International Academic Institute for Science and Technology

International Academic Journal of Accounting and Financial Management
Vol. 3, No. 1, 2016, pp. 84-96.

ISSN 2454-2350

International Academic Journal of Accounting and Financial Management

www.iaiest.com

The Impact of Adoption International Financial Reporting Standards in the Developing Countries (Study on the State of Libya)

Assam Sasi Mohamed Khaled

[a] *Master Student of commerce in Financial Accountancy, Sam Higgin Bottom Institute of Agriculture, Technology & Sciences*

Department of Financial Accountancy

Joseph School of Business Studies

Deemed-to-be University.

Abstract

Most of developing countries in the world have revolutionized their accounting practices especially during the last few decades of the 21st century. Such revolutions encompass the adoption or adaptation of local accounting practices and harmonizing it with the International Accounting Standards (IAS) & (IFRS) This study is seeks to analyze the impact of Adoption the international reporting standards in the developing countries and particular the case study((a state of Libya)). The objectives of this study are to Contribute in the development of the accounting profession in Libya, analyzing the importance and the advantages of the Adoption in the Libyan environment from the perspective of stakeholders. The results of this study showed that most of the sample study Who participated in answering the questionnaire submitted in this particular are supporting the adoption of international reporting standards in the state of Libya. Where they have indicated to that the international financial reporting standards are contributing in the improve and raise the level of the accounting profession, waterless of external investors and contribute in the advancement of the stock markets and Improve the processes of comparison, analysis, disclosure. The data were analyzed using the Spss software.

Keyword*:* International Financial Reporting Standards, Adoption, Impact, Developing countries, Libya.

Introduction:

The Standards are important to any society. it is providing a means to measure, compare, coordinate and the protect. They can be applied to myriad functions, ranging from weights and measures, to traffic control and monetary systems. The Accounting standards are also leading to important function such as development of the accounting profession and growth, which requires hard work by the official and professional competent authorities to take the necessary measures on the drafting of these standards and principles of accounting to be applied and used by accountants and auditors, for instance, they protect third-party interests by providing financial statement users a common yardstick with which to compare alternatives and come to reasonable decisions. And the international financial reporting standards are also Contributes in Improve the quality of information produced by the accounting system in accordance with international standards, and raise the efficiency of management performance, Obtain on the appropriate information to make decisions and it provide one accounting reference and constant and contribute to the strengthening of the accounting profession on the national and international level also allow financial statement users, who compare the relative performance of different companies, to feel confident that the methods used to prepare such financial statements are consistent. the accounting standards are protect investors, shareholders and the government from biased or inconsistent reporting by management and also it contribute in Access to the capital markets (global stock exchanges).For example, the adoption of international standards has allowed to European companies to take advantage of the US capital markets, especially in the Stock Exchange WALL STREET in the York as well as signs began the trading in companies contributing to the capital markets in the Gulf states, because they depend entirely on international accounting and auditing standards in the preparation of their financial reports. Thus the adoption of these standards provides one accounting reference and constant and contribute to the strengthening of the accounting profession on the national and international level. Therefore, the absence of accounting standards which regulate the accounting business may inevitably lead to weakness of the accounting profession compared to other professions, difficulty of understanding the financial statements and reports by investors and interested parties and also is difficult to compare the financial statements of the domestic and foreign companies.

The benefits Adoption International Financial reporting Standards in the business environment

1- International Investors

- ✓ Easier access to foreign capital funding and cross-border stock exchange listings – the need to attract international investors and to enable easy monitoring of overseas investments.

2-Multi-national Companies

- ✓ Gaining better access to foreign investor funds.
- ✓ Improved management control from harmonized internal financial communication.
- ✓ Facilitating of appraisal of foreign for purposes of takeovers and mergers.
- ✓ Ensuring easy compliance with reporting requirements of overseas stock exchanges.
- ✓ Facilitating of consolidation of foreign subsidiaries and associated companies.
- ✓ Achieving the reduction in audit costs.

3- Governments and National standard setting bodies

✓ Assist governments in attracting international investors as adoption of (IFRS) enables international investors easy monitoring of overseas investments.

4- Local and domestic companies

✓ Improved comparability of reported financial information by entities – owing to improved transparency and enhanced disclosures and seal of quality.

✓ Optimization of tax planning – the ability to analyze impact on tax-related issues.

✓ Ability to understand interaction with strategic initiatives to generate value from synergies –this also facilitates more effective management of enterprises and efficient processes.

✓ Easier access to external capital.

The problems of adoption International Financial reporting Standards in developing countries.

