1	2	3	4	5
IFRS has made consolidated financial statements easier to compare across countries	1	2	3	4	5
IFRS has made consolidated financial statements easier to compare across competitors within the same industry sector	1	2	3	4	5
IFRS has improved the quality of disclosure in consolidated financial statements	1	2	3	4	5
IFRS has changed the way we measure the profitability of the firm	1	2	3	4	5
IFRSs are usually better than US GAAP and it would be preferable to apply	1	2	3	4	5
All IFRSs are suitable for the UAE stock markets	1	2	3	4	5
IFRSs were established to meet users' needs in developed countries which would not capable on UAE	1	2	3	4	5
There is no need to adopt IFRSs in UAE as US GAAP is enough	1	2	3	4	5

28. In regards to perceptions of fair value, Please indicate the extent to which you agree or disagree with the statements below

Statements	Strongly disagree	Slightly disagree	Neither	Slightly agree	Strongly agree
Investment property should be measured by fair value method	1	2	3	4	5
Investment property should be measured by historical cost method	1	2	3	4	5
Use of fair value measurement in investment property provides useful and accurate information for economic decision making	1	2	3	4	5
Fair value is better method to calculate Zakat	1	2	3	4	5

29. What do you think about the timing of adopting the IFRS in the UAE?
   ☐ IFRSs should be adopted in earlier time
   ☐ It is too early to implement IFRSs in 2005
   ☐ It is good time to adopt IFRSs in 2005
   ☐ IFRSs should not be adopted in UAE
   ☐ Do not know

30. Thinking now about your current level of knowledge and understanding of IFRS, and your own personal experiences of it. What effect do you think the adoption of IFRS has had on the overall quality of your company's consolidated financial statements?
   ☐ It has made them significantly worse
   ☐ It has made them slightly worse
   ☐ It has had no effect
   ☐ It has made them slightly better quality
   ☐ It has made them significantly better quality

31. What do you think the main costs and benefits of adopting IFRS to your company?

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32. Can you think of any ways of improving IFRS

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33. Which influences (cultural issues) do you think may be barriers to the full adoption of IFRSs by UAE? And Why?

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34. Do you thing that listed companies consider the society interests when they make their decisions? And how if they do?

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35. Are there any other comments you wish to make about the introduction of IFRS in regards to its effectiveness on the profitability performance of listed companies in the UAE in general?

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Thank you for your cooperation

The impacts of adopting IFRSs into UAE listed companies' profitability performance

Dear Investor

This questionnaire seeks your views and opinions about your experience as an investor in regards to the impact of the announcement of the UAE government to adopt the International Financial Reporting Standards (IFRSs) into its listed companies in both ADX and DFM. The survey, which forms part of my PhD, seeks your personal views, with there being no right or wrong answer. The survey is voluntary, although if you choose not to take part you will be giving up your chance to have your voice heard.

All your answers will be treated as completely confidential and results will be grouped together so no individual responses can be identified. The data will be analysed in a confidential way, at Liverpool John Moores University, in the United Kingdom, and no individual will be able to be traced.

The questionnaire should take no longer than 20 minutes to complete. Please, try to give as accurate answer as you can because your views will affect the theory we are trying to generate regarding the UAE environment. If you cannot answer any of the questions, please tick (I do not know) or just leave it blank)

Thank you for your responds and it is much appreciated

Glossary
IFRS = International Financial Reporting Standards
GAAP = Generally Accepted Accounting Principles
UAE = United Arab Emirates

1. What is the highest level of Education you have gained
   - ☐ Below Bachelor
   - ☐ Bachelor
   - ☐ Master
   - ☐ PhD or higher

2. How many years of experience do you have?
   - ☐ Less than 5 years
   - ☐ 5-10 years
   - ☐ 11-15 years
   - ☐ 16 years or over

3. Do you have accounting or finance professional qualification
   - ☐ None
   - ☐ UAE-CPA
   - ☐ CPA
   - ☐ Others

4. Please indicate your place of residence
   - ☐ Abu Dhabi
   - ☐ Dubai
   - ☐ Other state in the UAE
   - ☐ Other outside the UAE

5. How familiar would you say you are with international financial reporting standards (IFRS)
   - ☐ Very familiar
   - ☐ Quite familiar
   - ☐ Not very familiar
   - ☐ Not at all familiar

6. Please indicate which of the following industry sectors you currently invest in or track
   - ☐ Financial services;
   - ☐ Health services and government;
   - ☐ Consumer and industrial products;
   - ☐ Energy and resources;
   - ☐ Technology,
   - ☐ media, and telecommunications
   - ☐ other (please specify)

7. Which stock market are you currently investing in / track
   - ☐ Abu Dhabi
   - ☐ Dubai
   - ☐ Other (please specify)

8. Is adopting IFRS providing information with more transparency and consistency than national GAAP?

   ☐   Yes

   ☐   No

9. In regards to calculating Zakat; what are the sections should be included in the Financial Reports (please give number 5 for the most important and 1 for least important)

	1	2	3	4	5
Full disclosure of the relevant					
Information to help in making decision					
Financial instruments not related to interest					
Information that helps to calculate Zakat					
Disclosure of interest paid					

10. Please indicate the extent to which you agree of disagree with the statements below

	Strongly disagree	Slightly disagree	Neither	Slightly agree	Strongly agree
IFRS has improved the efficiency of capital markets	1	2	3	4	5
IFRS has made consolidated financial statements easier for investors to understand	1	2	3	4	5
IFRS has made financial statements easier for regulators and supervisors to use	1	2	3	4	5
IFRS has made consolidated financial statements easier to compare across countries	1	2	3	4	5
IFRS has made consolidated financial statements easier to compare across competitors within the same industry sector	1	2	3	4	5
IFRS has improved the quality of disclosure in consolidated financial statements	1	2	3	4	5
IFRS has changed the way we measure the profitability of the firm	1	2	3	4	5
IFRSs are usually better than US GAAP and it would be preferable to apply	1	2	3	4	5
All IFRSs are suitable for the UAE stock markets	1	2	3	4	5
IFRSs were established to meet users' needs in developed countries which would not capable on UAE	1	2	3	4	5
There is no need to adopt IFRSs in UAE as US GAAP is enough	1	2	3	4	5

11. Has the move to IFRS consolidated financial statements influenced the way you make your investment decisions?
- ☐ Yes, a great deal
- ☐ yes, a fair amount
- ☐ yes, but just a little
- ☐ No, not at all
- ☐ Do not know

12. How have your investment decisions been affected with adopting IFRS? (Please select one)
- ☐ I invest in countries I have not invested in previously
- ☐ I invest in sectors I have not invested in previously
- ☐ I have withdrawn funds from countries I invested in previously
- ☐ I have withdrawn funds from sectors I invested in previously
- ☐ I rely more on published consolidated financial statements compared to previously
- ☐ I rely less on published consolidated financial statements compared to previously
- ☐ I rely more on speaking to company management than previously

13. If you are given a choice between US GAAP and IFRS to view Financial Reports of companies you are investing in, which standards would you prefer,
- ☐ US GAAP
- ☐ IFRS
- ☐ Either US GAAP or IFRS

14. To what extent do you agree that information disclosed in the financial statement under US GAAP meets your needs?
- ☐ Totally agree
- ☐ Agree
- ☐ Disagree
- ☐ Totally disagree
- ☐ I do not know

15. To what extent do you agree that information disclosed in the financial statement under IFRS meet your needs?
- ☐ Totally agree
- ☐ Agree
- ☐ Disagree
- ☐ Totally disagree
- ☐ I do not know

16. To what extent do you agree or disagree with the statement IFRS more accurately reflects the economic reality of company performance and its position than previous GAAP
- ☐ Strongly disagree
- ☐ Slightly disagree
- ☐ Neither agree nor disagree
- ☐ Slightly agree
- ☐ Strongly agree

17. Did you attend company presentations or other meetings where companies explained to you the implications of the transition to IFRS on their consolidated financial statements?
    - ☐ Yes
    - ☐ No

18. Generally speaking, what would you say has been the impact on the quality of financial information of the disclosure presented in IFRS consolidated financial statements compared with the disclosure presented prior to the adoption of IFRS? The additional disclosure

    - ☐ Greatly detracts from the overall quality of the financial statements
    - ☐ Slightly detracts from the overall quality of the financial statements
    - ☐ No impact
    - ☐ Slightly enhances the overall quality of the financial statements
    - ☐ Greatly enhances the overall quality of the financial statements

19. Thinking of the introduction of IFRS, what has been the effect of the introduction of IFRS on the amount of dialogue between yourself and companies? There has been...
    - ☐ Much less dialogue
    - ☐ Slightly less dialogue
    - ☐ No change
    - ☐ Slightly more dialogue
    - ☐ Much more dialogue

20. Do you compare firms in other stock markets outside the UAE with the similar firms within the UAE markets when you make your decision to invest
    - ☐ Yes
    - ☐ No

21. What do you think the main benefits and costs of adopting IFRS to the companies that you track?
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22. Can you think of any ways of improving IFRS to make financial statements easier for you to understand?

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23. Which influences (cultural issues) do you think may be barriers to the full adoption of IFRSs by UAE? And Why?

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24. Are there any other comments you wish to make about the introduction of IFRS?

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25. Do you thing that listed companies consider the society interests when they make their decisions? And how if they do?

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Thank you for your cooperation

The impacts of adopting IFRSs into UAE listed companies' profitability performance

Dear Auditor

This questionnaire seeks your views and opinions about your experience as an Auditor in regards to the impact of the announcement of the UAE government to adopt the International Financial Reporting Standards (IFRSs) into its listed companies in both ADX and DFM. The survey, which forms part of my PhD, seeks your personal views, with there being no right or wrong answer. The survey is voluntary, although if you choose not to take part you will be giving up your chance to have your voice heard.

All your answers will be treated as completely confidential and results will be grouped together so no individual responses can be identified. The data will be analysed in a confidential way, at Liverpool John Moores University, in the United Kingdom, and no individual will be able to be traced.

