



**The Impact of the Adoption of International
Financial Reporting Standards on the Quality of
Financial Statements in Palestine**

**أثر تطبيق معايير التقارير المالية الدولية على جودة البيانات
المالية في فلسطين**

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Faculty of Graduate Studies

Birzeit University

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Faculty of Graduate Studies: MBA Program

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Approved by:

Dr. Nidal Sabri - (Chairperson of Supervisory Committee)

Dr. Zeyad Munawer - (Member of Supervisory Committee)

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TABLE OF CONTENTS

ABSTRACT.....	VI
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ABSTRACT IN ARABIC.....	VII
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CHAPTER ONE: INTRODUCTION

1.1	INTRODUCTION	1
1.2	RESEARCH OBJECTIVE.....	4
1.3	PROBLEM STATEMENTS	4
1.4	THE IMPORTANCE OF THE STUDY	5
1.5	TERMS AND ABBREVIATIONS.....	5
1.5.1	TERMS	6
1.5.2	ABBREVIATIONS.....	8

CHAPTER TWO: LITERATURE REVIEW

2.1	INTRODUCTION	10
2.2	BACKGROUND ABOUT IFRS	11
2.2.1	HISTORY OF IFRS	11
2.2.2	SUMMARY OF IFRSs	13
2.3	ADOPTION OF IFRS BY DEVELOPING COUNTRIES.....	15
2.4	ADOPTION OF IFRS BY THE PALESTINIAN CAPITAL MARKET	16
2.5	ACCOUNTING EDUCATION IN PALESTINE.....	17
2.6	MEASURES OF ACCOUNTING QUALITY	18
2.6.1	EARNINGS MANAGEMENT	18
2.6.2	TIMELY LOSS RECOGNITION.....	20
2.6.3	VALUE RELEVANCE OF ACCOUNTING INFORMATION	21

2.7	PRIOR LITERATURE ABOUT IFRS IMPACT ON ACCOUNTING QUALITY OF DIFFERENT COUNTRIES	22
2.8	CONCLUSION.....	27

CHAPTER THREE: METHODOLOGY

3.1	INTRODUCTION	29
3.2	POPULATION AND SAMPLE OF THE STUDY	30
3.3	RESEARCH PROCEDURES AND METHODS	31
3.4	THE THREE MEASUREMENTS OF ACCOUNTING QUALITY AND THE METRICS OF EACH MEASURE	33
3.4.1	EARNINGS MANAGEMENT.....	33
3.4.2	TIMELY LOSS RECOGNITION.....	39
3.4.3	VALUE RELEVANCE	39
3.5	CONCLUSION.....	43

CHAPTER FOUR: FINDINGS OF THE STUDY

4.1	INTRODUCTION	46
4.2	DATA COMPOSITION	47
4.3	DATA DESCRIPTIVE STATISTICS	50
4.4	FINDINGS AND DISCUSSION OF QUANTITATIVE RESULTS	56
4.4.1	ANALYSIS AND RESULTS OF EARNINGS MANAGEMENT	57
4.4.2	ANALYSIS AND RESULTS OF TIMELY LOSS RECOGNITION	62
4.4.3	ANALYSIS AND RESULTS OF VALUE RELEVANCE.....	63
4.5	CONCLUSION.....	66

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1	SUMMARY OF THE STUDY	71
5.2	CONCLUSIONS AND RECOMMENDATIONS OF THE STUDY	73
5.2.1	CONCLUSIONS.....	73
5.2.2	LIMITATIONS OF THE STUDY.....	77

5.2.3	RECOMMENDATIONS	78
5.2.4	RECOMMENDATIONS FOR FURTHER RESEARCH	80

REFERENCES	82
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APPENDICES

APPENDIX 1: PALESTINIAN LISTED COMPANIES INCLUDED IN THE STUDY.....	88
APPENDIX 2: TOTAL ANNUAL ACTIVITY OF PEX FROM YEAR 1997 TO 2012.....	90