As there are a benefits to adoption of International Financial reporting Standards in developing countries, there are also problems or obstacles it may stand off the process adopt these standards in developing countries environment as follows..

1- The complex nature which formulated by some standards. such as standards which are associated with investments and derivatives and financial instruments and standards which generally associated with fair value On the other hand, the concept of fair value of theoretical concept cannot be verified on the ground Even if possible to understand the meaning of the content of international standards and therefore The majority of developing countries that either do not have an organization of financial instruments legislation, or they are different from other countries in the organization such of these instruments or does not have markets has high.

2- Legislation and laws of taxes. There is a difference in legislation and tax laws between developing countries and countries that have issued international accounting standards, this may be a hindrance of adoption barriers.

3- The Investors and users are Accustomed to work and read the financial statements in accordance with national standards or without standards, and this may be an obstacle or challenge or problem that may face developing countries in the adoption of these standards.

The factors that help and support the and deployment of the international financial reporting standards in developing countries.

1- The aim of adoption the developing countries to such these standards is to gain a global representation for financial reporting.

2- The international financial reporting standards help to improve the comparison process to financial statements and make them easier to use across different countries, especially with the rapid growth of the global capital markets.

3- It useful to countries that lacking their own standards where it's hard on those countries to creation of their own standards, Due to the limited financial and technical capabilities.

4- It is difficult to adoption a particular state to another state standards because of the national and sovereignty, but the adoption of international financial reporting standards which Issue by a neutral body such as the International Accounting Standards Board is getting widely accepted.

A historical review of accounting professional evaluation in Libya

Libya as developing countries the accounting profession has played an important role over half century including, a resource allocation, monitoring social and economic development plans and the establishment of the product pricing system all depend on accounting information, rather than the mechanism of market forces. In most of the developing countries, accounting profession has been basically evolved in the line of primary mentor, colonial or influential developed countries. This is the particular case in Libya; during the period between 1911 and 1951 was the period of Italian and British occupation of Libya. The country witnessed the start of the evolution of accounting at some meaningful level (Kilani, 1988). At the time of independence in 1951, there was no domestic accounting profession and most of the business firms depended upon foreign accounting firms from Italy and the UK. Also, following the oil discovery many American companies began expanding their investments in Libya, and as a result of a lack of regulations or set rules for the accounting profession in Libya, these companies adopted and applied their own accounting systems, coupled with American Accepted Accounting Principles (Bait ElMal et al, 1973). As a consequences of that, and the early discovery of oil in 1960s which provided the country with financial resources to significant growth of the economy, and due to the increase of accounting firms in quantity and capacity, and the spread of irregularities in the practice of accounting and auditing, there was an urgent need for issuing laws to administrate accountancy and related areas, and creation of professionally organized body to take responsibility of developing a common outline for accounting and auditing. Therefore, to meet the demands there were a number of laws issued and promulgated to regulate the accounting and auditing practice in Libya.

International Financial Reporting Standers In The State Of LIBYA

The state of Libya is trying to engage in the global environment to adoption of international standards which showed in the Banking Act No. (1) of 2005 in Libya Which was issued by the Central Bank of Libya and it Indicates in Article of 25 that the Financial Control Department has to managing the process of checking in accounts banks according to the international standards prescribed in audit and Accounting As well as Article 26, paragraph "A" in the within four months from the date of expiration of the fiscal year. the bank has to prepare the Financial Statements for the year ended according to these standards, There are also efforts of professional accountants in Libya for the adoption of (IAS)& (IFRS) and was most recently in 2012 Where a committee has formed by the Association of Libyan accountants to look into the possibility of adoption these standards in the Libyan environment and The results of this committee were that it could be adopt some of the standards, and other modification until Complies with the Libyan Environment.

Importance Of Study

The impact of adoption the international financial reporting standards is Characterized by the role which play in achieving compatibility accounting International in order to obtain financial statements include accounting information is characterized by stability And reliability and help make sound decisions by users, From this perspective was the main reason to created importance of this study and add voice of the voices which are supporting the adoption of (IFRS) in the State of Libya and the expected of this study to providing greater clarity about the impact of the adoption of (IFRS) through the analysis of opinions and views of Libyan accountants to adoption it.

Objectives Of Study

1- To improve and raise the level of the accounting profession in the State of Libya.

2- To analyzing the opinions of Libyans accountants in the impact of adoption the International financial reporting standards(IFRS) in the Libyan environment.

3- To highlight the International financial reporting standards(IFRS) and the advantages of its adoption in the Libyan Environment.

