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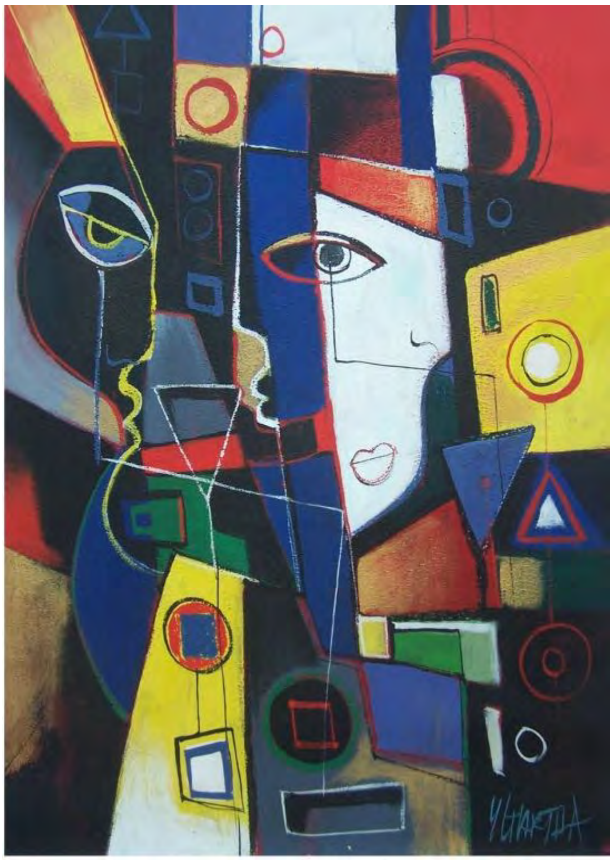
Revista de Antropología, Ciencias de la Comunicación y de la Información, Filosofía, Lingüística y Semiótica, Problemas del Desarrollo, la Ciencia y la Tecnología

Año 35, 2019, Especial Nº 21

Revista de Ciencias Humanas y Sociales

ISSN 1012-1587/ ISSNe: 2477-9385

Depósito Legal pp 198402ZU45



Universidad del Zulia

Facultad Experimental de Ciencias

Departamento de Ciencias Humanas

Maracaibo - Venezuela

Opcion, Año 35, Especial Nº 21 (2019):*2899-2921*
ISSN 1012-1587/ISSNe: 2477-9385

The Impact Of Iraqi Local Accounting Standards On Earnings Management

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Abstract

The article aims at verifying the hypothesis adopted by the researchers, which stated that the accounting standards in Iraq have repercussions on the earnings management, whether this reflection is positive or negative, especially that there is no formal disclosure of the company's earnings management for achieving management objectives. The management of the company may wish to achieve a certain earning figure and then interpret the accounting standards in a manner commensurate with what it aspires to. The information available from the entity's financial statements at the end of the accounting period has an impact on many conflicting stakeholders in the community, especially investors, consumers and creditors in the community. Hence, the management may use its creative practices to express the veracity of disclosures in financial statements. These methods may develop to conceal financial facts as a deterioration or failure of certain financial ratios and are contrary to accounting principles. Thus, the controversy over the counting of earnings management is a negative system that contradicts the ethics of the accounting profession. A positive form that takes advantage of the gaps that the financial accounting standards provide to modify and change the figures and financial statements in the interest of management. Through this paper, the researchers highlighted the concept and motives of earnings management as well as highlighting the ethical perspective of this practice by the management. The researchers have also dealt with an analytical study to link accounting standards and their impact on earnings management.

The researchers then made their recommendations for the company's management to increase transparency and disclosure, which helps to reduce earnings management practices.

Keywords: International Accounting Standard (IAS), International Financial Reporting Standards (IFRS), Generally Accepted Accounting Principles (GAAP).