LIST OF TABLES

Table (1): Observation Sample Selection.....	47
Table (2): Descriptive Statistics of Industry Breakdown Percentage.....	48
Table (3): Descriptive Statistics for application of IFRS by Industry Breakdown.....	49
Table (4): Descriptive Statistics for IFRS Observation by Year Breakdown.....	50
Table (5): Descriptive Statistics for IFRS Post-adoption and Pre-adoption Period.....	51
Table (6): Comparison of Pre-adoption and Post-adoption Accounting Quality for Earnings Management - First Two Metrics.....	59
Table (7): Comparison of Pre-adoption and Post-adoption Accounting Quality for Earnings Management - Last Two Metrics.....	60
Table (8): Comparison of Pre-adoption and Post-adoption Accounting Quality for Timely Loss Recognition.....	63
Table (9): Comparison of Pre-adoption and Post-adoption Accounting Quality for Value Relevance.....	64
Table (10): Summary of Results for Accounting Quality Metrics.....	67

ABSTRACT

The objective of this study is to examine the impact of the adoption of International Financial Reporting Standards (IFRS) on the quality of financial statements in Palestine. The analysis was based on the annual financial data of a sample of 32 Palestinian listed companies for the period from year 2003 to year 2012. All Palestinian listed companies were required to prepare their financial statements in accordance with IFRS in year 2007. Therefore, to identify the influence of IFRS on accounting quality, the ten-year period of the study was divided into two equal periods, the IFRS pre-adoption period and IFRS post-adoption period.

Based on prior literature, this study used three measurement tools for accounting quality which are earnings management (assessed through four metrics), timely loss recognition (assessed through one metric) and value relevance (assessed through four metrics). The methodology of this study is based on multiple linear regression models to explain different accounting quality metrics for the IFRS pre-adoption period and IFRS post-adoption period.

In line with previous studies, the results of this study show mixed results as five out of the nine metrics indicate an improvement in accounting quality, while four metrics indicate a decline in accounting quality. Specifically, one out of the four metrics of earning management improved while the other three declined, the metric of timely loss recognition declined and the four metrics of value relevance improved. Overall, the results suggest that firms that adopt IFRS show more evidence of earnings management, less timely recognition of losses and greater value relevance.

ABSTRACT IN ARABIC

تهدف هذه الدراسة إلى فحص أثر تطبيق معايير التقارير المالية الدولية (IFRS) على جودة البيانات المالية في فلسطين. يعتمد التحليل على البيانات المالية السنوية لعينة من 32 شركة فلسطينية مدرجة خلال الفترة من سنة 2003 إلى سنة 2012. ألزمت جميع الشركات الفلسطينية المدرجة بتحضير بياناتها المالية وفقاً لمعايير التقارير المالية الدولية في سنة 2007. بناءً على ذلك، و لتحديد تأثير معايير التقارير المالية الدولية على جودة البيانات المالية، تم تقسيم الفترة الخاضعة للدراسة إلى فترتين متساويتين، فترة ما قبل تطبيق IFRS و فترة ما بعد تطبيق IFRS.

بناءً على المراجعات الأدبية السابقة، استخدمت هذه الدراسة ثلاث أدوات قياس لجودة المعلومات المحاسبية و هي إدارة الأرباح (التي تم قياسها بواسطة أربعة معايير)، و إثبات الخسائر في وقتها (التي تم قياسها بواسطة معيار واحد) و أهمية القيمة (التي تم قياسها بواسطة أربعة معايير). و قد تضمنت منهجية هذه الدراسة استخدام مجموعة نماذج انحدارات خطية لتحليل المعايير المختلفة لقياس جودة المعلومات المحاسبية لفترة ما قبل تطبيق IFRS و فترة ما بعد تطبيق IFRS.