Problem Of Study

The study Problem lies in the impact of adoption the International financial reporting standards(IFRS) in the Libyan Environment. And are these standards meet the requirements of the accounting environment in Libya, While the state of Libya does not follow any specific accounting standards.

Table NO:(2) shows the summary of 16 standards (IFRS) that were issued by the International Accounting Standards Board so far.

Standard code		Standard Name	Issued
1	IFRS 1	First-time Adoption of International Financial Reporting Standards	2008
2	IFRS 2	Share-based Payment	2004
3	IFRS 3	Business Combinations	2008
4	IFRS 4	Insurance Contracts	2004
5	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	2004
6	IFRS 6	Exploration for and Evaluation of Mineral Resources	2004
7	IFRS 7	Financial Instruments - Disclosures	2005
8	IFRS 8	Operating Segments	2006
9	IFRS 9	Financial Instruments	2014
10	IFRS 10	Consolidated Financial Statements	2011
11	IFRS 11	Joint Arrangements	2011
12	IFRS 12	Disclosure of Interests in Other Entities	2011
13	IFRS 13	Fair Value Measurement	2011
14	IFRS 14	Regulatory Deferral Accounts	2014
15	IFRS 15	Revenue from Contracts with Customers	2014
16	IFRS 16	Leases	2016

Source: mailto:http://www.iasplus.com/en/standards

RESEARCH METHODOLOGY

SOCIETY AND STUDY SAMPLE

Society and study sample are consists of (5) of Financial Managers or Financial Controllers (10) Accountants in the Court of Audit or in the tax Authority, (10) Accountants in some of the companies or banks, (12) faculty members, (13) students where the questionnaire was distributed by email to every member of the study sample and after a month the questionnaire was collected and arranged for the purpose of analysis and study.

SOURCES OF DATA COLLECTION

This field study is based on descriptive analytical method, the researcher have been adopted in the process of collecting the necessary data on the two main sources, namely:

1- **Primary sources**

Primary sources has been collected through the questionnaire that has been designed to cover the objectives of the study, and distributed to the sample study which are Component of financial managers, financial controllers, accountants in the sectors of commercial banks and Accountants in the Court of Audit or in the tax Authority, faculty members and students in the state of Libya.

2- Secondary sources

secondary sources has been collected through the researcher readings on some previous studies and references of newspapers and magazines on the subject (the impact of adoption of international financial reporting standards in developing countries).

ANALYSIS & INTERPRETATION OF DATA

❖ Statistical methods used.

In order to achieve reliable results of the study have been using the Statistical Package for Social Sciences SPSS software to analyze the data obtained from the questionnaire distributed to Libyans accountants where have been using the following statistical tests:

1- Cronbach's alpha Test: To measure the reliability of the paragraphs of the questionnaire.

Reliability Coefficient = R2 / 1+R

2- Measures of central tendency:

I. **The arithmetic average:** To determine the percentages of the study sample responses that describe the impact of adoption of international financial reporting standards in the State of Libya.

II. **The standard deviation:** To measure the degree of dispersion of the values of sample responses for the arithmetic average of the of each paragraph.

Table No:(4) shows the Reliability coefficient (Cronbach's alpha testing) for The total number of sample.

		N	%
Cases	Valid	50	100.0
	Excluded[a]	0	.0
	Total	50	100.0

Table No:(5) shows the Measure of Reliability coefficient (Cronbach's alpha testing) on the Paragraphs of questionnaire.

Cronbach's Alpha	N of Items
0.588	14

Interpretation:

1- The Table NO:(4) shows the valid sample size which need to be analyzed provable by Cronbach's alpha testing that Consisting of 50 personnel by 100% and that means all the members of the sample intended to participate in answering the questionnaire has been participated in answer on the questionnaire paragraphs.

2- The Table NO:(5) shows the valid paragraphs which need to be analyzed provable by Cronbach's alpha testing that Consisting of 14 paragraph and the results of test shown that high reliability coefficients for the paragraphs of the questionnaire higher than 0.50% and therefore considered acceptable percentage.

The scale of the importance of the arithmetic average .

In this step has been used the ordinal scale for the arithmetic average according to the level of the importance in order to used in the analysis of the results according to the following.

5 -1 = 4 ÷ 3 =1.33
1+1.33 = 2.33
2.33 + 1.33 = 3.66
3.66+1.33= 4.99

Table NO: (9)

The scale of the importance of the arithmetic average

The arithmetic average	Relative importance
From 1 To less than 2.33	Low
From 2.33 to less than 3.66	Medium
From 3.66 and more	High

The table NO: (10) showing the averages, standard deviations, arranging and the percentage of relative importance for each question.

