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An investigation into the suitability of the international accounting standards to the United Arab Emirates environment

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Abstract

This study is an attempt to investigate empirically the suitability of the international accounting standards (IASs) to the United Arab Emirates (UAE) environment. A variety of parametric and nonparametric approaches were used to examine the underlying factors that could affect the level of adoption of IASs and to evaluate the suitability of such adoption to the UAE environment.

The major finding of this study is that the companies examined have vigorously adopted IASs and 87 percent of the companies disclosed their financial information in the English language which can be considered as a robust factor for adopting IASs. This study finds that the size of the companies (as measured by total assets) in the UAE has a significant effect on the level of adoption of IASs. However, the type of sector and the trading status (listed or unlisted) have no significant effect on the level of adoption of IASs. This study also tests to determine if a general consensus exists between the user groups of financial information (auditors, brokers, finance managers, and financial analysts) regarding their perception of the adoption of IASs in the UAE. It is found that there is a general consensus among the user groups on the suitability of adoption of IASs in the UAE.

Keywords: IAS; IASB; IFRS; International accounting standards; Harmonization; United Arab Emirates; Voluntary disclosure

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1. Introduction

Corporate financial reporting is considered to be the most important source of information for shareholders, investors, legislators, government regulatory bodies, employees, accounting professionals, academic researchers, financial analysts, and managers. This reporting provides quantitative and qualitative information about the economic entity. It is intended to help the user groups to utilize the financial information as a vital input for making a wide range of economic decisions. However, these groups have different objectives in using the corporate financial reporting and sometimes have different information needs as well (Benjamin & Stanga, 1977). Therefore, the corporate financial reporting should be relevant and reliable to serve the needs of these groups. According to the literature, the use of the international accounting standards (IASs) would enhance the comparability of financial statements and make them more reliable. Abu-Ghazaleh (1986) stated, "With the growth in international trade and the development of international capital markets there is a need internationally to raise the level of accounting practice and at the same time to obtain greater harmonization of financial statements."

The International Accounting Standards Committee (IASC) was founded in June 1973 as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, Ireland, and the United States. These countries constituted the Board of IASC at that time. Forty-one IASs were issued by The IASC from 1973 to 2000 (International Accounting Standards Board (IASB), 2005). The IASB, which is based in London, replaced the IASC in 2001. Since then, the IASB has amended or proposed to amend some IASs. It proposed to replace some of them with new International Financial Reporting Standards (IFRSs) and has adopted or proposed certain new standards on topics for which there were no previous IASs.

To date, IASB has issued the following standards and their interpretations (Deliotte, 2006): IFRS 1—first-time adoption of IFRSs (effective date, 1 January 2004),[1] IFRS 2—share-based payment (effective date, 1 January 2005), IFRS 3—business combinations (effective date 31 March 2004); IFRS 4—insurance contracts (effective date, 1 January 2005),[2] IFRS 5—non-current assets held for sale and discontinued operations (effective date, 1 January 2005), IFRS 6—exploration for and of evaluation mineral assets (effective date, I January 2006), and IFRS 7—financial instruments: disclosure (effective date, I January 2007).

Kathryn (2005) documented that about 100 countries, starting from 2005, have adopted IFRSs on a mandatory or voluntary basis. While most of the European Union countries have chosen to adopt these standards, several members have not. One of the major issues limiting the adoption of IFRSs by all countries may be the goal of the IASB to offer one-size-fits-all regulatory environments. That goal makes countries with different regulatory environments struggle and fail in their compliance with these standards.

Many developing countries have adopted all or some of the IASs. As the 1988 survey of the use and application of IASs showed, financial statements of a substantial majority of major business enterprises around the world conform to the IASs. It was reported (World Accounting Report, September, 1986) that Pakistan issued a Government Ordinance

[1]IFRS 1—First-time adoption of IFRSs amendment relating to IFRS 6 (effective date, 1 January 2006).
[2]IFRS 4—Insurance contracts amendment for financial guarantee contracts (effective date, 1 January 2006).