تبين نتائج الدراسة أن خمسة من التسعة معايير التي تم فحصها تشير إلى تحسن جودة المعلومات المحاسبية بعد تطبيق IFRS، أما الأربعة معايير الأخرى فتشير إلى تراجع في جودة المعلومات المحاسبية بعد تطبيق IFRS. بالتحديد، تظهر النتائج تحسن معيار واحد من الأربعة معايير المستخدمة لقياس إدارة الأرباح و تراجع المعايير الثلاثة الأخرى، و تراجع في معيار قياس إثبات الخسائر في وقتها و تحسن الأربعة معايير لأهمية القيمة. النتيجة الكلية تبين أن الشركات التي تطبق معايير التقارير المالية الدولية (IFRS) تعطي أكثر أدلة على الزيادة في إدارة الأرباح، و قلة إثبات الخسائر في وقتها و زيادة أهمية القيمة.

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

The adoption of International Financial Reporting Standards (IFRS) around the world has attracted the attention towards studying its effectiveness in improving financial reporting quality. Although IFRS is considered to be a high quality set of accounting standards, the economic consequences of IFRS adoption are still a matter of debate between regulators, investors and managers.

The quality of financial reporting is important to the need of users who use them for investment and other decision making purposes. The appropriate implementation of high quality accounting standards is anticipated to provide consistent, comparable, relevant and reliable financial information. Thus, the adoption of IFRS around the world is expected to improve financial information, enhance corporate transparency and increase the quality of financial statements and, therefore, benefit the users of financial statements in the stock market.

More than 120 countries have introduced IFRS into their reporting system (IASB, 2010). Among these countries is the United States of America which is in view of allowing U.S. firms to prepare their financial statements using IFRS. On July 13, 2012, the Securities and Exchange Commission in the United States issued a work plan titled “*Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers*”. The

purpose of this work plan is “to consider specific areas and factors relevant to a Commission determination as to whether, when, and how the current financial reporting system for U.S. issuers should be transitioned to a system incorporating International Financial Reporting”.

(<http://www.sec.gov/spotlight/globalaccountingstandards/ifrs-work-plan-final-report.pdf>)

It is argued that the introduction of IFRS will increase the quality of earnings through decreasing earnings management, reducing information asymmetry, decreasing cost of capital and presenting more relevant financial information to investors (Barth, Landsman and Lang, 2006 and Leuz, Nanda and Wysocki, 2003). Due to the increase in companies seeking overseas investment, many developing countries have introduced IFRS into their financial reporting system, including Arab countries, and specifically Palestine.

The durable conflict in the West Bank and Gaza had a significant negative impact on the Palestinian economy. Despite the difficult political and economical conditions in Palestine, the Palestinian Authority has managed to establish a financial sector offering most of the expected services, including banking, securities and insurance. The Palestine Exchange has approximately 49 listed companies for year 2013 (www.pex.ps). In addition, according to the Palestinian Monetary Authority, there are 17 registered banks in Palestine for year 2013. The Palestinian Monetary Authority has required all banks in Palestine to introduce IFRS into their financial reporting system. In addition, the Palestine Exchange (PEX) requires all listed companies to prepare their financial statements in accordance to IFRS.

Many studies were conducted to examine the impact of IFRS adoption on the quality of financial statements, which covered mainly developed countries such as the United Kingdom, Germany, Spain, China, Turkey, Australia and certain Arab countries such as United Arab Emirates and Saudi Arabia. Further, these studies compared between IFRS and the local accounting standards implemented by different countries.

On the other hand, several authors have explored the implications of adopting IFRS on the reporting quality of the developing countries. Some authors found that it would be beneficial for developing countries to apply these standards (Belkaoui, 1994; Halbouni, 2005 and Tyrrall et al., 2007). Others found that the adoption of these standards by developing countries may be detrimental, since they have been developed for capital markets in developed countries (Hove, 1989; Briston, 1990 and Larson, 1993). Palestine is one of the countries for which these standards could be either beneficial or detrimental.

Among the developing countries studied by researchers are the Middle Eastern countries such as Jordan and Egypt. Many authors, such Watty and Carlson (1998) and Dawahy et al. (2002), recommended a more intensive investigation of IFRS consequences in the developing countries in order to understand the accounting needs of these countries. Specifically, no previous studies have examined the impact of IFRS adoption on the quality of financial statements in Palestine. This study will attempt to fill this research gap by examining the impact of IFRS adoption on the quality of financial statement information in Palestine.