The questionnaire should take no longer than 20 minutes to complete. Please, try to give as accurate answer as you can because your views will affect the theory we are trying to generate regarding the UAE environment. If you cannot answer any of the questions, please tick (I do not know) or just leave it blank)

Thank you for your responds and it is much appreciated

Glossary
IFRS = International Financial Reporting Standards
GAAP = Generally Accepted Accounting Principles
UAE = United Arab Emirates

1. What is the highest level of Education you have gained
   - ☐ Below Bachelor
   - ☐ Bachelor
   - ☐ Master
   - ☐ PhD or higher

2. How many years of experience do you have?
   - ☐ Less than 5 years
   - ☐ 5-10 years
   - ☐ 11-15 years
   - ☐ 16 years or over

3. Do you have accounting or finance professional qualification
   - ☐ None
   - ☐ UAE-CPA
   - ☐ CPA
   - ☐ Others

4. Please indicate your place of residence
   - ☐ Abu Dhabi
   - ☐ Dubai
   - ☐ Other state in the UAE
   - ☐ Other outside the UAE

5. Please indicate which of the following industry sectors your current client are from (you can pick more than one)
   - ☐ Financial services;
   - ☐ Health services and government;
   - ☐ Consumer and industrial products;
   - ☐ Energy and resources;
   - ☐ Technology,
   - ☐ media, and telecommunications
   - ☐ other (please specify)

6. Which stock market are you currently practice your auditing within
   - ☐ Abu Dhabi
   - ☐ Dubai
   - ☐ Both Abu Dhabi and Dubai
   - ☐ Other (please specify)

7. Is adopting IFRS providing information with more transparency and consistency than US GAAP?
   - ☐ Yes
   - ☐ No

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8. In regards to calculating Zakat; what are the sections should be included in the Financial Reports (please give number 5 for the most important and 1 for least imnt)

	1	2	3	4	5
Full disclosure of the relevant					
Information to help in making decision					
Financial instruments not related to interest					
Information that helps to calculate Zakat					
Disclosure of interest paid					

9. Please indicate the extent to which you agree of disagree with the statements below

	Strongly disagree	Slightly disagree	Neither	Slightly agree	Strongly agree
IFRS has improved the efficiency of capital markets	1	2	3	4	5
IFRS has made consolidated financial statements easier for investors to understand	1	2	3	4	5
IFRS has made financial statements easier for regulators and supervisors to use	1	2	3	4	5
IFRS has made consolidated financial statements easier to compare across countries	1	2	3	4	5
IFRS has made consolidated financial statements easier to compare across competitors within the same industry sector	1	2	3	4	5
IFRS has improved the quality of disclosure in consolidated financial statements	1	2	3	4	5
IFRS has changed the way we measure the profitability of the firm	1	2	3	4	5
IFRSs are usually better than US GAAP and it would be preferable to apply	1	2	3	4	5
All IFRSs are suitable for the UAE stock markets	1	2	3	4	5
IFRSs were established to meet users' needs in developed countries which would not capable on UAE	1	2	3	4	5
There is no need to adopt IFRSs in UAE as US GAAP is enough	1	2	3	4	5

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10. Has the move to IFRS consolidated financial statements influenced the way you make your Auditing decisions?
- ☐ Yes, a great deal
- ☐ yes, a fair amount
- ☐ yes, but just a little
- ☐ No, not at all
- ☐ Do not know

11. Overall problems and costs of the transition to IFRSs can you rank them please from one to 10 one is the most difficult problem and 10 is the easiest

Lack of qualified personnel and knowledge of IFRSSs	
Lack of knowledge and understanding of complicated standards	
Fair value issues	
Comparability with earlier financial reporting	
Training of accounting staff	
Changes to computer software systems	
Language issues	
Lack of professional specialists	
Readiness of management and the management community for disclosure	
Other problems and costs	

12. If you are given a choice between US GAAP and IFRS to view Financial Reports of companies you are Auditing, which standards would you prefer,
- ☐ US GAAP
- ☐ IFRS
- ☐ Either US GAAP or IFRS
- ☐ Do not know

13. To what extent do you agree that information disclosed in the financial statement under IFRS make it easier to practice auditing?
- ☐ Totally agree
- ☐ Agree
- ☐ Disagree
- ☐ Totally disagree
- ☐ I do not know

14. To what extent do you agree or disagree with the statement IFRS more accurately reflects the economic reality of company performance and its position than previous GAAP
- ☐ Strongly disagree
- ☐ Slightly disagree
- ☐ Neither agree nor disagree
- ☐ Slightly agree
- ☐ Strongly agree

15. What do you think the main benefits and costs of adopting IFRS to the companies that you Audit?

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16. Can you think of any ways of improving IFRS to make financial statements easier for you to understand?

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17. Which influences (cultural issues) do you think may be barriers to the full adoption of IFRSs by UAE? And Why?

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18. Are there any other comments you wish to make about the introduction of IFRS?

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19. Do you thing that listed companies consider the society interests when they make their decisions? And how if they do?

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Thank you for your cooperation

Education – all data

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bachelor	124	50.6	50.6	50.6
	Master	91	37.1	37.7	87.7
	PHD or over	30	12.3	12.3	100
	Total	245	100	100	

Education – Banking sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below Bachelor	1	5	5.9	5.9
	Bachelor	15	75	88.2	94.1
	Master	1	5	5.9	100
	PHD or over	0	0	0	100
Missing	System	3	15		
	Total	20	100	100	

Education – Other listed firms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below Bachelor	0	0.0	0	0
	Bachelor	77	58.8	62.6	62.6
	Master	39	29.8	31.7	94.3
	PHD or over	7	5.3	5.7	100.0
Missing	System	8	6.1		
	Total	131	100.0	100	

Education – External Auditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below Bachelor	0	0.0	0.0	0
	Bachelor	20	44.4	48.8	48.8
	Master	20	44.4	48.8	97.6
	PHD or over	1	2.2	2.4	100.0
Missing	System	4	8.9		
	Total	45	100	100	

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Education – Financial analysts

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below Bachelor	1	2.0	2.0	2.0
	Bachelor	11	22.4	22.4	24.5
	Master	31	63.3	63.3	87.8
	PHD or over	6	12.2	12.2	100.0
Missing	System	0	0.0		
	Total	49	100	100	

Experience - All data

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	20	8.2	8.3	8.3
	5-10 years	59	24.1	24.6	32.9
	11-15 years	69	28.2	28.8	61.7
	16 years of over	92	37.6	38.3	100.0
Missing	System	5	2.0		
	Total	245	100	100	

Experience - Banking Sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	4	20	20	20
	5-10 years	4	20	20	40
	11-15 years	3	15	15	55
	16 years of over	9	45	45	100
Missing	System	0	0	0	
	Total	20	100	100	

Experience - Other listed firms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	10	7.7	7.7	7.7
	5-10 years	27	20.8	20.8	28.5
	11-15 years	58	44.6	44.6	73.1
	16 years of over	35	26.9	26.9	100.0
Missing	System	0	0.0	0.0	
	Total	130	100	100	

Experience - External Auditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	4	8.9	9.3	9.3
	5-10 years	13	28.9	30.2	39.5
	11-15 years	9	20.0	20.9	60.5
	16 years of over	17	37.8	39.5	100.0
Missing	System	2	4.4		
	Total	45	100	100	

Experience - Financial Analysts

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	0	0.0	0.0	0.0
	5-10 years	8	16.3	16.3	16.3
	11-15 years	25	51.0	51.0	67.3
	16 years of over	16	32.7	32.7	100.0
Missing	System	0	0.0		
	Total	49	100	100	

Professional qualifications - All Data

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	None	47	19.2	22.5	22.5
	UAE-CPA	56	22.9	26.8	49.3
	CPA	86	35.1	41.1	90.4
	Others	20	8.2	9.6	100.0
Missing	System	36	14.7		
	Total	245	100	100	

Professional qualifications - Banking Sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	None	8	40.0	44.4	44.4
	UAE-CPA	2	10.0	11.1	55.6
	CPA	6	30.0	33.3	88.9
	Others	2	10.0	11.1	100.0
Missing	System	2	10.0		
	Total	20	100	100	

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Professional qualifications - Other Listed Firms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	None	37	28.2	33.0	33.0
	UAE-CPA	11	8.4	9.8	42.9
	CPA	52	39.7	46.4	89.3
	Others	12	9.2	10.7	100.0
Missing	System	19	14.5		
	Total	131	100	100	

Professional qualifications - External Auditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	None	1	2.2	2.6	2.6
	UAE-CPA	10	22.2	25.6	28.2
	CPA	25	55.6	64.1	92.3
	Others	3	6.7	7.7	100.0
Missing	System	6	13.3		
	Total	45	100	100	

Professional qualifications - Financial Analysts

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	None	1	2.0	2.5	2.5
	UAE-CPA	33	67.3	82.5	85.0
	CPA	3	6.1	7.5	92.5
	Others	3	6.1	7.5	100.0
Missing	System	9	18.4		
	Total	49	100	100	

Residence of Firms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Abu Dhabi	42	27.8	27.8	27.8
	Dubai	45	29.8	29.8	57.6
	Others	64	42.4	42.4	100.0
Missing	System	0	0.0		
	Total	151	100	100	

Industry sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Financial services	23	15.2	15.2	15.2
	Health services	15	9.9	9.9	25.2
	Consumer and industrial	57	37.7	37.7	62.9
	Energy and resources	14	9.3	9.3	72.2
	Technology	9	6.0	6.0	78.1
	Media	7	4.6	4.6	82.8
	Others	26	17.2	17.2	100.0
Missing	System	0	0.0		
	Total	151	100	100	

Time of adopting IFRSs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Before 2005	30	19.9	19.9	19.9
	In 2005	121	80.1	80.1	100.0
	Total	151	100	100	

Users - Institutional Investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	6	29.0	29.0	29.0
	Agree	12	60.0	60.0	89.0
	Not sure	2	11.0	11.0	100.0
	Disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	20	100.0	100.0	

Users - Individual investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	7	34.0	34.0	34.0
	agree	11	53.0	51.0	85.0
	not sure	3	13.0	15.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	20	100.0	100.0	

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Users - Academics

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	6	31.4	31.4	31.4
	agree	11	54.6	54.6	86.0
	not sure	3	14.0	14.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	20	100.0	100.0	

Users - Government

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	4	22.1	22.1	22.1
	agree	11	56.9	56.9	79.0
	not sure	4	21.0	21.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	20	100.0	100.0	

Users - Financial analyst

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	5	24.6	24.6	24.6
	agree	10	52.4	52.4	77.0
	not sure	5	23.0	23.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	20	100.0	100.0	

Users - creditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	4	17.9	17.9	17.9
	agree	9	46.1	46.1	64.0
	not sure	6	28.8	28.8	92.8
	disagree	1	2.5	2.5	95.3
	strongly disagree	1	4.7	4.7	100.0
	Total	20	100.0	100.0	

Users - Central Bank of UAE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	2	8.7	8.7	8.7
	agree	4	20.3	20.3	29.0
	not sure	13	63.8	63.8	92.8
	disagree	1	3.2	3.2	96.0
	strongly disagree	1	4.0	4.0	100.0
	Total	20	100.0	100.0	

Users - Employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	1	7.3	7.3	7.3
	agree	4	20.7	20.7	28.0
	not sure	10	50.8	50.8	78.8
	disagree	3	15.2	15.2	94.0
	strongly disagree	1	6.0	6.0	100.0
	Total	20	100.0	100.0	