El impacto de las normas de contabilidad locales iraquíes en la gestión de ingresos

El artículo tiene como objetivo verificar la hipótesis adoptada por los investigadores, que afirmaron que los estándares de contabilidad en Iraq tienen repercusiones en la gestión de ganancias, ya sea que esta reflexión sea positiva o negativa, especialmente que no hay una revelación formal de la gestión de ganancias de la compañía para lograr la gestión. objetivos La gerencia de la compañía puede desear alcanzar una cierta cifra de ingresos y luego interpretar los estándares de contabilidad de una manera acorde con lo que aspira. La información disponible de los estados financieros de la entidad al final del período contable tiene un impacto en muchas partes interesadas en conflicto en la comunidad, especialmente inversores, consumidores y acreedores en la comunidad. Por lo tanto, la gerencia puede usar sus prácticas creativas para expresar la veracidad de las revelaciones en los estados financieros. Estos métodos pueden desarrollarse para ocultar hechos financieros como un deterioro o falla de ciertos índices financieros y son contrarios a los principios contables. Por lo tanto, la controversia sobre el conteo de la gestión de ganancias es un sistema negativo que contradice la ética de la profesión contable. Una forma positiva que aprovecha las brechas que proporcionan las normas de contabilidad financiera para modificar y cambiar las cifras y los estados financieros en interés de la administración. A través de este documento, los investigadores destacaron el concepto y los motivos de la gestión de ingresos, así como destacar la perspectiva ética de esta práctica por parte de la dirección. Los investigadores también se han ocupado de un estudio analítico para vincular los estándares de contabilidad y su impacto en la gestión de ganancias. Los investigadores pudieron alcanzar un conjunto de resultados, que en total confirman el hecho de que las normas e interpretaciones contables que resaltan el deseo de la administración influyen en la administración de las ganancias. Luego, los investigadores hicieron sus recomendaciones para que la administración de la compañía aumente la transparencia y la divulgación, lo que ayuda a reducir las prácticas de administración de ganancias.

Palabras clave: Norma Internacional de Contabilidad (NIC), Normas Internacionales de Información Financiera (NIIF), Principios de contabilidad generalmente aceptados (PCGA).

INTRODUCTION

The accounting profession went through a difficult experience, especially during the global financial crisis. The profession was accused of defaulting on how to deal with distressed international debts without looking at the pre-planned management actions to target planned earnings, which in turn will affect the accounting profession by implementing these plans. Its global accounting standards contributed to the non-disclosure process or misjudged the classification of certain derivatives and financial instruments, particularly those related to mortgage operations in the United States. In contrast, financial institutions have re-examined some of their financial statement standards to address accounting weaknesses that emerged during the crisis. Significant standards such as International Accounting Standard (IAS) 39 on Financial Instruments (FI) and International Financial Reporting Standards (IFRS) 7 on the disclosure of instruments As well as IFRS 3 on the consolidation of financial statements. Because of the fact that earnings represent an important figure for the preparers of the financial statements as well as the users of such data, it is not surprising that the administration is often preoccupied with managing earnings. Recently, a management approach has been applied to an accounting application called earnings management. This is attributed to the bankruptcy and collapse of many establishments and the loss of investors. In the financial markets as it formed a real crisis in the economy. The management uses a variety of methods to affect the financial statements for different reasons, from managing one institution to another, taking advantage of some gaps in the surrounding business environment and the lack of commitment by some direct and indirect parties to the economics of that institution by accounting standards. The management in preparing the financial statements is based on a set of accounting standards. These standards do not consider the possibilities of accounting art by leaving the freedom to choose the application of the standard, which are the guiding rules in the accounting work. Therefore, the process would move application to non-application based on following or violating the ethical accounting code. Therefore, the earnings management is resulted from the management's misleading to financial reports even though that the preparers of the financial reports implicitly authorize this misleading.

RESEARCH METHODOLOGY

Problem of the Study

The traditional approach to profitability accounting is a key criterion for judging the success or failure of an entity through different beneficiaries of the financial statements. Therefore, earning management is one of the things that affect the decisions of some of the beneficiaries in a negative or misleading way. The problems experienced by many of the largest companies in the world during the last financial periods, despite the application of accounting standards generated a lack of confidence in those standards. On this basis, the researchers attempt to investigate the impact of Iraqi accounting rules (standards) implications on the phenomenon of earnings management.

Significance of the Study

The research significance lies in its addressing to a very important research area which is the management of earnings, which is still a subject of debate and discussion in the literature of accounting, management and auditing due to the phenomenon nature of diversity ,complexity , diffusion , the and high levels of risk. Moreover, the research significance is embodied in its reflection of accounting standards on declared earnings.