1.2 RESEARCH OBJECTIVE

The overall aim of this study is to explore the impact of the adoption of International Financial Reporting Standards on the quality of the financial statements in Palestine. For this aim, earnings management, timely loss recognition, and value relevance, the basic dimensions of accounting quality, and the values obtained before and after IFRS are subject to analysis.

In particular, this study will investigate whether the financial statements of Palestinian firms listed under the Palestine Exchange (PEX) exhibits less earnings management, more timely loss recognition and higher value relevance after the mandatory adoption of IFRS in year 2007.

1.3 PROBLEM STATEMENTS

The problem statements of this study are:

1. Does the adoption of IFRS exhibit less earnings management for the Palestinian firms listed under the PEX?
2. Does the application of IFRS provide more timely loss recognition for the Palestinian firms listed under the PEX?
3. Does the application of IFRS increase the value relevance of the financial statements of the Palestinian firms listed under the PEX?
4. To what extent will IFRS adoption enhance the conservatism, relevancy and reliability of the financial statements of Palestinian firms listed under the PEX?

5. Would IFRS implementation provide financial statements that would assist investors in making informed and unbiased judgments?

1.4 THE IMPORTANCE OF THE STUDY

This study is important for the following reasons:

- This study will attempt to fill the general gap in the literature on the impact of IFRS on the quality of financial statements in developing countries, specifically Palestine.
- This study provides a clear understanding of the factors which may impact the implementation of IFRS in developing countries in general and in Palestine in particular.
- This study is a useful reference for researchers interested in international accounting research over the world in general and Palestine in particular, as there is a lack of studies and researches about the implementation of IFRS in Palestine.
- This study may be useful to other interested parties, such as standard setters, local and foreign investors, internal and external auditors and others.

1.5 TERMS AND ABBREVIATIONS

This study consists of many terms and abbreviations relating to accounting standards and quality of financial statements. These terms and abbreviations are defined below:

1.5.1 TERMS

1. **Accounting Quality:** defined as the reliability, relevancy and accuracy of information with which financial reporting provides to equity investors about a firm's financial performance.
2. **Accruals:** recording, usually through adjusting entries, of revenues that have been earned but were not recorded in the accounts and recording of expenses that have been incurred but were not recorded in the accounts.
3. **Balance Sheet (also known as the Statement of Financial Position):** shows the financial position of an entity at a given date. It comprises a firm's assets, liabilities and equity.
4. **Cash Flow Statement:** reports the change in cash and bank balances over a specific period. It is classified into three main segments; cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.
5. **Earnings Management:** financial reporting practices by management that may provide an overly positive picture of a company's business activities and financial position in order to mislead certain stakeholders.
6. **Earnings Smoothing:** the use of accounting techniques to overstate net income fluctuations from one period to another.
7. **Equity:** is something an entity owes to its owners, which represents the amount of capital remaining after an entity uses its assets to pay off its liabilities. Equity is the difference between the assets and liabilities.

8. **Equity Book Value:** represents the value of a company's total assets minus its total liabilities as recorded in the company's books. In balance sheet terms, this is equal to the company's shareholders' equity.
9. **Financial Statements:** an official record presenting the results of the financial activities of an entity in an understandable and structured manner. Financial statements consist of the Balance Sheet, Income Statement, Cash Flows and Statement of Changes in Equity.
10. **Generally Accepted Accounting Principles:** is a framework of accounting standards, rules and procedures defined by the professional accounting industry that has been implemented by all publicly traded U.S. companies.
11. **Income Statement (also known as the Profit and Loss Statement):** presents an entity's financial performance in terms of net profit or loss over a specified period. It is composed of an entity's income, expense and net profit (loss).
12. **International Financial Reporting Standards:** a set of international accounting standards, issued by the International Accounting Standards Board, which illustrate how particular types of transactions and other events should be reported in financial statements.
13. **Listed Companies:** a company whose shares are traded on an official stock exchange.
14. **Market Values:** the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction wherein the parties had each acted knowledgeably and without pressure.