Users - suppliers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	1	5.7	5.7	5.7
	agree	8	38.3	38.3	44.0
	not sure	6	27.6	27.6	71.6
	disagree	4	20.1	20.1	91.7
	strongly disagree	2	8.3	8.3	100.0
	Total	20	100.0	100.0	

Users - customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	1	6.7	6.7	6.7
	agree	3	16.3	16.3	23.0
	not sure	8	41.2	41.2	64.2
	disagree	5	25.0	25.0	89.2
	strongly disagree	2	10.8	10.8	100.0
	Total	20	100.0	100.0	

Served (IFRS) - Institutional Investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	5	24.0	24.0	24.0
	agree	14	70.0	70.0	94.0
	not sure	1	6.0	6.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	20	100.0	100.0	

Served (IFRS) - Individual investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	7	34.0	34.0	34.0
	agree	10	51.0	51.0	85.0
	not sure	3	15.0	15.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	20	100.0	100.0	

Served (IFRS) - Academics

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	6	31.4	31.4	31.4
	agree	11	53.6	53.6	85.0
	not sure	3	15.0	15.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	20	100.0	100.0	

Served (IFRS) - Government

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	5	26.5	26.5	26.5
	agree	10	51.5	51.5	78.0
	not sure	4	22.0	22.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	20	100.0	100.0	

Served (IFRS) - financial analyst

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	6	30.4	30.4	30.4
	agree	10	47.6	47.6	78.0
	not sure	4	22.0	22.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	20	100.0	100.0	

Served (IFRS) - Creditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	4	21.8	21.8	21.8
	agree	11	56.2	56.2	78.0
	not sure	4	22.0	22.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	20	100.0	100.0	

Served (IFRS) - Central Bank of UAE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	3	14.4	14.4	14.4
	agree	7	33.6	33.6	48.0
	not sure	9	44.8	44.8	92.8
	disagree	1	3.2	3.2	96.0
	strongly disagree	1	4.0	4.0	100.0
	Total	20	100.0	100.0	

Served (IFRS) - Employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	3	14.6	14.6	14.6
	agree	8	41.4	41.4	56.0
	not sure	7	36.8	36.8	92.8
	disagree	1	5.2	5.2	98.0
	strongly disagree	0	2.0	2.0	100.0
	Total	20	100.0	100.0	

Served (IFRS) - Suppliers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	2	9.2	9.2	9.2
	agree	7	34.8	34.8	44.0
	not sure	10	48.8	48.8	92.8
	disagree	1	4.1	4.1	96.9
	strongly disagree	1	3.1	3.1	100.0
	Total	20	100.0	100.0	

Served (IFRS) - Customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	3	16.5	16.5	16.5
	agree	8	40.5	40.5	57.0
	not sure	6	28.8	28.8	85.8
	disagree	2	10.0	10.0	95.8
	strongly disagree	1	4.2	4.2	100.0
	Total	20	100.0	100.0	

Zakat1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	1	6.6	6.6	6.6
	agree	3	15.4	15.4	22.0
	not sure	7	35.0	35.0	57.0
	disagree	5	27.2	27.2	84.2
	strongly disagree	3	15.8	15.8	100.0
	Total	20	100.0	100.0	

Zakat2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	2	9.1	9.1	9.1
	agree	5	25.9	25.9	35.0
	not sure	4	20.0	20.0	55.0
	disagree	7	35.2	35.2	90.2
	strongly disagree	2	9.8	9.8	100.0
	Total	20	100.0	100.0	

Zakat3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	3	13.0	13.0	13.0
	agree	10	49.0	49.0	62.0
	not sure	3	16.0	16.0	78.0
	disagree	2	10.0	10.0	88.0
	strongly disagree	2	12.0	12.0	100.0
	Total	20	100.0	100.0	

Zakat4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	1	6.7	6.7	6.7
	agree	3	16.3	16.3	23.0
	not sure	8	39.0	39.0	62.0
	disagree	3	15.0	15.0	77.0
	strongly disagree	5	23.0	23.0	100.0
	Total	20	100.0	100.0	

Useful information to Zakat

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	additional disclosure	12	60.0	60.0	60.0
	provide information as income tax	6	30.0	30.0	90.0
	no comments	2	10.0	10.0	100.0
	Total	20	100.0	100.0	

Users - Institutional Investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	33	25.0	25.0	25.0
	agree	92	70.0	70.0	95.0
	not sure	7	5.0	5.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	131	100.0	100.0	

Users - Individual investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	36	27.8	27.8	27.8
	agree	68	51.7	51.7	79.5
	not sure	27	20.5	20.5	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	131	100.0	100.0	

users - Academics

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	36	27.6	27.6	27.6
	agree	48	36.6	36.6	64.2
	not sure	30	22.9	22.9	87.1
	disagree	10	7.9	7.9	95.0
	strongly disagree	7	5.0	5.0	100.0
	Total	131	100.0	100.0	

users - Government

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	29	21.8	21.8	21.8
	agree	55	42.3	42.3	64.1
	not sure	12	8.9	8.9	73.0
	disagree	24	18.0	18.0	91.0
	strongly disagree	12	9.0	9.0	100.0
	Total	131	100.0	100.0	

users - financial analyst

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	48	36.7	36.7	36.7
	agree	75	57.5	57.5	94.2
	not sure	8	5.8	5.8	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	131	100.0	100.0	

users - creditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	30	23.2	23.2	23.2
	agree	78	59.8	59.8	83.0
	not sure	22	17.0	17.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	131	100.0	100.0	

users - central bank of UAE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	36	27.7	27.7	27.7
	agree	85	64.7	64.7	92.4
	not sure	1	.6	.6	93.0
	disagree	5	3.5	3.5	96.5
	strongly disagree	5	3.5	3.5	100.0
	Total	131	100.0	100.0	

users - Employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	14	11.1	11.1	11.1
	agree	41	31.5	31.5	42.5
	not sure	36	27.8	27.8	70.3
	disagree	20	15.2	15.2	85.5
	strongly disagree	19	14.5	14.5	100.0
	Total	131	100.0	100.0	

users - suppliers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	16	12.0	12.0	12.0
	agree	59	45.2	45.2	57.2
	not sure	12	9.0	9.0	66.2
	disagree	38	29.1	29.1	95.3
	strongly disagree	6	4.7	4.7	100.0
	Total	131	100.0	100.0	

users - customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	22	17.0	17.0	17.0
	agree	54	41.5	41.5	58.5
	not sure	11	8.1	8.1	66.6
	disagree	37	28.5	28.5	95.1
	strongly disagree	6	4.9	4.9	100.0
	Total	131	100.0	100.0	

served (IFRS) - Institutional Investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	22	17.1	17.1	17.1
	agree	52	39.9	39.9	57.0
	not sure	35	26.9	26.9	83.9
	disagree	15	11.5	11.5	95.4
	strongly disagree	6	4.6	4.6	100.0
	Total	131	100.0	100.0	

served (IFRS) - Individual investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	29	22.1	22.1	22.1
	agree	54	41.0	41.0	63.0
	not sure	27	20.9	20.9	83.9
	disagree	13	10.0	10.0	93.9
	strongly disagree	8	6.1	6.1	100.0
	Total	131	100.0	100.0	

served (IFRS) - Academics

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	37	28.0	28.0	28.0
	agree	49	37.1	37.1	65.0
	not sure	29	22.1	22.1	87.1
	disagree	10	7.9	7.9	95.0
	strongly disagree	7	5.0	5.0	100.0
	Total	131	100.0	100.0	

served (IFRS) - Government

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	37	27.9	27.9	27.9
	agree	71	54.1	54.1	82.0
	not sure	12	9.4	9.4	91.4
	disagree	8	6.0	6.0	97.4
	strongly disagree	3	2.6	2.6	100.0
	Total	131	100.0	100.0	

served (IFRS) - financial analyst

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	33	25.4	25.4	25.4
	agree	52	39.7	39.7	65.0
	not sure	10	8.0	8.0	73.0
	disagree	30	23.0	23.0	96.0
	strongly disagree	5	4.0	4.0	100.0
	Total	131	100.0	100.0	

served (IFRS) - creditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	28	21.3	21.3	21.3
	agree	72	54.7	54.7	76.0
	not sure	21	15.7	15.7	91.7
	disagree	9	7.0	7.0	98.7
	strongly disagree	2	1.3	1.3	100.0
	Total	131	100.0	100.0	

served (IFRS) - central bank of UAE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	33	25.5	25.5	25.5
	agree	78	59.5	59.5	85.0
	not sure	20	15.0	15.0	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	131	100.0	100.0	

served (IFRS) - Employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	26	19.8	19.8	19.8
	agree	74	56.2	56.2	76.0
	not sure	20	15.1	15.1	91.1
	disagree	9	7.0	7.0	98.1
	strongly disagree	2	1.9	1.9	100.0
	Total	131	100.0	100.0	

served (IFRS) - suppliers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	20	15.3	15.3	15.3
	agree	76	57.7	57.7	73.0
	not sure	13	10.1	10.1	83.1
	disagree	13	10.1	10.1	93.2
	strongly disagree	9	6.8	6.8	100.0
	Total	131	100.0	100.0	

served (IFRS) - customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	26	20.0	20.0	20.0
	agree	64	49.0	49.0	69.0
	not sure	30	22.9	22.9	91.9
	disagree	8	6.0	6.0	97.9
	strongly disagree	3	2.1	2.1	100.0
	Total	131	100.0	100.0	

information disclosed in FS under IFRS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	8	17.3	17.3	17.3
	agree	21	42.2	42.2	59.5
	not sure	20	40.5	40.5	100.0
	disagree	0	.0	.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	49	100.0	100.0	

information disclosed in FS under US GAAP

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	0	.0	.0	.0
	agree	0	.0	.0	.0
	not sure	29	58.3	58.3	58.3
	disagree	18	37.0	37.0	95.3
	strongly disagree	2	4.7	4.7	100.0
	Total	49	100.0	100.0	

comparison between US GAAP and IFRSs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	no Answer	2	4.4	4.4	4.4
	FS under US GAAP	15	33.3	33.3	37.8
	FS under IFRS	25	55.6	55.6	93.3
	No difference	3	6.7	6.7	100.0
	Total	45	100.0	100.0	

overall problems and costs caused by adopting IFRS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Lack of qualified	57	23.3	23.3	23.3
	Lack of knowledge	46	18.8	18.8	42.0
	fair value	22	9.0	9.0	51.0
	comparability	19	7.8	7.8	58.8
	training of accounting staff	15	6.1	6.1	64.9
	changes to computer software	20	8.2	8.2	73.1
	language issue	13	5.3	5.3	78.4
	lack of professional	29	11.8	11.8	90.2
	readiness of management	7	2.9	2.9	93.1
	others	17	6.9	6.9	100.0
	Total	245	100.0	100.0	

overall problems and costs caused by adopting IFRS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	UAE Pride	23	9.39	9.39	9.39
	language issues	95	38.78	38.78	48.16
	Zakat requirements	54	22.04	22.04	70.20
	Lack of accounting knowledge on part of the financial statement users	39	15.92	15.92	86.12
	Unsuitability of some IFRSs procedures to the environment in UAE	7	2.86	2.86	88.98
	None	10	4.08	4.08	93.06
	other cultural issues	17	6.94	6.94	100.00
	Total	245	90.61	100.00	