Research Objectives

The major objectives of the research are to identify the accounting implications of earnings management by reviewing the Iraqi local accounting standards and addressing them by means of explanation, analysis, and logical conclusion of these standards contents fertile areas used by the administration to achieve self-goals.

Research Hypothesis

H1 Iraqi accounting standards provide sufficient flexibility for the management of the company to beautify its budget through earnings management based on administrative and accounting methods and/or formulas.

THEORETICAL FRAMEWORK

The Concept of Earnings Management

The concentration on earnings management is the result of the management's influence and willingness to reach a certain measure of enterprise performance. Earning management is observed as a deliberate intervention in external accounting for special gain. The various receivables options available under the Generally Accepted Accounting Principles (GAAP) and the ease of defining these entitlements for manipulation allow administrators to adjust and manage earnings to achieve an ideal level each year. It has been shown that earnings management is motivated by the management's desire to increase the annual income of the joint stock company and to influence on-going disputes and the potential for foreign trade legislation (Wilson, 1997).Based on the ethical approach to accounting by managing acceptable and inacceptable earnings. Parfet (2000) divided earnings management into two types. The first type is called the 'media perspective for earnings management' while the second type refers to the 'opportunistic earnings management', which actually can affect the financial statements in its entirety by distorting and shading the financial data to their users.

Earnings management has multiple definitions, so there is no single specific definition for it. Lo (2008) points out that, "Earnings management occurs when managers or executives decide to alter financial reports through various methods, to mislead stockholders and investors about the true economic performance of the company, to meet their expectations so stockholders feel confident and investors invest." In other talking, managers are "cooking the books" to make the company look good. Burgstahler and Eames (1998) refer to earnings management as an involvement of external level of conducts, which may affect earnings ranging from operations, investment, and finance to bookkeeping, which only affect accounting measurement for earnings purposes. Earnings management is a deliberate misrepresentation of earnings, which in turn leads to the emergence of accounting figures that differ fundamentally, from what they might be in the absence of such intervention when the management makes decisions not subject to strategic reasons (Partha, 2003). Moreover, Scott (2006) argues that earnings management is a deliberate intervention in the process of preparing external financial statements for obtaining certain special gains through the practice of fraudulent transactions that represent actual fraud to parties that do not have full knowledge of the economies of the enterprise. According to Dechow et al. (1995), earnings management refers to the manipulation of earnings, both inside and outside the boundaries of acceptable accounting principles generally. However, Djakman (2003) stresses that earnings management is not the same as manipulation. Earnings management is done in order to meet the interests of management by exploiting the inherent weaknesses of the accounting policies, whereas the mean earnings manipulation offenses accounting principles generally accepted to produce the company's financial performance in accordance interests. It can be concluded that earnings management is a deliberate action by the management of the company's financial reporting process to external companies that utilize research to influence the decisions of users as well as for the sake of personal gain despite the fact that the company's financial condition is not as reported.

In the opinion of the researchers, earnings management is the use of accounting techniques in the treatment of economic events in the light of the application of accounting standards in order to access financial data, reflecting the good performance of the institution during the financial period to serve the objective of management and improve the strength of this establishment in the market. Hence, it is the creativity of the administration in the use of one of the accounting methods, which can be observed with some fall within the term of creative accounting. Based on what has been stated so far, one can note that using earnings management method is actually applicable to the administration and a fact that the accounting literature cannot deny.

Motivations of Earnings Management

Jabbar (2018) points out that there are many motives that urge the management to practice earnings management to influence the declared earning figures to achieve the target earning. Some of these motives make the management increase the earnings achieved, including reducing them. In order to give a clear picture of these motives, the most important ones be addressed below:

Efficiency Motivation

This motivation is to maintain the continuity of the company in the market in terms of achieving competitive advantage and showing the strength of the financial institution of investors and users of financial data, and indicates the efficiency of the management of the establishment in the work during the financial period. From one hand, earnings management, in the financial statements based on continuity of the establishment, may be a double-edged sword if it is within the limit of the accepted accounting principles flexibility. On the other hand, earnings management may come out of accounting standards using accounting art, which has a negative impact on the destiny of the establishment, its management, and its financial statements.