15. **Palestine Capital Market Authority:** is an independent Palestinian national institution established in accordance with PCMA Law No. (13) of the year 2004. Its overall purpose is to maintain a suitable climate for investors and to organize, develop, and control the capital stock market, and protect the investor's rights in Palestine.
16. **Palestine Exchange:** is a stock exchange, established in 1995, based in Nablus in the State of Palestine. It aims to provide an environment for trading that is characterized by equity, transparency and competence in order to serve and maintain the interest of investors.
17. **Stock Market:** the market in which shares of publicly held companies are issued and traded either through exchanges or over-the-counter markets.
18. **Timely Loss Recognition:** the ability of an entity to recognize losses as they occur on timely basis and not deferring the losses to other periods.
19. **Value Relevance:** the ability of the summarized accounting measures to reflect the economic value of an entity.

1.5.2 ABBREVIATIONS

The following abbreviations are used in the study:

1. GAAP: Generally Accepted Accounting Principles
2. GCC: Gulf Co-operation Council
3. GCCAAO: Gulf Co-operation Council Accounting and Auditing Organization
4. IAS: International Accounting Standards
5. IASC: International Accounting Standards Committee

6. IFRIC: International Financial Reporting Interpretations Committee
7. IFRS: International Financial Reporting Standards
8. IOSCO: International Organization of Securities Commissions
9. PACPA: Palestinian Association of Certified Public Accounting
10. PADICO: Palestine Development and Investment Company
11. PCMA: Palestine Capital Market Authority
12. PEX: Palestine Exchange
13. SEC: Securities Exchange Commission
14. SIC: Standard Interpretations Committee
15. SMEs: Small and Medium-Sized Entities

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Many researchers studied the impact of IFRS adoption on accounting quality in different countries using different measurement tools. This chapter consists of six parts and will briefly highlight the metrics applied in prior literature to measure accounting quality and the definition of each metric. The first part presents a summary of IFRS history and highlights the standards of IFRS. The second part briefly explains the adoption of IFRS by developing countries.

Further, the third and fourth parts of this chapter discuss the implementation of IFRS by the Palestinian Capital Market and the accounting education in Palestine. Furthermore, the fifth part of this chapter explains the three accounting quality measures studied in prior literature which are earnings management, timely loss recognition and value relevance of accounting information. Finally, the sixth part of this chapter presents a summary of the prior studies conducted on the impact of IFRS adoption on accounting quality for different countries, including the methodology used and the different results of these studies.

2.2 BACKGROUND ABOUT IFRS

2.2.1 HISTORY OF IFRS

In the 1973, the IASC, which consisted of members from different countries, was established for the purpose of setting flexible accounting standards. In 1987, major changes were introduced to the IASC in order to make their standards more rigid and less open to interpretations. Thereafter, in the 1995, an agreement was reached between IASC and IOSCO, whereby IOSCO agreed to endorse IASC standards, provided that IASC will develop a group of core standards by 1999. In year 1997, the Standard Interpretations Committee (SIC) was formed, consisting of 12 voting members, with the mandate of developing interpretations of IASs to be approved by IASC.

In 2001, the role of IASC was taken over by the IASB, which is the independent standard-setting body of the IFRS Foundation (<http://www.ifrs.org/About-us/IASB/Pages/Home.aspx>). The IFRS Foundation's mission is to introduce a set of enforceable, clear, globally accepted and high quality financial reporting standards based upon understandable coherent principles. IFRS Foundation's main objectives are to:

- Build the IFRS through the IASB;
- Support the use and thorough implementation of those Standards;
- Take into consideration the emerging economies and small and medium-sized entities financial reporting needs; and
- Provide assistance in the adoption of IFRS, through the Standards and Interpretations issued by the IASB.