NO	Paragraph	Arithmetic average	Standard deviation	Ranking	Relative importance
1-	Reinforce confidence in the accounting and auditing profession.	**4.60**	**.5714**	**1**	High
2-	Increase the efficiency of the financial statements and their ability to contribute to the rationalization of decisions.	**4.28**	**.729**	**4**	High
3-	Encourages and facilitates international trade and foreign investments.	**3.64**	**1.045**	**8**	Medium
4-	It help in facilitating the work of multinational companies.	**3.56**	**1.072**	**11**	Medium
5-	Help to facilitate the work of the finance departments and tax.	**4.02**	**.958**	**5**	High
6-	Lead to the provision of the necessary effort and funds to establish domestic Accounting Standards.	**2.92**	**1.352**	**14**	Medium
7-	To get adequate and reliable information which can be understood by Interested parties.	**3.84**	**1.841**	**7**	High
8-	Work to raise the accounting business of measuring efficiency, evaluation, disclosure and to maximize the	**3.88**	**1.136**	**6**	High

	usefulness of financial statements.				
9-	Facilitate comparison between financial reporting of different companies**.**	**4.46**	**.7059**	**2**	High
10-	It improves the level of financial analysis and reduction of complications associated with it.	**3.44**	**1.248**	**12**	Medium
11-	Lead to the easiness of investments measurement.	**3.62**	**1.291**	**9**	Medium
12-	Help in the development of the stock market.	**4.32**	**.793**	**3**	High
13-	Lead to Increase in the quality of information and the possibility of reliability on information.	**3.62**	**.830**	**10**	Medium
14-	Lead to the easiness of classification of investments.	**3.24**	**1.098**	**13**	Medium
15-	Average	**3.81**	**0.683**		High

Interpretation:

Through the Table NO (10) it shows that the arithmetic averages for the paragraphs which describe the impact of adoption of international financial reporting standards in Libya, which ranging between (2.92) to (4.60). indicate that the all of sample study are agree that the International Financial Reporting has positive impact on the State of Libya. and they agree on those impacts that support the adoption of international reporting financial standards in Libya except of the paragraph 6, Which was the arithmetic averages of it low which was 2.92. Through the classification of the responses by the relative importance of the average arithmetic shown that there is equal between those who are supporting the adoption of these standards by a medium percentage and with who are supporting by a high percentage. Where the sum of the arithmetic average of the responses that support the adoption of these standards by relative importance in medium Percentage was 4.14% and was the sum of those who support the adoption of these standards by the relative importance in high Percentage was 4.14%. And the result of the sum of arithmetic averages for the paragraphs that describe the impact of adoption of IFRS and that have impact positive in the state of Libya was 3.81 with a standard deviation 0.683. This results is classified by the scale of relative importance of the arithmetic average as high percentage. The researcher has concluded

that the adoption of IFRS in the State of Libya has a positive effect and with high percentage with prove that in the depend of the opinions of specialists in this field.

CONCLUSIONS AND RECOMMENDATION

CONCLUSIONS

In light of the theoretical framework and by the analysis of the data has been reached to the following conclusions:

1- There is a big accord on a relationship between the adoption of international financial reporting standards and upgrade professional performance. And that through of the results that have been obtained from the study sample and with the depending on previous studies and articles which confirm that the adoption of International Financial Reporting Standards contribute to the promotion of the professional performance of the accounting profession in the state of Libya . This was confirmed by paragraph number one in the questionnaire, which says the adoption of international financial reporting standards lead to enhance confidence in the accounting and auditing profession. where this paragraph obtained on the number of 36 person of 50 are agree with this point, and with a 4.60 percentage in the arithmetic average as also classified according to the scale of relative importance as a high percentage. And this result is agree with the study presented by **Mohammad Sharif Hossain** and others 2015. Where they indicated in their study that the adoption of IFRS lead to raise the accounting profession and increase the transparency.

2- The adoption of IFRS lead to improve the quality of accounting information, increase the effectiveness of disclosure and to facilitate comparison of financial reports, this was confirmed by the study sample views in the paragraphs NO 7,8,9, where views were approval of these paragraphs by 33.31, 36 of 50, respectively, and with a 3.33, 3.88, 4.46 percentage in the arithmetic average as also classified according to the scale of relative importance as a high percentage and this result is also agree with the studies presented by **Bhattacharjee & Islam**, (2009) and **Madu & Jacob**, (2009) Where has indicated in their study that the IFRS as a single set of high-quality, globally accepted accounting standards that can enhance comparability of financial reporting across the globe, And that may contribute to the improve the quality of accounting information, increase the effectiveness of disclosure.