Self-Motivation Management

Self-motivation management is achieved when self-management benefits are realized and earnings management has a material impact on the entity's real position. The department has always had a strong motivation to influence the financial statements to the best of their interests. According to (DeFond, 1997), the most important self-motivations of earnings management are:

1. Affecting the stock prices negatively to acquire them.
2. Maintaining the reputation of the management to strengthen their position in maintaining their posts if the evaluation of the performance of the management based on the number of profits target or the number of profits last year or on the basis of the rate of growth in profits, which has the Department motivated to affect the profit figure to be consistent with the vision.

Holthausen (1988) argues that large incentives for management are motivated to influence the profit figure because an incentive plan in place, especially if management incentives are associated with reported earnings figures.

The researchers believe that the self-motivation of management has a great influence on the management of profits and this is related to the psychology of the human element that runs the establishment as the human always aspires to achieve the best self-motivated linked to its own behavior.

Earnings Management Entries

Scott and Pitman (2005) show that when management approaches earnings management, it is based on the following justifications:

1. They do not violate legal rules, whether public or business.
2. They do not violate the GAAP.
3. It does not extend beyond its powers.

Earnings management is an indication of the many strategies and methods used by administration in the earnings management, which affect the accounting information from both sides of the form and content, especially when preparing the financial statements as they see fit and in different degrees. The management approach varies according to the type of decision taken by it and according to the objectives set in advance. They can be summarized as follows:

1. The format of the information relates to the classification and presentation of the financial statements. This can be achieved by combining accounting figures.
2. With regard to the content of the accounting information, there are

methods used in the operational and financial decisions related to the economic events taken by the department to maneuver the revenues and expenses of the period in order to effect the required impact on the declared income and distribution rates.

Accrual Basis

It is regarded as a key basis in the adoption of accounting policies and in the presentation of financial statements. In addition, reports can be used as a measure of the amount of freedom to choose the accounting policies used by management. The reports on the effect of accruals have important applications in studies related to the discovery of earnings management practices. In other words, it means the potential change and estimates that may be realized in the income and expenses due, such as the change in the life of the asset or the probability of repayment of the debtors to control the amount of income and expenses that arise in a particular financial period.

Accounting policies

The transition from an accounting method to another, such as the transition from the methods of FIFO to LIFO, or from the method of LIFO to FIFO. The accounting method used to manage earnings must be characterized by the following characteristics (Abdulhameed, 1999):

- The method used will achieve an adjustment in the income number without incurring economic unity in undesirable actions in the future.
- The method used does not require actual operations with other third parties.
- The method used should be consistent with accepted accounting principles.
- The economic unit should continue to use accounting practices without change during a series of consecutive periods in accounting policies to varying degrees.

Merchant and Rockness (1994) states that flexibility in the application of accounting policies, i.e., transfers in certain elements of income and expenditure, is consistent with GAAP. These methods are used in two ways:

1. The real trend, which leads to changes in results and financial centers in a realistic way, which is divided into two types:

- Timing: Items of income or expenses incurred during a financial period are transferred to another period in whole or in part in such a manner as to help to show the resulting results on profit or loss in accordance with the predetermined objective.
- Accounting Estimates: The accountant is within the scope of his competence to determine a set of estimates relating to many items of ac-

tivity and therefore does not adhere to neutrality, but these estimates are subjected to management tests in accordance with the goals set for them.

2. The trend of the notebook, which translates into the processing and accounting levels reflected on the components and vocabulary of what is recorded in books as they are reallocated and tabulated according to different concepts and standards.

Relative Importance

The concept of relative importance has a wide impact on all accounting activities. It affects the measurement and presentation of all information provided in the financial statements and their greater impact is on revenue and expense items. The International Accounting Standards Board (IASB) gave a concept to the relative importance as 'Those who make accounting decisions and those who make judgments, such as auditors, face an ongoing need to make judgments on the relative importance and its provisions in terms of nature. They ask the question: Is this item so large as to affect the users of the financial statements? However, the answer to the question is usually influenced by the nature of the item and its meaning. Small items that are material if they occur as a result of normal operations can be counted as material if they are found in non-physical conditions' (Schroeder, 2010).

Personal Judgement

Burgstahler and Dichey (1997) explains that personal judgment plays a role in management's approach to managing earnings as it is desirable practices by using personal judgment in the preparation of financial statements of the entity's economic performance. As the accountant falls within the scope of his competence to determine a set of estimates relating to many items of activity and therefore does not adhere to neutrality, but these estimates are subjected to management tests in accordance with the objectives set for them.