<http://www.ifrs.org/About-us/IFRS-Foundation/Pages/Home.aspx>)

The following represents a summary of the IFRS development from year 2002 to year 2012:

- **Year 2002** - SIC is renamed as the IFRIC with the aim of providing timely guidance on issues not addressed by the IAS or IFRS, in addition to the interpretation of existing IASs and IFRSs. Europe requires IFRSs for listed companies starting from year 2005. A joint agreement on convergence is issued by IASB and FASB.
- **Year 2003** - The first final IFRS and IFRIC draft interpretations are published. Major revisions to the 14 IASs are completed.
- **Year 2004** - IFRSs 2 through 6 are published. IFRICs 1 through 5 are published.
- **Year 2005** - IFRS 7 is published. IFRICs 6 and 7 are published (and IFRIC 3 is withdrawn). The SEC of U.S. publishes a roadmap to eliminate the IFRS and U.S. GAAP reconciliation.
- **Year 2006** - IFRS 8 is published. IFRICs 8 through 12 are published. IASB announces that no new major standards will be effective before year 2009. IASB and FASB update the agreement on convergence of standards.
- **Year 2007** - IFRIC is expanded from 12 to 14 members. Revisions to IAS 1 and IAS 23 are published. IFRICs 13 and 14 are published. IASB proposes separate IFRS for small and medium-sized entities (SMEs).
- **Year 2008** - Amendments to IFRS 1, IFRS 2, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 32 and IAS 39 are issued. IFRICs 16 and 17 are published. IOSCO requires

organizations to clearly state whether they fully comply with IFRS as adopted by the IASB. SEC proposes a roadmap for the use of IFRS by U.S. domestic registrants.

- **Year 2009** - Amendments to IFRS 1, IFRS 2, IAS 24, IAS 32 and IFRIC 14 are issued. IFRICs 18 and 19 are issued. IFRS 9 (Classification and Measurement of Financial Assets) is issued as the first stage of the replacement of IAS 39.
- **Year 2010** - Amendments to IFRS 1, IFRS 7 and IAS 12 are issued.
- **Year 2011** - IFRSs 10 through 13 are issued. Amendments to IAS 27, IAS 28 and IAS 32 are issued. IFRIC 20 is issued. IASB delays the mandatory effective date of IFRS 9 until year 2015 and requires further disclosure requirements.
- **Year 2012** - Amendments to IFRSs 1, 10, 11 and 12 are issued.

2.2.2 SUMMARY OF IFRSs

IFRS comprises the following standards and interpretations which were adopted/developed by IASB/IFRIC (<http://www.ifrs.org/IFRSs/Pages/IFRS.aspx>):

- IASs adopted by the IASB (which were created by the predecessors of IASB);
- IFRSs developed by the IASB;
- Interpretations developed by the SICs and adopted by IFRIC; and
- Interpretations developed by IFRIC.

The following table presents a list of the standards adopted and developed by IASB (which do not include suspended standards) and the effective date of each standard. This study covers the impact of all these standards on the quality of financial statements in Palestine:

Standard Number	Standard Title*	Effective Date
IAS 1	Presentation of Financial Statements	January 1, 1975
IAS 2	Inventories	January 1, 1976
IAS 7	Statement of Cash Flow	January 1, 1979
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 1979
IAS 10	Events after the Reporting Period	January 1, 1980
IAS 11	Construction Contracts	January 1, 1980
IAS 12	Income Taxes	January 1, 1981
IAS 16	Property, Plant and Equipment	January 1, 1983
IAS 17	Leases	January 1, 1984
IAS 18	Revenue	January 1, 1984
IAS 19	Employee Benefits	January 1, 1985
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	January 1, 1984
IAS 21	The Effects of Changes in Foreign Exchange Rates	January 1, 1985
IAS 23	Borrowing Costs	January 1, 1986
IAS 24	Related Party Disclosures	January 1, 1986
IAS 26	Accounting and Reporting by Retirement Benefit Plans	January 1, 1988
IAS 27	Separate Financial Statements	January 1, 1990
IAS 28	Investments in Associates and Joint Ventures	January 1, 1990
IAS 29	Financial Reporting in Hyperinflationary Economies	January 1, 1990
IAS 32	Financial Instruments: Presentation	January 1, 1996
IAS 33	Earnings Per Share	January 1, 1999
IAS 34	Interim Financial Reporting	January 1, 1999
IAS 35	Discontinuing Operations	January 1, 1999
IAS 36	Impairment of Assets	January 1, 1999
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	January 1, 1999
IAS 38	Intangible Assets	January 1, 1999
IAS 39	Financial Instruments: Recognition and Measurement	January 1, 2001
IAS 40	Investment Property	January 1, 2001
IAS 41	Agriculture	January 1, 2003
IFRS 1	First-time Adoption of International Financial Reporting Standards	January 1, 2004
IFRS 2	Share-based Payment	January 1, 2005
IFRS 3	Business Combinations	April 1, 2004

IFRS 4	Insurance Contracts	January 1, 2005
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	January 1, 2005
IFRS 6	Exploration for and Evaluation of Mineral Resources	January 1, 2006
IFRS 7	Financial Instruments: Disclosures	January 1, 2007
IFRS 8	Operating Segments	January 1, 2009
IFRS 9	Financial Instruments	January 1, 2018
IFRS 10	Consolidated Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13	Fair Value Measurement	January 1, 2013

* **Source:** *IFRS Foundation (2012). Access the unaccompanied standards and their technical summaries. Available at: <http://www.ifrs.org/IFRSs/Pages/IFRS.aspx>*

2.3 ADOPTION OF IFRS BY DEVELOPING COUNTRIES

Most developing countries applied IAS in order to be attractive to the international business world and not for the intention of making core changes to their political, economic and cultural environments which are necessary for the high quality reports required by IAS (Saudagaran and Diga, 2000). According to Gernon et al. (1990), most IASC members had adopted IAS during the 1990s.

In the Middle East, many Arab countries have adopted IFRS. For example, in Jordan, the Securities Commission issued its instructions in 1998 which required from the Jordanian listed companies to adopt IAS and disclose its impact on financial statements (Saaydah, 2012). Further, in 1993, the Egyptian capital market law required all listed companies to apply IAS, and in 1996 the new accounting board of

Egypt started issuing Egyptian accounting standards conforming to IAS (Abd-El salam, 1999).

In addition, in June 2003, the GCCAAO issued the first draft of its accounting and auditing conceptual framework which proposed that IFRS is the appropriate accounting standards of the GCC countries (Al- Shammari, 2005).

2.4 ADOPTION OF IFRS BY THE PALESTINIAN CAPITAL MARKET

The Palestine Exchange (PEX), established in year 1995, aims to provide a Palestinian environment for trading characterized by equity, transparency and competency to serve the interests of investors. It works under the supervision of PCMA and is owned by PADICO, a privately owned listed company. In February 2010, the PEX became a public sharing company, based in Nablus with offices in Ramallah.

There are 49 listed companies on PEX as of December 31, 2012 (www.pex.ps), which trade stocks only, with more than USD 3,052 million of market capitalization. These companies are classified into five main economic sectors; banking and financial services, insurance, investments, industry and services. Most of the listed companies are profitable and trade in Jordanian Dinar, while others trade in U.S. Dollars (<http://www.pex.ps/PSEWebSite/English>).

The Palestinian Securities Market is regulated by the PEX and PCMA. During year 2007, the PEX issued its Disclosure Requirements for all Palestinian listed

companies. Article Number 3 of these Disclosure Requirements required all Palestinian listed companies to prepare their annual financial statements in accordance with IFRS (<http://www.pex.ps/psewebsite/laws/Disclosure%20Regulation-modify-English.pdf>).

According to a financial sector review performed by the World Bank Group in the West Bank for year 2008, policy makers should refine the securities market regulatory framework and its implementation to provide more confidence to current and potential investors (World Bank, 2008).