UAE's decision of adopting IFRSs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	22	9.0	9.0	9.0
	agree	175	71.4	71.4	80.4
	not sure	35	14.3	14.3	94.7
	disagree	10	4.1	4.1	98.8
	strongly disagree	3	1.2	1.2	100.0
	Total	245	100	100	

overall problems and costs caused by adopting IFRS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	IFRS are more comprehensive	54	22.0	22.0	22.0
	comparability	44	18.0	18.0	40.0
	more transparency	39	15.9	15.9	55.9
	uae joining the WTO	34	13.9	13.9	69.8
	International credibility of bank's FS	25	10.2	10.2	80.0
	subsidiary in UAE	17	6.9	6.9	86.9
	dependency on US GAAP	12	4.9	4.9	91.8
	adherence	10	4.1	4.1	95.9
	combination	5	2.0	2.0	98.0
	follow EU	5	2.0	2.0	100.0
	Total	245	100.0	100.0	

Influence on IFRS - International Auditing Firms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	41	16.6	16.6	16.6
	agree	153	62.4	62.4	79.0
	not sure	32	13.0	13.0	92.0
	disagree	15	6.1	6.1	98.1
	strongly disagree	5	1.9	1.9	100.0
	Total	245	100.0	100.0	

Influence on IFRS - Foreign Investments

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	49	20.0	20.0	20.0
	agree	154	63.0	63.0	83.0
	not sure	22	8.9	8.9	91.9
	disagree	15	6.0	6.0	97.9
	strongly disagree	5	2.1	2.1	100.0
	Total	245	100.0	100.0	

Influence on IFRS - Multinational Companies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	27	11.0	11.0	11.0
	agree	152	62.1	62.1	73.0
	not sure	37	15.0	15.0	88.0
	disagree	25	10.1	10.1	98.1
	strongly disagree	5	1.9	1.9	100.0
	Total	245	100.0	100.0	

Influence On IFRS - Global Capital Market

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	46	18.9	18.9	18.9
	agree	113	46.2	46.2	65.0
	not sure	51	21.0	21.0	86.0
	disagree	15	6.0	6.0	92.0
	strongly disagree	20	8.0	8.0	100.0
	Total	245	100.0	100.0	

Influence On IFRS - Stock Exchange

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	35	14.3	14.3	14.3
	agree	132	53.7	53.7	68.0
	not sure	34	14.0	14.0	82.0
	disagree	25	10.1	10.1	92.1
	strongly disagree	19	7.9	7.9	100.0
	Total	245	100.0	100.0	

Influence On IFRS - Academic In Accounting Fields

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	49	20.0	20.0	20.0
	agree	91	37.0	37.0	57.0
	not sure	64	26.0	26.0	83.0
	disagree	15	6.0	6.0	89.0
	strongly disagree	27	11.0	11.0	100.0
	Total	245	100.0	100.0	

Influence On IFRS - International Lending Organisation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	38	15.3	15.3	15.3
	agree	100	40.7	40.7	56.0
	not sure	44	18.0	18.0	74.0
	disagree	47	19.0	19.0	93.0
	strongly disagree	17	7.0	7.0	100.0
	Total	245	100.0	100.0	

Influence On IFRS - Local Users' Needs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	49	20.0	20.0	20.0
	agree	73	30.0	30.0	50.0
	not sure	69	28.0	28.0	78.0
	disagree	42	17.0	17.0	95.0
	strongly disagree	12	5.0	5.0	100.0
	Total	245	100.0	100.0	

Benefits From IFRS - International Auditing Firms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	41	16.6	16.6	16.6
	agree	175	71.4	71.4	88.0
	not sure	25	10.0	10.0	98.0
	disagree	5	2.0	2.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	245	100.0	100.0	

Benefits From IFRS - Foreign Investments

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	49	20.0	20.0	20.0
	agree	164	67.0	67.0	87.0
	not sure	22	9.0	9.0	96.0
	disagree	10	4.0	4.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	245	100.0	100.0	

Benefits From IFRS - Multinational Companies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	27	11.0	11.0	11.0
	agree	177	72.1	72.1	83.0
	not sure	29	12.0	12.0	95.0
	disagree	10	4.0	4.0	99.0
	strongly disagree	2	1.0	1.0	100.0
	Total	245	100.0	100.0	

Benefits From IFRS - Global Capital Market

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	46	18.9	18.9	18.9
	agree	145	59.2	59.2	78.0
	not sure	32	13.0	13.0	91.0
	disagree	15	6.0	6.0	97.0
	strongly disagree	7	3.0	3.0	100.0
	Total	245	100.0	100.0	

Benefits From IFRS - Stock Exchange

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	35	14.3	14.3	14.3
	agree	134	54.7	54.7	69.0
	not sure	39	16.0	16.0	85.0
	disagree	25	10.1	10.1	95.1
	strongly disagree	12	4.9	4.9	100.0
	Total	245	100.0	100.0	

Benefits From IFRS - Academic In Accounting Fields

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	49	20.0	20.0	20.0
	agree	108	44.0	44.0	64.0
	not sure	59	24.0	24.0	88.0
	disagree	20	8.0	8.0	96.0
	strongly disagree	10	4.0	4.0	100.0
	Total	245	100.0	100.0	

Benefits From IFRS - International Lending Organisation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	38	15.3	15.3	15.3
	agree	127	51.7	51.7	67.0
	not sure	47	19.0	19.0	86.0
	disagree	28	11.5	11.5	97.5
	strongly disagree	6	2.5	2.5	100.0
	Total	245	100.0	100.0	

Benefits From IFRS - Local Users' Needs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	43	17.4	17.4	17.4
	agree	102	41.6	41.6	59.0
	not sure	76	31.0	31.0	90.0
	disagree	15	6.0	6.0	96.0
	strongly disagree	10	4.0	4.0	100.0
	Total	245	100.0	100.0	

Quality Of FR - Relevance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	50	20.6	20.6	20.6
	agree	124	50.4	50.4	71.0
	not sure	34	14.0	14.0	85.0
	disagree	22	9.0	9.0	94.0
	strongly disagree	15	6.0	6.0	100.0
	Total	245	100.0	100.0	

Quality Of FR - Reliability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	54	22.0	22.0	22.0
	agree	135	55.0	55.0	77.0
	not sure	51	21.0	21.0	98.0
	disagree	5	2.0	2.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	245	100.0	100.0	

Quality Of FR - Comparability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	57	23.2	23.2	23.2
	agree	142	57.8	57.8	81.0
	not sure	44	18.0	18.0	99.0
	disagree	2	1.0	1.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	245	100.0	100.0	

Quality Of FR - Understandability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	52	21.2	21.2	21.2
	agree	127	51.8	51.8	73.0
	not sure	52	21.2	21.2	94.2
	disagree	10	4.0	4.0	98.2
	strongly disagree	4	1.8	1.8	100.0
	Total	245	100.0	100.0	

IFRS better than US GAAP

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	45	18.6	18.6	18.6
	agree	111	45.4	45.4	64.0
	not sure	61	25.0	25.0	89.0
	disagree	25	10.0	10.0	99.0
	strongly disagree	2	1.0	1.0	100.0
	Total	245	100.0	100.0	

IFRS suitable for UAE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	43	17.7	17.7	17.7
	agree	106	43.3	43.3	61.0
	not sure	32	13.0	13.0	74.0
	disagree	49	20.0	20.0	94.0
	strongly disagree	15	6.0	6.0	100.0
	Total	245	100.0	100.0	

IFRS is not suitable for UAE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	10	4.0	4.0	4.0
	agree	39	16.0	16.0	20.0
	not sure	59	24.0	24.0	44.0
	disagree	105	43.0	43.0	87.0
	strongly disagree	32	13.0	13.0	100.0
	Total	245	100.0	100.0	

No Need To Adopt IFRS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	14	5.8	5.8	5.8
	agree	32	13.2	13.2	19.0
	not sure	54	22.0	22.0	41.0
	disagree	118	48.0	48.0	89.0
	strongly disagree	27	11.0	11.0	100.0
	Total	245	100.0	100.0	

Investment Measurement By Fair Value

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	56	23.0	23.0	23.0
	agree	93	38.0	38.0	61.0
	not sure	44	18.0	18.0	79.0
	disagree	44	18.0	18.0	97.0
	strongly disagree	7	3.0	3.0	100.0
	Total	245	100.0	100.0	

Investment Measurement By Historical Cost

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	14	5.8	5.8	5.8
	agree	35	14.2	14.2	20.0
	not sure	44	18.0	18.0	38.0
	disagree	118	48.0	48.0	86.0
	strongly disagree	34	14.0	14.0	100.0
	Total	245	100.0	100.0	

Fair Value Is Good To Make Decision

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	10	4.0	4.0	4.0
	agree	145	59.0	59.0	63.0
	not sure	74	30.0	30.0	93.0
	disagree	17	7.0	7.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	245	100.0	100.0	

Fair Value Is Better To Calculate Zakat

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	17	7.0	7.0	7.0
	agree	137	56.0	56.0	63.0
	not sure	74	30.0	30.0	93.0
	disagree	17	7.0	7.0	100.0
	strongly disagree	0	.0	.0	100.0
	Total	245	100.0	100.0	

Perception About Timing Of IFRS Adoption - All Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	no response	26	10.6	10.6	10.6
	should be in earlier time	62	25.3	25.3	35.9
	too early	20	8.2	8.2	44.1
	is good time to adopt in 2005	135	55.1	55.1	99.2
	should not be adopted in UAE	2	.8	.8	100.0
	Total	245	100.0	100.0	

Perception About Timing Of IFRS Adoption - Banking Sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	no response	3	15.0	15.0	15.0
	should be in earlier time	5	25.0	25.0	40.0
	too early	4	20.0	20.0	60.0
	is good time to adopt in 2005	8	40.0	40.0	100.0
	should not be adopted in UAE	0	.0	.0	100.0
	Total	20	100.0	100.0	