Healy and Wahlen (1999) believe that earnings management is achieved when management uses personal judgment to prepare financial statements and restructure operations in order to adjust those statements, to mislead shareholders on the company's economic performance or to conclude contracts based on accounting figures. This, in turn, is reflected in the treatment of accounting levels, which affect the components and the items of what is recorded in the books as they are reallocated and tabulated according to different concepts and standards.

EMPIRICAL ANALYSIS

Methodology

The researchers have relied on conducting an analytic study to some of the Iraqi accounting standards, which are basically issued, and enacting by the Iraqi Accounting Standards Council, terming these 'Standards' as 'Rules'. The activity of the council begun in 22/3/1988 that came up with issuing the following accounting standards:

Table 1
IRAQI ACCOUNTING STANDARDS

Accounting Standard No.	Accounting Standard Title
1	Measurement of the activity result of construction contracts.
2	International Standard No. (9) on R & D expenditures approved by the Accounting Standards and Standards Board of the Republic of Iraq and effective by the Ministries in 1992.
3	Capitalization of borrowing expenses.
4	Accounting for the effects of change in foreign exchange rates.
5	Accounting for inventory, valuation and presentation in the financial statements.
6	Disclosure of data relating to financial statements and accounting policies.
7	Cash Flow Statement.
8	Information reflecting the effects of change in prices.
9	Contingencies and post-budget events.
10	Disclosure of financial statements of banks and similar financial activities.
11	Accounting for agricultural activity.
12	Capital gains and losses.
13	Accounting for income tax.
14	Investment accounting.

What has been presented in the accounting standards table is the overall activity of the Iraqi Accounting Board since its establishment to the present, taking into consideration that these standards have not been subject to any amendments ,noting that Standard No. (1) was enacted 1990.
The researchers will discuss and explain some of those standards and gaps they contain and the extent to which companies can benefit from them in order to manage their earnings:
Earnings Management Inputs According to Iraqi Standards
Accrual Input

Paragraph 31 of the Iraqi Standard No.5: The Standard on inventories has supported the use of the accrual basis for the preparation of financial statements. Article (31) stipulates that the net value of the principal goods should be determined by fixed value contracts or covered by future sale orders according to the contracted prices and the quantity limits stipulated in the contracts or orders, the market is less than that. Any impairment in inventory value resulting from a net decrease in the selling price of the inventory should be charged for its carrying amount and all inventory losses are expensed in the same period in which such losses were incurred.

Paragraph 2 of the IAS No.9: The acceptance of the capitalization of R & D expenses under the provisions received and their suspension in deferred expenses account provided the administration with flexibility in the wide use of the accrual basis by charging all such costs and considering them deferred against the preparation of the financial statements in the same year that the expenses were incurred without disclosing part of their amounts The financial year of the report.

The researchers believe that these expenses should be charged fairly on an annual basis, taking into account the year in which the company incurred these expenses, because the research and development (R&D) costs incurred by the company annually is one of the indicators of innovation and innovation in the management of the development of its products or services, In the business market.

Paragraph 4 of the Iraqi Standard No.9: This paragraph supports the company using the accrual basis in its earning management. It stipulates that the financial statements should reflect the current situation at the balance sheet date. In defining future events, the standard also provides that the events where the ultimate outcome (gain or loss) depends on whether or not one or more things in the future have an impact on the financial statements, which explains that the standard provides for the taking of such conditions, whether obtained or not, giving way to management using the accrual basis in order to demonstrate those processes to manage their earnings.

Input of Change in accounting policies in accordance with accounting principles

Paragraphs 3 and 24 of the Iraqi Standard 5: It does not address the disclosure of accounting treatment of inventories under the principles of inflation accounting as well as Article 24 of the standard. The net achievement value is not determined based on temporary, incidental or seasonal fluctuations in prices or costs. We did not note in the paragraphs of the standard that this should be disclosed in the company's financial statements, although this is important.