3- The adoption of international financial reporting standards lead to increased international trade and Attract foreign investment and facilitate the work of multinational companies and increase of its number, this was confirmed by the study sample views in the paragraphs NO 3,4, where views were approval of these paragraphs by 27.27, of 50 person, on consecutive, and with a 3.64, 3.56 percentage in the arithmetic average as also classified according to the scale of relative importance as a high percentages and this result is also agree with the studies which has been presented by **Abdulkadir Madawaki** (2011) **Josiah Mary** (2012) Where have indicated in their study that the IFRS is helping in attracting foreign direct investment and facilitate the work of multinational companies in all countries which adopted.

4- Adoption of International Financial Reporting Standards Contribute in strengthen the economy of the developing countries and the development of the stock market in those countries. and this is confirmed by paragraph NO: 12 where has been indicated on it with agree by 40 of 50 person and with a 4.32 percentage in the arithmetic average as also classified according to the scale of relative importance as a high percentage, This result were similar with the result which reached by **Ehab Alsaqqa** & **Nedal Sawan**(2013) in their studies which was about ((The Advantages and the Challenges of Adopting IFRS into UAE Stock Market)) Where the results were the adoption of IFRS lead to gain competitive edge in

attracting the Foreign Direct Investment and strengthen their economic growth and Contribute to development of the stock market.

RECOMMENDATION

Through the previous results can be indicated to a set of recommendations in this part which are as follows

1- The need to adopt international financial reporting standards in the State of Libya or the issuance of private standards be compatible with the international standards to raise the accounting profession level.
2- Forming a committee of specialists in this field to study the benefit of developing countries that have adopted these standards and examination of the positive and negative results on the economies of those countries and their systems. So that to be the adoption process or the claim process to adoption is based on a evidences their results are strong.
3- Expand the circle of interest in this subject by the specialists in this field in the State of Libya by creating an Scientific seminars and workshops on this subject in educational institutions and increase of research studies about the possibility and benefits of the adoption of these standards in the state of Libya by researchers.

REFERENCES

Adetula & Dorcas (2014). International Financial Reporting Standards (IFRS) for SMES adoption process in Nigeria. Vol.2, No.4, pp.33-38. *European Journal of Accounting Auditing and Finance Research*

Abdulkadir & Madawaki (2011). Adoption of International Financial Reporting Standards in Developing Countries: The Case of Nigeria. Vol.7,No.3 pp. 1-10. *International Journal of Business and Management*

Bait ElMal, M., C. H. Smith, et al. (1973). "The Development of Accounting in Libya." The International Journal of Accounting, Education and Research, 8, 83101.

Candidate Amged & Abd El Razik (2014), challenges of international financial reporting standards (IFRS) in the Islamic accounting world, case of Middle East countries. Vol. 8 , NO. 14, PP 1-6. *Journal of Management and Business.*

central bank of libya http://cbl.gov.ly/eng/

Zeghal Daniel & Karim Mhedhbi (2006)An analysis of the factors affecting the adoption of international accounting standards by developing countries. Vol. 4, NO.1. pp. 373–386. *The International Journal of Accounting.*

Erick Rading Outa CPA(2011). The Impact of International Financial Reporting Standards (IFRS) Adoption on the Accounting Quality of Listed Companies in Kenya. Vol. 1, No. 1. pp. 1-30 *International Journal of Accounting and Financial Reporting*

Hafiz Abdur Rashid1 et al. (2012)International Financial Reporting Standards (IFRS) and Its Influence on Pakistan. vol.2, no.2. PP,1-13. *Journal of Applied Finance & Banking. European Journal of Accounting Auditing and Finance Research.*

http://www.iasplus.com/en/standards

Ijeoma et al. (2014) Adoption of international public sector accounting standards in Nigeria: Expectations, benefits and challenges Vol. 3, No. 1, pp. 21-29. *Journal of Investment and Management*.

Josiah Mary et al (2013). Accounting standards in Nigeria, the journey so far. Vol. 2(1), pp. 001- 010. *Journal of Business Management and Accounting*

Jeno Beke.(2011). How can International Accounting Standards support Business Management Vol. 1, No. 1. pp 26-33. *Journal of Management and Business Research.*

Kim M. Shimaa et al. (2012). Factors Affecting the Adoption of IFRS. Vol, 17, NO, 3. PP. 277-298. *International Journal Of Business*.

Kilani, K.A. (1988). The evolution and status of accounting in Libya. Unpublished PhD thesis, Hull University, UK.