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Perception About Timing Of IFRS Adoption - Manufacturing Sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	no response	5	11.9	11.9	11.9
	should be in earlier time	10	23.8	23.8	35.7
	too early	6	14.3	14.3	50.0
	is good time to adopt in 2005	21	50.0	50.0	100.0
	should not be adopted in UAE	0	.0	.0	100.0
	Total	42	100.0	100.0	

Perception About Timing Of IFRS Adoption - Construction Sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	no response	6	16.2	16.2	16.2
	should be in earlier time	12	32.4	32.4	48.6
	too early	5	13.5	13.5	62.2
	is good time to adopt in 2005	14	37.8	37.8	100.0
	should not be adopted in UAE	0	.0	.0	100.0
	Total	37	100.0	100.0	

Perception About Timing Of IFRS Adoption - Other Listed Firms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	no response	6	11.5	11.5	11.5
	should be in earlier time	14	26.9	26.9	38.5
	too early	1	1.9	1.9	40.4
	is good time to adopt in 2005	30	57.7	57.7	98.1
	should not be adopted in UAE	1	1.9	1.9	100.0
	Total	52	100.0	100.0	

Perception About Timing Of IFRS Adoption - Auditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	no response	2	4.4	4.4	4.4
	should be in earlier time	11	24.4	24.4	28.9
	too early	2	4.4	4.4	33.3
	is good time to adopt in 2005	29	64.4	64.4	97.8
	should not be adopted in UAE	1	2.2	2.2	100.0
	Total	45	100.0	100.0	

Perception About Timing Of IFRS Adoption - Financial Analysts

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	no response	4	8.2	8.2	8.2
	should be in earlier time	10	20.4	20.4	28.6
	too early	2	4.1	4.1	32.7
	is good time to adopt in 2005	33	67.3	67.3	100.0
	should not be adopted in UAE	0	.0	.0	100.0
	Total	49	100.0	100.0	

Barriers of adopting IFRSs – Fair value

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	20	8.2	8.2	8.2
	slightly disagree	4	1.6	1.6	9.8
	neither	34	13.9	13.9	23.7
	slightly agree	120	49.0	49.0	72.7
	strongly agree	67	27.3	27.3	100.0
	Total	245	100.0	100.0	

Benefit of IFRSs adopting well designed standards

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	33	13.5	13.5	13.5
	slightly disagree	95	38.8	38.8	52.3
	neither	36	14.7	14.7	67.0
	slightly agree	57	23.3	23.3	90.3
	strongly agree	24	9.7	9.7	100.0
	Total	245	100.0	100.0	

Benefit of IFRSs adopting Frequently updated

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagre	29	11.8	11.8	11.8
	slightly disagree	67	27.3	27.5	39.3
	neither	87	35.5	35.5	74.8
	slightly agree	37	15.1	15.1	89.9
	strongly agree	25	10.1	10.1	100.0
	Total	245	100.0	100.0	

Group Statistics

	location	N	Mean	Std. Deviation	Std. Error Mean
users1	ADX	13	4.1357	.78010	.18874
	DFM	7	4.8232	.74772	.22361
users2	ADX	13	4.4378	.73465	.16730
	DFM	7	4.3033	.76640	.21082
users3	ADX	13	4.4130	.75230	.19054
	DFM	7	4.4500	.79545	.44721
users4	ADX	13	4.1043	.80310	.19317
	DFM	7	4.3333	.81650	.33333
users5	ADX	13	4.0078	.65347	.16730
	DFM	7	4.0033	.76640	.21082
users6	ADX	13	3.8043	.93977	.20608
	DFM	7	3.8967	.98165	.33333
users7	ADX	13	3.2391	.72856	.18955
	DFM	7	3.6667	.71650	.33333
users8	ADX	13	3.0435	.93977	.20608
	DFM	7	3.6667	.99816	.33333
users9	ADX	13	3.0717	1.08148	.16929
	DFM	7	3.0167	1.04082	.16667
users10	ADX	13	2.2391	1.02856	.18955
	DFM	7	3.6667	1.18165	.33333

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper	
users1	Equal variances assumed	4.219	.245	.367	50	.025	-.68750	.53246	-.87382	1.26512	
	Equal variances not assumed			.669	13.880	.024	.19565	.29261	-.43245	.82376	
users2	Equal variances assumed	4.274	.244	1.089	50	.282	.51449	.47258	-.43471	1.46369	
	Equal variances not assumed			1.912	12.720	.079	.51449	.26913	-.06824	1.09722	
users3	Equal variances assumed	.107	.745	.747	50	.459	.41304	.55298	-.69766	1.52374	
	Equal variances not assumed			.850	6.955	.424	.41304	.48611	-.73795	1.56404	
users4	Equal variances assumed	2.427	.126	-.960	50	.342	-.52899	.55100	-1.63571	.57774	
	Equal variances not assumed			-1.373	8.812	.204	-.52899	.38526	-1.40335	.34538	

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		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
users5	Equal variances assumed	2.841	.098	.643	50	.523	.37681	.58637	-.80094	1.55457
	Equal variances not assumed			.962	9.400	.360	.37681	.39189	-.50399	1.25762
users6	Equal variances assumed	7.854	.072	1.157	50	.253	.55072	.47612	-.40559	1.50703
	Equal variances not assumed			2.318	18.457	.062	.55072	.23757	.05250	1.04895
users7	Equal variances assumed	4.478	.059	1.058	50	.295	.57246	.54110	-.51438	1.65930
	Equal variances not assumed			1.493	8.656	.171	.57246	.38346	-.30026	1.44519

Group Statistics

	location	N	Mean	Std. Deviation	Std. Error Mean
users1	ADX	13	2.1357	.98010	.17399
	DFM	7	3.8232	.84772	.36068

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
users1	Equal variances assumed	2.219	.245	.317	20	.005	-.74498	.53246	-.87382	1.26512
	Equal variances not assumed			.627	11.880	.024	.19565	.29261	-.43245	.82376

Group Statistics

	location	N	Mean	Std. Deviation	Std. Error Mean
users1	ADX	13	4.1357	.80097	.27399
	DFM	7	3.9823	.84772	.46068

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
users1	Equal variances assumed	3.187	.025	.367	19	.095	.13237	.33246	-.18668	1.26512
	Equal variances not assumed			.429	11.880	.024	.19565	.59261	-.43245	.82376

Group Statistics

	Residence	N	Mean	Std. Deviation	Std. Error Mean
disclosure1	ADX	79	3.4286	1.25218	.19321
	DFM	52	4.4000	.54772	.24495

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference		Lower	Upper
fulfil with amount of disclosure	Equal variances assumed	3.761	.046	.050	45	.960	.02857	.57070		-1.12087	1.17802
	Equal variances not assumed			.092	10.143	.002	.02857	.31198		-.66524	.72238

Group Statistics

	Residence	N	Mean	Std. Deviation	Std. Error Mean
Comparison between US GAAP and IFRS	ADX	32	4.4286	1.25218	.19321
	DFM	13	3.9400	.54772	.24495

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference		Lower	Upper
Comparison between US GAAP and IFRS	Equal variances assumed	3.761	.746	.950	45	.049	.02857	.57070		-1.12087	1.17802
	Equal variances not assumed			1.916	10.143	.002	.02857	.31198		-.66524	.72238

Group Statistics

	Residence	N	Mean	Std. Deviation	Std. Error Mean
international lending organisations	ADX	123	3.5743	1.21758	.19321
	DFM	122	4.1119	.77226	.24495

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means							
										95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference		Lower	Upper
international lending organisations	Equal variances assumed	2.976	.459	.933	45	.003	.53765	.57070		-1.12087	1.11609
	Equal variances not assumed			1.544	9.214	.002	.53765	.31198		-.66524	.72814

Group Statistics

	Residence	N	Mean	Std. Deviation	Std. Error Mean
Local users	ADX	32	3.2143	1.25218	.19321
	DFM	13	3.8940	.54772	.24495

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means							
										95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference		Lower	Upper
Local users	Equal variances assumed	4.761	.746	.950	57	.003	.67971	.40698		-1.32087	1.24378
	Equal variances not assumed			2.259	10.143	.042	.67971	.49808		-.86524	.73814

Group Statistics

	place of residence	N	Mean	Std. Deviation	Std. Error Mean
users of IFRSs Central Bank	DFM	62	3.5567	1.02031	.10360
	ADX	89	3.1786	.89978	.07605

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
users of IFRSs Central Bank	Equal variances assumed	7.567	.006	3.010	235	.003	.37813	.12562	.13065	.62561
	Equal variances not assumed			2.942	189.359	.005	.37813	.12851	.12463	.63163

ANOVA - experience

		Sum of Squares	df	Mean Square	F	Sig.
users1	Between Groups	7.681	3	4.136		
	Within Groups	67.761	17	2.136	1.814	.002
	Total	75.442	20			
users2	Between Groups	15.558	3	4.4378		
	Within Groups	45.115	17	1.940	5.518	.002
	Total	60.673	20			
users3	Between Groups	18.874	3	4.4130		
	Within Groups	63.183	17	1.316	4.780	.005
	Total	82.058	20			
users4	Between Groups	7.520	3	4.1043		
	Within Groups	74.538	17	1.553	1.614	.198
	Total	82.058	20			
users5	Between Groups	29.622	3	4.0078		
	Within Groups	62.378	17	1.300	7.598	.295
	Total	92.000	20			
users6	Between Groups	3.591	3	3.8043		
	Within Groups	58.178	17	1.212	.988	.407
	Total	61.769	20			
users7	Between Groups	8.348	3	3.2391		
	Within Groups	71.094	17	1.481	1.879	.146
	Total	79.442	20			
users8	Between Groups	4.863	3	3.0435		
	Within Groups	75.444	17	1.572	1.031	.387
	Total	80.308	20			
users9	Between Groups	19.075	3	3.0717		
	Within Groups	61.444	17	1.280	4.967	.441
	Total	80.519	20			
users10	Between Groups	10.558	3	3.519		
	Within Groups	78.115	17	1.627	2.163	.105
	Total	88.673	20			