Paragraphs 23 and 24 of the Iraqi Standard 5: It states that when determining the net collection value of the inventory, a set of factors such as the age of the reservoir and its movement during the previous and current periods and the value of the wastes shall be considered. Paragraph 24 of the standard defines the net collection value as 'Net collection value is the selling price less any expenses required by the marketing, selling and distribution process plus the completion expenses of the goods under manufacture.'

Paragraph 3 of the International Standard No.9 : It stipulates the recording of the reserve for retained earnings from distributable earnings for the purposes of development and expansion and to improve the working conditions and methods and treat them within the paid capital according to the following method:

From capital reserve account (reserve expansions) to the paid-up capital account

Thus, the Standard omitted an important principle in accounting, namely, the disclosure of the amounts of these reserves in the financial statements of the company, but increased by adding them to the paid-up capital without informing the Board of Directors of the increase in capital.

Paragraph 8 of the International Standard No.9: The paragraph states that the activity of marketing research which is carried out prior to the start of production to know the feasibility of the commodity or the possibility of a market for it, which is a development expenses, which must bear the current expenses incurred by the establishment. That paragraph has given flexibility to those companies to postpone recognition, i.e. not to be included in the expenses and then increase the revenues of the company and not to meet the revenues of its expenses. Moreover, the above paragraph also stipulates postponing the recognition of R & D expenses in the event of capitalization and suspension, ensuring full-deferred expenses without recognizing the amount of such annual expenses when preparing the financial statements.

Relative importance Input (Accounting of Construction Contracts): The revenue to be used to measure the activity in construction contracts is recognized at market prices, whereas the paragraph (basis of recognition of revenue in construction contracts) indicates that the period of the last period until the end of the accounting period is considered to be under construction and its judgment is the incomplete production at the end of the period. In another resource (method selection), the standard stipulates the need to disclose the value of the effects arising from changes in accounting policies used in accounting for construction contracts and statement of accounting. However, these variables have been explicitly disregarded by accounting limitations or accounting treatment has been neglected, In the statement of the effect of that change in accounting policies when preparing the financial statements on the one hand, as well as the manner in which such a limitation is recognized or how such amounts are calculated.

Paragraph 11 of the International Standard No.9: The paragraph stipulates that R&D expenses should be amortized on a regular basis by either linking them to sales or a reasonable period or using the practical commodity without regard to the principle of relative importance. This is a means of managing earnings.

Personal Judgement Input

The Iraqi standards included personal judgements that left the administration free to choose the accounting methods that apply to the economic event or to set up accounting periods that are characterized by high flexibility, such as the following:

Contents of Iraqi Standard 1 / Accounting of construction contracts: The contents of the standard have included that if losses are expected to occur in the subsequent periods of both methods (percentages of completion and contract performed), the allocation of such losses is based on objective estimates based on the available indicators. We have not noted what is specified in this standard or the accounting legislation in the Republic of Iraq to address the nature of such estimates, which allows the administration to interpret them in accordance with what they see and in accordance with their interests. In addition, the term "available indicators" is a general term, allowing the use of these terms by the company as judgements a personality that leads to earnings management.

Paragraph 7 of Iraqi Standard No.5 / Accounting for the treasury and its valuation and presentation in the financial statements: The paragraph clarifies that the historical cost of the purchased goods consists of the purchase price minus the trade discount and any other discounts, grants, subsidies or refunds related to the purchase plus all fees and taxes relating to the purchase and any related expenses until they are entered into warehouses. Thus, the paragraph provides the administration with the possibility of personal judgment with regard to the historical cost of the purchased goods (treasury) through the possibility of downloading grants and collateral from that cost.

Paragraphs 13, 21 and 22 of the Iraqi Standard No. 5: Paragraph 21 refers to the valuation of inventory of goods in the financial statements at the end of the accounting period at the historical cost or net realizable value, whichever is lower. In its definition of net realizable value in paragraph 22, it indicated that it is a selling price minus any expenses required by the marketing, selling and distribution process plus the completion costs of the goods under manufacturing. In paragraph (13) of the same standard, reference is made to the fact that interest and borrowing expenses are treated as part of the cost of goods sold or produced in the event that these benefits are primarily related to the financing of the goods and otherwise bear the income of the accounting period in which they occur. The opening of the door to the personal judgement of management in respect of such expenses is either by charging them on the income of the accounting period, which leads the cycle to lower the earnings or vice versa and then not recognized in the income of the accounting period and save that account the amounts.

Paragraphs 17 and 18 of the Iraqi Standard No. 5: Some accounting policies require management to be free to use one of several alternatives as an input to manage profitability and to achieve the target income figure, although that method does not have the power to justify its management because accounting standards require disclosure of such changes and therefore easy disclosure.

Paragraph 24 of the Iraqi Standard No.5 : The content of the paragraph has emphasized the need for the availability of objective evidence or proof at the balance sheet date to assess the value of the goods, and it may be understood from many explanations that a department may have objectivity if it is contrary to another administration, and thus allow the private judgment to assess the value of such goods, which is important in the financial statements since their impact extends to both the income statement and the general budget.

Paragraph 2 of International Standard No. 9 / R & D expenditures: The paragraph stipulates that research and development expenses shall be amortized for a period not exceeding five years, ie, they have given the flexibility to be evaluated from one to five years to extinguish them. Therefore, these standards allowed management of the profit of the company and the amount of these expenses was not taken into consideration. The Standard allows the management to use personal judgments that are consistent with its objectives regardless of the other conflicting objectives of the users of the financial statements without disclosing them in the financial statements.

Paragraph 4 of International Standard No. 9: The paragraph states that the costs of the R & D activity should be allocated to the various accounting periods in the light of the possibility of the expected benefit in the future. The distribution of these costs is therefore a certain degree of personal judgment or appreciation, since the status of the expression of potential future utilization is not recognized as a degree of certainty of the usefulness of the good or service.

Paragraph A of International Standard No. 9: This paragraph indicates that R & D costs are estimated based on a reasonable proportion of indirect costs. Thus, the term "indirect costs" leads to the adoption of personal judgments. In addition, this paragraph stipulates that these costs are deducted and similar to the allocation of indirect costs.

v Paragraph 8 of International Standard No. 9 : The paragraph gave a great flexibility to the units to manage their earnings, considering that the marketing activity which is carried out before the start of production to determine the feasibility of the commodity or the possibility of having a market for it within the developmental expenses, and allowed treatment of these expenses in one of two ways:

Charging t expenses for the year of the report.

Deferring the recognition of such expenses.

Paragraph 7 of Iraqi Standard No.9 / Emergency Probability and Post-Budget Events: The above paragraph allows the management to use personal judgment that may be interpreted to manage the earnings of the company, stating that the management must assess the results of the contingencies and the implications thereof in the light of the information available until the approved date for approval and issuance of financial statements, as well as to review subsequent events at the balance sheet date, taking into account the experience of such transactions.

Based on what has been mentioned from the methods that the Iraqi accounting standards provide to the managements, such as following personal judgement and so many other stated methods for managing their earnings, the research hypothesis that 'Iraqi accounting standards provide sufficient flexibility for the management of the company to beautify its budget through earnings management based on administrative and accounting methods and/or formulas' has been validated and approved.

Conclusions and Recommendations

Conclusions

Earnings management is largely based on personal judgments that the management interprets in accordance with the provisions of Iraqi standards towards their own interests and in accordance with their wishes without regard to the objectives of the conflicting interests.

The significant evolution of international accounting standards in terms of quantity and quality has not been accompanied by parallel development in Iraqi standards.

Accounting interpretations are a fertile environment for enterprises in the pursuit of earnings management.

Enterprises' earnings management by exploiting the gaps in accounting standards is repugnant, as it involves an unfair exercise of power that misleads users of financial statements.

Recommendations

The need to adopt modern management frameworks to lead the enterprise in order to increase transparency and disclosure, which helps to reduce profit management practices. The structure known as institutional governance may be appropriate and limited.

The need for professional institutions in the Republic of Iraq to review the previous standards and conduct a constant modernization in accordance with the modern accounting environment and local requirements.

The need to attach importance to the adoption of modern standards or to adjust existing accounting policy standards.

Corporate governance is an important element for framing and practicing management systems, and this does not give the financial statements sufficient transparency and credibility.

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Revista de Ciencias Humanas y Sociales

Año 35, Especial N° 21, (2019)

Esta revista fue editada en formato digital por el personal de la Oficina de Publicaciones Científicas de la Facultad Experimental de Ciencias, Universidad del Zulia.
Maracaibo - Venezuela

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