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
disclosure1	Between Groups	4.052	3	1.351		
	Within Groups	64.368	46	1.399	.965	.417
	Total	68.420	49			
disclosure2	Between Groups	26.553	3	8.851		
	Within Groups	82.428	48	1.717	5.154	.003
	Total	108.981	51			
disclosure3	Between Groups	29.404	3	.801		
	Within Groups	47.115	48	.982	9.985	.316
	Total	76.519	51			
disclosure4	Between Groups	9.410	3	.814		
	Within Groups	45.282	48	.943	3.325	.427
	Total	54.692	51			

disclosure1

Tukey HSD[a,b]

how long being in the current department	N	Subset for alpha = 0.05
		1
over 10 years	3	2.0000
between 6 and 10	13	2.0769
between 3 and 5	18	2.5556
less than 3 years	16	2.7500
Sig.		.609

disclosure2

Tukey HSD[a,b]

how long being in the current department	N	Subset for alpha = 0.05	
		1	2
less than 3 years	16	2.6250	
between 3 and 5	18	3.3889	3.3889
between 6 and 10	15	4.2000	4.2000
over 10 years	3		5.0000
Sig.		.099	.088

disclosure3

Tukey HSD[a,b]

how long being in the current department	N	Subset for alpha = 0.05
		1
between 3 and 5	18	1.6111
between 6 and 10	15	2.2000
less than 3 years	16	2.2188
over 10 years	3	2.3121
Sig.		.650

disclosure4

Tukey HSD[a,b]

how long being in the current department	N	Subset for alpha = 0.05
		1
between 3 and 5	18	2.2222
between 6 and 10	15	2.4667
less than 3 years	16	2.8125
over 10 years	3	2.8713
Sig.		.634

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		Sum of Squares	df	Mean Square	F	Sig.
creditor	Between Groups	3.107	2	4.554	1.058	
	Within Groups	71.970	49	4.469		.045
	Total	75.077	51			
financial analyst	Between Groups	1.352	2	4.368	.369	
	Within Groups	89.879	49	4.383		.694
	Total	91.231	51			
employees	Between Groups	3.691	2	4.385	1.383	
	Within Groups	65.386	49	4.323		.260
	Total	69.077	51			
customers	Between Groups	10.196	2	4.098	2.665	
	Within Groups	93.727	49	4.913		.080
	Total	103.923	51			
academics in accounting	Between Groups	7.064	2	4.253	2.120	
	Within Groups	81.629	49	4.227		.131
	Total	88.692	51			
central bank of UAE	Between Groups	9.691	2	3.845	3.235	
	Within Groups	73.386	49	3.498		.079
	Total	83.077	51			
government	Between Groups	2.762	2	3.381	.862	
	Within Groups	78.545	49	3.860		.429
	Total	81.308	51			
suppliers	Between Groups	4.359	2	4.179	1.044	
	Within Groups	102.333	49	4.809		.360
	Total	106.692	51			
institutional investors	Between Groups	8.670	2	4.534	2.301	
	Within Groups	92.311	49	4.568		.033
	Total	100.981	51			
individual investors	Between Groups	2.973	2	3.949	.842	
	Within Groups	86.470	49	3.876		.437
	Total	89.442	51			

Institutional Investors

Tukey HSD[a,b]

		Subset for alpha = 0.05	
Turnover	N	1	2
Under $ 1m	17	3.2117	
between $1m and $5m	80	3.5227	3.5227
over $5m	34		4.1100
Sig.		.630	.261

Creditor

Tukey HSD[a,b]

age	N	Subset for alpha = 0.05	
		1	2
Under $ 1m	17	3.1100	
between $1m and $5m	80	3.1364	3.1364
over $5m	34		4.5000
Sig.		.078	.924

External Auditors

ANOVA

comparison between us gaap and IFRS

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.986	3	1.662	4.641	
Within Groups	16.116	42	.358		.001
Total	21.102	45			

comparison between us gaap and IFRS

Tukey HSD[a,b]

IFRS vs. US GAAP	N	Subset for alpha = 0.05	
		1	2
less than 5 years	4	2.5000	
between 5-10 years	13	2.8760	2.8760
between 11-15	9		3.1210
over 16	17		3.5420
Sig.		.742	.203

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
multinational companies	Between Groups	8.375	155	1.675	.946	
	Within Groups	76.155	90	1.771		.000
	Total	84.531	245			
international lending	Between Groups	5.654	155	1.131	.707	
	Within Groups	68.754	90	1.599		.000
	Total	74.408	245			
local users' need	Between Groups	3.754	155	.751	.390	
	Within Groups	82.776	90	1.925		.040
	Total	86.531	245			

Multinational Companies

Tukey HSD[a,b]

sector	N	Subset for alpha = 0.05	
		1	2
financial analysts	46	3.1115	
external users	45	3.2419	
preparers	154		4.3612
Sig.		.470	.027

International Lending

Tukey HSD[a,b]

sector	N	Subset for alpha = 0.05	
		1	2
preparers	46	2.5321	
external users	45	3.2419	3.2419
financial analysts	154		3.8711
Sig.		.470	.027

local users' need

Tukey HSD[a,b]

sector	N	Subset for alpha = 0.05	
		1	2
preparers	154	2.1236	
financial analysts	46		3.5611
external users	45		3.4319
Sig.		.052	.051

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
multinational companies	Between Groups	7.375	135	3.675		
	Within Groups	56.155	110	3.711	.797	.015
	Total	74.531	245			
local users' need	Between Groups	4.544	135	3.751		
	Within Groups	79.762	110	3.503	.642	.000
	Total	96.061	245			

multinational companies

Tukey HSD[a,b]

sector	N	Subset for alpha = 0.05	
		1	2
financial analysts	46	3.1115	
external users	45	3.2419	3.2419
preparers	154		4.2100
Sig.		.570	.127

Tukey HSD[a,b]

sector	N	Subset for alpha = 0.05	
		1	2
preparers	46	1.9800	
external users	45	2.2419	
financial analysts	154		3.1115
Sig.		.538	.894

ANOVA

Obstacles – Zakat Requirements

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	90.353	7	12.908	6.311	.021
Within Groups	484.725	237	2.045		
Total	575.078	244			

Obstacles – Zakat Requirements

Tukey B[a,b]

which sector do you mainly invest in	N	Subset for alpha = 0.05	
		1	2
Banking sector	20	2.2549	
Other listed firms	131		2.8000
investors	49		3.1538
External Auditors	45		3.1781

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 10.608.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

ANOVA

Obstacles – language issues

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	22.749	7	3.250	2.316	.004
Within Groups	332.532	237	1.403		
Total	355.282	244			

Obstacles – language issues

Tukey B[a,,b]

which sector do you mainly invest in	N	Subset for alpha = 0.05	
		1	2
external auditing	45	3.0556	
Banking sector	20	3.7778	3.7778
Other listed firms	131	3.8082	3.8082
investors	49		5.0000

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 10.608.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Appendixes 7: Correlation test

Correlations

		disclosure1	disclosure2	disclosure3	disclosure4	industrial sector
disclosure1	Pearson Correlation	1	-.813**	.295*	.661**	0.567**
	Sig. (2-tailed)		.000	.037	.000	.043
	N	49	49	49	49	49
disclosure2	Pearson Correlation	-.813**	1	-.373**	-.537**	-.027
	Sig. (2-tailed)	.000		.006	.000	.849
	N	49	49	49	49	49
disclosure3	Pearson Correlation	.295*	-.373**	1	.663**	.124
	Sig. (2-tailed)	.037	.006		.000	.382
	N	49	49	49	49	49
disclosure4	Pearson Correlation	.661**	-.537**	.663**	1	.022
	Sig. (2-tailed)	.000	.000	.000		.879
	N	49	49	49	49	49
industrial sector	Pearson Correlation	0.567**	-.027	.124	.022	1
	Sig. (2-tailed)	.043	.849	.382	.879	
	N	49	49	49	49	49

Correlations

		which sector do you mainly invest in	level of disclosure in FS
which sector do you mainly invest in	Pearson Correlation	1	.524*
	Sig. (2-tailed)		.043
	N	245	245
level of disclosure in FS	Pearson Correlation	.524*	1
	Sig. (2-tailed)	.043	
	N	245	245

*. Correlation is significant at the 0.05 level (2-tailed).

crosstable

sector * disclosure1 Crosstabulation

Count

		disclosure1					Total
		Strongly agree	agree	not sure	disagree	strongly disagree	
sector	Financial services	5	7	0	1	0	13
	Health services and government	1	3	2	5	1	12
	Consumer and industrial products	0	2	5	1	0	8
	Energy and resources	2	4	0	0	0	6
	Technology	1	1	2	0	2	6
	telecommunications	1	2	0	1	0	4
Total		10	19	9	8	3	49

	Symbol	listed company at DFM before 2005	sector	maximum of foreign investment	date of registration
1	ABYAAR	Abyaar	service	0.4	2000
2	ACICO	ACICO	industrial	0.51	2000
3	AEIBANK	AEIBANK	banking	no	2000
4	AHI	Arab Heavy Industries	industrial	0.49	2000
5	AIRARABIA	Air Arabia	service	0.49	2000
6	AJMANBANK	Ajman Bank	banking	0.1	2000
7	ALAMAN	Al Aman Investment	service	0.4	2000
8	ALFIRDOUS	Al Firdous	service	0.49	2000
9	ALLIANCE	Alliance Insurance	insurance	no	2000
10	ALMADINA	Al Madina Finance	service	0.49	2000
11	ALSALAMSUDAN	Salam Sudan	banking	1	2000
12	AMAN	Dubai Islamic Insurance	insurance	0.15	2000
13	AMLAK	Amlak	service	0.49	2001
14	AOIC	Arab Orient Insurance	insurance	no	2001
15	ARIG	Arab Insurance Group	insurance	0.97	2001
16	ARMX	Aramex	service	0.49	2001
17	ARTC	Arabtec	service	0.49	2001
18	ASCANA	Ascana	insurance	no	2001
19	ASNIC	ASNIC	insurance	no	2001
20	ATMI	Jazeera Steel	industrial	0.7	2001
21	BAYAN	Bayan Investment	service	0.49	2001
22	BURGAN	Burgan Well Drilling	service	0.4	2002
23	CBD	Commercial Bank of Dubai	banking	no	2002
24	DARTAKAFUL	Takaful House	insurance	0.25	2002
25	DDC	Dubai Development Company	service	0.49	2002
26	DEYAAR	Deyaar	service	no	2002
27	DFM	Dubai Financial Market	service	0.08	2002
28	DIB	Dubai Islamic Bank	banking	0.25	2002
29	DIC	Dubai Investments	service	0.2	2002
30	DIN	Dubai Insurance	insurance	no	2002
31	DNIR	Dubai National Insurance	insurance	0.25	2002
32	DRC	Dubai Refreshments	industrial	0.49	2002
33	DSI	Drake & Scull	service	0.49	2002
34	DU	Du Telecom	service	0.22	2002
35	EBI	Emirates Bank	banking	no	2002
36	EIB	Emirates Islamic Bank	banking	no	2002

37	EKTTITAB	Ektittab	service	0.49	2002
38	EMAAR	Emaar	service	0.49	2002
39	EMIRATESNBD	Emirates NBD	banking	0.05	2002
40	GFH	Gulf Finance House	banking	0.49	2002
41	GGICO	GGICO	service	0.49	2002
42	GLOBAL	Global Investment House	service	0.49	2002
43	GPI	Gulf Petroleum Investment	service	1	2003
44	GRAND	Grand Real Estate	service	1	2003
45	GULFA	Gulfa	industrial	no	2003
46	GULFNAV	Gulf Navigation	service	0.2	2003
47	IFA	International Financial Advisors	service	0.49	2003
48	IIG	International Investment Group	service	0.49	2003
49	JEEMA	Jeema	industrial	no	2003
50	JOTEL	Jordan Telecom	service	1	2003
51	KFIC	Kuwait Finance and Investment	service	0.49	2003
52	MASQ	Mashreq	banking	no	2003
53	MAZAYA	Mazaya	service	0.49	2003
54	MEC	Middle East Complex	industrial	0.49	2003
55	NBD	National Bank of Dubai	banking	no	2003
56	NCC	National Cement	industrial	0.25	2003
57	NGI	National General Insurance	insurance	no	2003
58	NIH	National International Holding	service	0.4	2003
59	NIND	National Industries Group	industrial	1	2003
60	NRE	National Real Estate	service	0.51	2003
61	OIC	Oman Insurance	insurance	no	2004
62	SALAM	Salam International	service	0.49	2004
63	SALAMA	Salama	insurance	0.25	2004
64	SALAM_BAH	Al Salam Bank	banking	0.49	2004
65	SHOP	Kuwait Commercial Markets	service	0.49	2004
66	SHUAA	Shuaa	service	0.49	2004
67	TABREED	Tabreed	service	0.49	2004
68	TAIB	TAIB Bank	banking		2004
69	TAKAFUL-EM	Takaful Emarat	insurance	0.25	2004
70	TAMWEEL	Tamweel	service	0.4	2004
71	UFC	United Foods Company	industrial	no	2004

72	UNIKAI	Unikai	industrial	no	2004
73	UPP	Union Properties	service	0.15	2004
74	WARE	Agility Kuwait	service	0.51	2004

	Symbol	listed company at ADX before 2005	sector	maximum of foreign investment	date of registration
1	AAAIC	Al Ain Insurance	insurance	no	2000
2	AABAR	Aabar	service	0.4	2000
3	ABNIC	ABNIC	insurance	0.25	2001
4	ADAVIATION	Abu Dhabi Aviation	service	no	2000
5	ADCB	ADCB	banking	0.25	2001
6	ADIB	Abu Dhabi Islamic Bank	banking	no	2000
7	ADNH	Abu Dhabi National Hotels	industrial	0.25	2002
8	ADNIC	ADNIC	insurance	0.25	2002
9	ADSB	Abu Dhabi Ship Building	industrial	0.25	2002
10	AFNIC	Fujairah Insurance	insurance	no	2000
11	AGTHIA	Agthia	industrial	0.25	2003
12	AKIC	Al Khazna Insurance	insurance	0.25	2003
13	ALDAR	Aldar	service	0.4	2003
14	ARABBANK	Arab Bank	banking		2000
15	ARKAN	Arkan	industrial	no	2000
16	ASMAK	Asmak	service	0.5	2001
17	AWNIC	AWNIC	insurance	no	2000
18	BILDCO	BILDCO	industrial	0.25	2001
19	BOS	Bank of Sharjah	banking	0.3	2001
20	CBI	Commercial Bank International	banking	0.2	2002
21	CIB	CIB Egypt	banking	1	2002
22	DANA	Dana Gas	industrial	0.49	2003
23	DHAFRA	Dhafra Insurance	insurance	no	2004
24	DRIVE	Emirates Driving	service	no	2004
25	EIC	Emirates Insurance	insurance	no	2004
26	ETISALAT	Etisalat	service	no	2002
27	FBICO	Fujairah Building Industries	industrial	no	2000
28	FCI	Fujairah Cement	industrial	0.49	2001
29	FGB	First Gulf Bank	banking	0.3	2004
30	FH	Finance House	service	no	2003
31	FOODCO	Foodco	industrial	0.49	2003
32	FTC	Fujairah Trade Centre	service	no	2002
33	GCEM	Gulf Cement	industrial	0.49	2001

34	GCIC	Green Crescent	insurance	0.25	2002
35	GLS	Gulf Livestock	service		2002
36	GMPC	GMPC	service	0.49	2001
37	INVESTB	Invest Bank Sharjah	banking	0.2	2004
38	JULPHAR	Julphar	industrial	0.49	2004
39	METHAQ	Methaq	insurance	0.25	2004
40	NBAD	NBAD	banking	0.25	2004
41	NBF	National Bank of Fujairah	banking	no	2004
42	NBQ	UAQ National Bank	banking	no	2003
43	NBS	Sharjah Islamic Bank	banking	0.2	2003
44	NCTH	NCTH	industrial	no	2003
45	NMDC	National Marine Dredging	service	no	2003
46	OEIHC	OEIHC	service	no	2004
47	OILC	Waha Capital	service	0.49	2003
48	PALTEL	Paltel	service	1	2001
49	QCEM	UAQ Cement	industrial	0.49	2001
50	QTEL	QTEL	service	1	2002
51	RAKBANK	RAK Bank	banking	0.2	2003
52	RAKCC	RAK Cement	industrial	0.49	2004
53	RAKCEC	RAK Ceramics	industrial	0.49	2004
54	RAKNIC	RAK Insurance	insurance	0.25	2003
55	RAKPROP	RAK Properties	service	0.49	2002
56	RAKWCT	RAK White Cement	industrial	0.49	2002
57	RAPCO	RAK Poultry	industrial	0.49	2003
58	SCIDC	Sharjah Cement	industrial	0.49	2003
59	SICO	Sharjah Insurance	insurance	no	2003
60	SOROUH	Sorouh	service	0.2	2003
61	SUDATEL	Sudatel	service	1	2002
62	TAQA	Taqa	industrial	no	2002
63	TKFL	Abu Dhabi Takaful	insurance	no	2002
64	UAB	United Arab Bank	banking	0.49	2002
65	UCC	Union Cement	industrial	0.49	2002
66	UIC	United Insurance RAK	insurance	0.25	2003
67	UNB	Union National Bank	banking	0.4	2004
68	UNION	Union Insurance Ajman	insurance	no	2003

Appendixes 11: Correlation matrix for ADX data set using Modified Ohlson model {pre-adoption of IFRS}

	Constant	EPS	BVPS	LEVE	DIVI payout	Log Size	Accruals
Constant	1	0.022	-0.011	-0.348	-0.018	-0.045	-0.007
EPS	0.020	1	-0.055	-0.153	-0.505	0.050	-0.821
BVPS	-0.011	-0.0s55	1	0.251	0.418	-0.152	0.693
LEVE	-0.348	-0.153	0.251	1	0.138	-0.098	0.153
DIVI payout	-0.018	-0.505	0.418	0.138	1	-0.060	0.652
Log Size	-0.045	0.050	-0.152	-0.098	-0.060	1	-0.066
Accruals	-0.007	-0.821	0.693	0.153	0.652	-0.066	1

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Appendixes 12: Correlation matrix for ADX data set under modified Ohlson model after orthogonalisation {pre-IFRS Adoption}

	Constant	EPS	BVPS	LEVE	DIVI payout	Log Size	Accruals
Constant	1	0.025	-0.009	-0.362	-0.380	-0.037	0.005
EPS	0.025	1	-0.469	-0.053	0.058	-0.006	0.007
BVPS	-0.009	-0.469	1	0.214	-0.055	-0.155	-0.039
LEVE	-0.362	-0.053	0.214	1	0.054	-0.102	-0.159
DIVI payout	-0.380	0.058	-0.055	0.054	1	-0.024	-0.009
Log Size	-0.037	-0.006	-0.155	-0.102	-0.024	1	0.069
Accruals	0.005	0.007	-0.039	-0.159	-0.009	0.069	1

Appendixes 13: Correlation matrix for ADX data set using Modified Ohlson model {Post-adoption of IFRS}

	Constant	EPS	BVPS	LEVE	DIVI payout	Log Size	Accruals
Constant	1	-0.097	0.079	-0.280	-0.032	-0.016	-0.032
EPS	-0.097	1	-0.674	-0.096	0.110	0.105	0.084
BVPS	0.079	-0.674	1	0.290	-0.186	-0.210	0.618
LEVE	-0.280	-0.096	0.290	1	0.009	-0.167	0.258
DIVI payout	-0.032	0.110	-0.186	0.009	1	-0.004	-0.173
Log Size	-0.016	0.105	-0.210	-0.167	-0.004	1	-0.053
Accruals	-0.032	0.084	0.618	0.258	-0.173	-0.053	1

Appendixes 14: Correlation matrix for ADX data set under modified Ohlson model after orthogonalisation {post-adoption of IFRS}

	Constant	EPS	BVPS	LEVE	DIVI payout	Log Size	Accruals
Constant	1	-0.106	0.129	-0.323	-0.426	-0.152	-0.058
EPS	-0.106	1	-0.483	-0.139	0.141	0.126	-0.033
BVPS	0.129	-0.483	1	0.214	-0.123	-0.248	0.052
LEVE	-0.323	-0.139	0.214	1	0.060	-0.189	0.292
DIVI payout	-0.426	0.141	-0.123	0.060	1	-0.014	0.014
Log Size	-0.152	0.126	-0.248	-0.189	-0.014	1	-0.060
Accruals	-0.058	-0.033	0.052	0.292	0.014	-0.060	1

Appendixes 15: Correlation matrix for DFM data set under modified Ohlson model {pre-adoption of IFRS}

	Constant	EPS	BVPS	LEVE	DIVI payout	Log Size	Accruals
Constant	1	0.233	0.096	-0.039	0.064	-0.010	-0.185
EPS	0.233	1	-0.349	-0.135	-0.055	-0.195	-0.789
BVPS	0.096	-0.349	1	0.380	0.009	-0.315	0.538
LEVE	-0.039	-0.135	0.380	1	-0.057	-0.371	0.234
DIVI payout	0.064	-0.055	0.009	-0.057	1	-0.071	0.030
Log Size	-0.010	-0.195	-0.315	-0.371	-0.071	1	0.136
Accruals	-0.185	-0.789	0.538	0.234	0.030	0.136	1

Appendixes 16: Correlation matrix for DFM data set under modified Ohlson model after orthogonalisation {pre-adoption of IFRS}

	Constant	EPS	BVPS	LEVE	DIVI payout	Log Size	Accruals
Constant	1	0.163	0.214	-0.054	0.079	-0.061	-0.254
EPS	0.163	1	-0.287	0.033	-0.049	-0.153	-0.058
BVPS	0.214	-0.287	1	0.327	-0.008	-0.455	0.029
LEVE	-0.054	0.033	0.327	1	-0.073	-0.391	0.246
DIVI payout	0.079	-0.049	-0.008	-0.073	1	-0.082	-0.031
Log Size	-0.061	-0.153	-0.455	-0.391	-0.082	1	0.144
Accruals	-0.254	-0.058	0.029	0.246	-0.031	0.144	1

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Appendixes 17: Correlation matrix for DFM data set under modified Ohlson model {post-adoption of IFRS}

	Constant	EPS	BVPS	LEVE	DIVI payout	Log Size	Accruals
Constant	1	0.211	0.145	0.058	0.088	-0.114	-0.159
EPS	0.211	1	-0.804	-0.022	-0.053	-0.208	-0.473
BVPS	0.145	-0.804	1	0.269	0.068	-0.291	0.197
LEVE	0.058	-0.022	0.269	1	-0.026	-0.447	0.034
DIVI payout	0.088	-0.053	0.068	-0.026	1	-0.123	0.081
Log Size	-0.114	-0.208	-0.291	-0.447	-0.123	1	0.179
Accruals	-0.159	-0.473	0.197	0.034	0.081	0.179	1

Appendixes 18: Correlation matrix for DFM data set under modified Ohlson model after orthogonalisation {post-adoption of IFRS}

	Constant	EPS	BVPS	LEVE	DIVI payout	Log Size	Accruals
Constant	1	0.169	0.179	0.057	0.105	-0.127	-0.205
EPS	0.169	1	-0.809	-0.010	-0.022	-0.157	-0.041
BVPS	0.179	-0.809	1	0.269	0.057	-0.333	-0.027
LEVE	0.057	-0.010	0.269	1	-0.030	-0.452	0.034
DIVI payout	0.105	-0.022	0.057	-0.030	1	-0.141	-0.027
Log Size	-0.127	-0.157	-0.333	-0.452	-0.141	1	0.181
Accruals	-0.205	-0.041	-0.027	0.034	-0.027	0.181	1

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Scale: All data Main Users of Financial statements

Case Processing Summary

		N	%
Cases	Valid	240	98.0
	Excluded[a]	5	2.0
	Total	245	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.781	9

Scale: All data Users' Satisfaction about US GAAP

Case Processing Summary

		N	%
Cases	Valid	240	98.0
	Excluded[a]	5	2.0
	Total	245	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.791	9

Scale: All data users' satisfaction about IFRSs

Case Processing Summary

		N	%
Cases	Valid	240	98.0
	Excluded[a]	5	2.0
	Total	245	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.822	9

Scale: All data Zakat calculations

Case Processing Summary

		N	%
Cases	Valid	240	98.0
	Excluded[a]	5	2.0
	Total	245	100.0

411

Case Processing Summary

		N	%
Cases	Valid	240	98.0
	Excluded[a]	5	2.0
	Total	245	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
852	9

Scale: All data cultural issues

Case Processing Summary

		N	%
Cases	Valid	240	98.0
	Excluded[a]	5	2.0
	Total	245	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.741	9

Scale: All data Groups influence the adoption of IFRSs

Case Processing Summary

		N	%
Cases	Valid	240	98.0
	Excluded[a]	5	2.0
	Total	245	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.790	9

Scale: All data Benefits of adopting IFRSs

Case Processing Summary

		N	%
Cases	Valid	240	98.0
	Excluded[a]	5	2.0
	Total	245	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

412

Cronbach's Alpha	N of Items
.727	9

Scale: Other listed firms Main Users of Financial statements

Case Processing Summary

		N	%
Cases	Valid	129	98.7
	Excluded[a]	2	1.3
	Total	131	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.780	9

Scale: Other listed firms Users' Satisfaction about US GAAP

Case Processing Summary

		N	%
Cases	Valid	129	98.7
	Excluded[a]	2	1.3
	Total	131	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.789	9

Scale: Other listed firms users' satisfaction about IFRSs

Case Processing Summary

		N	%
Cases	Valid	129	98.7
	Excluded[a]	2	1.3
	Total	131	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.810	9

Scale: Other listed firms Zakat calculations

Case Processing Summary

		N	%
Cases	Valid	129	98.7
	Excluded[a]	2	1.3
	Total	131	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.821	9

Scale: Other listed firms cultural issues

Case Processing Summary

		N	%
Cases	Valid	129	98.7
	Excluded[a]	2	1.3
	Total	131	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.739	9

Scale: Other listed firms Groups influence the adoption of IFRSs

Case Processing Summary

		N	%
Cases	Valid	129	98.7
	Excluded[a]	2	1.3
	Total	131	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.788	9

Scale: Other listed firms Benefits of adopting IFRSs

Case Processing Summary

		N	%
Cases	Valid	129	98.7
	Excluded[a]	2	1.3
	Total	131	100.0

414

Case Processing Summary

		N	%
Cases	Valid	129	98.7
	Excluded[a]	2	1.3
	Total	131	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.720	9

Scale: Banking listed firms Main Users of Financial statements

Case Processing Summary

		N	%
Cases	Valid	20	100.0
	Excluded[a]	0	.0
	Total	20	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.778	9

Scale: Banking listed firms Users' Satisfaction about US GAAP

Case Processing Summary

		N	%
Cases	Valid	20	100.0
	Excluded[a]	0	.0
	Total	20	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
780	9

415

Scale: Banking listed firms users' satisfaction about IFRSs

Case Processing Summary

		N	%
Cases	Valid	20	100.0
	Excluded[a]	0	.0
	Total	20	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.803	9

Scale: Banking listed firms Zakat calculations

Case Processing Summary

		N	%
Cases	Valid	20	100.0
	Excluded[a]	0	.0
	Total	20	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.843	9

Scale: Banking listed firms cultural issues

Case Processing Summary

		N	%
Cases	Valid	20	100.0
	Excluded[a]	0	.0
	Total	20	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.735	9

416

Scale: Banking listed firms Groups influence the adoption of IFRSs

Case Processing Summary

		N	%
Cases	Valid	20	100.0
	Excluded[a]	0	.0
	Total	20	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.781	9

Scale: Banking listed firms Benefits of adopting IFRSs

Case Processing Summary

		N	%
Cases	Valid	20	100.0
	Excluded[a]	0	.0
	Total	20	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.701	9

Scale: Investors Main Users of Financial statements

Case Processing Summary

		N	%
Cases	Valid	48	98.0
	Excluded[a]	1	2.0
	Total	49	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.792	9

Scale: Investors Users' Satisfaction about US GAAP

Case Processing Summary

		N	%
Cases	Valid	48	98.0
	Excluded[a]	1	2.0
	Total	49	100.0

a. Listwise deletion based on all variables in the procedure.

417

Reliability Statistics

Cronbach's Alpha	N of Items
.802	9

Scale: Investors users' satisfaction about IFRSs

Case Processing Summary

		N	%
Cases	Valid	48	98.0
	Excluded[a]	1	2.0
	Total	49	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.835	9

Scale: Investors Zakat calculations

Case Processing Summary

		N	%
Cases	Valid	48	98.0
	Excluded[a]	1	2.0
	Total	49	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.863	9

Scale: Investors cultural issues

Case Processing Summary

		N	%
Cases	Valid	48	98.0
	Excluded[a]	1	2.0
	Total	49	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.760	9

Scale: Investors Groups influence the adoption of IFRSs

Case Processing Summary

		N	%
Cases	Valid	48	98.0
	Excluded[a]	1	2.0
	Total	49	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.804	9

Scale: Investors Benefits of adopting IFRSs

Case Processing Summary

		N	%
Cases	Valid	48	98.0
	Excluded[a]	1	2.0
	Total	49	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.738	9

Scale: Auditors Main Users of Financial statements

Case Processing Summary

		N	%
Cases	Valid	44	97.8
	Excluded[a]	1	2.2
	Total	45	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.785	9

Scale: Auditors Users' Satisfaction about US GAAP

Case Processing Summary

		N	%
Cases	Valid	44	97.8
	Excluded[a]	1	2.2
	Total	45	100.0

Case Processing Summary

		N	%
Cases	Valid	44	97.8
	Excluded[a]	1	2.2
	Total	45	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.810	9

Scale: Auditors users' satisfaction about IFRSs

Case Processing Summary

		N	%
Cases	Valid	44	97.8
	Excluded[a]	1	2.2
	Total	45	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.820	9

Scale: Auditors Zakat calculations

Case Processing Summary

		N	%
Cases	Valid	44	97.8
	Excluded[a]	1	2.2
	Total	45	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.859	9

Scale: Auditors cultural issues

Case Processing Summary

		N	%
Cases	Valid	44	97.8
	Excluded[a]	1	2.2
	Total	45	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.749	9

Scale: Auditors Groups influence the adoption of IFRSs

Case Processing Summary

		N	%
Cases	Valid	44	97.8
	Excluded[a]	1	2.2
	Total	45	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.795	9

Scale: Auditors Benefits of adopting IFRSs

Case Processing Summary

		N	%
Cases	Valid	44	97.8
	Excluded[a]	1	2.2
	Total	45	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.731	9
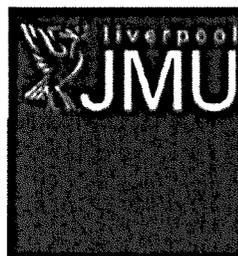
Name of experimenter: IHAB ALSAQQA

Supervisor: ROGER PEGUM

Title of study/project:
The impact of adopting IFRSs on profitability and stock performance in listed firms at Abu Dhabi and Dubai stock exchange

Purpose of study:
The study aims to undertake research with regard of how preparers and users of financial statements within the UAE listed firms perceived about the impact of the International Financial Reporting Standards (IFRSs) on share price, trade volume and firm's performance.

Objectives:
- To review the different theories and strategies
- To determine the current problems
- To examine the benefits of adopting IFRSs
- To assess the performance of shares price
- To evaluate the impact of adopting IFRSs on firms performance

Procedures and Participants' Role:

The information you provide will help to investigate the different stages to evaluate the financial performance of firms in both the Dubai Financial Market (DFM) and the Abu Dhabi Stock Market (ADX). You will be asked to complete a questionnaire, which will be administered by the project researcher and will take about 10 to 15 minutes. The questionnaire is in both Arabic and English languages for your convenience, you can fill in any language you would like. You will also be asked to provide consent to take part in the research. The questionnaire is completely confidential and participants have the right to withdraw from the study at any time. The questionnaire will be administered in a quite space in research room which is located in the business school at Liverpool John Moores University.

Please Note:
All participants have the right to withdraw from the project/study at any time without prejudice to access of services which are already being provided or may subsequently be provided to the participant.