In year 2010, the World Bank conducted a review on the financial statements of 11 Palestinian enterprises comprising, mainly, listed companies under the sector of financial services, insurance, trading and others. This review showed a high degree of compliance with IFRS by these enterprises, and certain non-compliances including disclosure inadequacies and disclosures on revenue recognition and recognition and measurement of assets and liabilities for Islamic banking institutions. In addition to the low quality of the English language in the notes to the financial statements which affects their understandability (World Bank, 2010).

2.5 ACCOUNTING EDUCATION IN PALESTINE

According to a review conducted by the World Bank on accounting and auditing standards in the West Bank and Gaza for year 2010, the Palestinian accounting education system is based on the American standards, with much less emphasis on international standards. This issue creates a discrepancy between Palestinian accounting education and professional requirements in Palestine which

require IFRS for the financial sector and securities market, and are the most commonly used standards in West Bank and Gaza (World Bank, 2010).

2.6 MEASURES OF ACCOUNTING QUALITY

Previous researches used earnings management, timely loss recognition and value relevance metrics as the main measures for accounting quality (Lin, Riccardi and Wang, 2012; Paananen, 2008; Iatridis, 2010; Qu, Fong and Oliver, 2012; Outa, 2011; Uyar, 2013; Barth, Landsman, Lang and Williams, 2006 and Khanagha, 2013). These studies consider that higher quality accounting figures display less earnings management, greater timely loss recognition and more value relevance of earnings and equity book value. Below is a brief description about each of these accounting quality metrics and how they were measured by researchers:

2.6.1 EARNINGS MANAGEMENT

Many authors have studied the concept of earnings management; however, there is no specific agreed-upon definition of what earnings management is. Earnings management is viewed as management's intervention in financial reporting and in organizing transactions to alter financial information in order to mislead certain stakeholders about the economic performance of the organization or to influence the firm's contractual outcomes (Leuz, Nanda and Wysocki, 2003 and Healy and Wahlen, 1999). Further, Scott (2009) provided a more strict definition of earnings management by defining it as the preference of certain accounting policies by a

manager or actions influencing earnings, in order to achieve particular objectives from reported earnings.

Previous researches differentiated between two types of earnings management which are earnings smoothing and managing towards small positive earnings. Earnings smoothing was examined in prior literature, including Barth et al. (2006), Leuz et al. (2003), Paananen (2008) and Outa (2011), using three metrics which are:

1. The variability of change in net income;
2. Variability of change in net income in relation to variability of change in cash flows;
3. Negative correlation between accruals and cash flows; and

Barth et al. (2006) and Leuz et al. (2003) considered that there is a negative relation between smoothing earnings and earnings variability (including variability of change in net income and variability of change in net income in relation to variability of change in cash flows), given that other economic factors of earnings volatility are fixed. This means that firms that have lower earnings smoothing will have more variability of change in net income and more variability of change in net income in relation to variability of change in cash flows (Lang, Raedy and Yetman, 2003; Lang, Raedy and Wilson, 2006 and Barth, Landsman and Lang, 2006).

According to Leuz et al. (2003), earnings management and management interference are likely to decrease in post-IFRS periods due to the high disclosure requirements and financial reporting quality resulting from applying IFRS. On the other hand, Bannister and Newman (1996) consider that the flexibility of IFRS provides an

opportunity for management to use discretion in reporting earnings in order to reduce variability in reported earnings.

Further, the third measure of earnings smoothing is a measure of the accruals correlation with cash flow from operations. According to prior literature, such as Barth et al. (2006), Leuz et al. (2003), Paananen (2008) and Outa (2011), there is a negative correlation between accruals and cash flow from operations, however, a high negative correlation indicates the existence of earnings smoothing.

Regarding the tendency towards positive earnings, the second kind of earnings management, prior researchers agree that positive earnings are a target of earnings management (Leuz et al., 2003 and Burgstahler, and Dichev, 1997).

2.6.2 TIMELY LOSS RECOGNITION

Previous studies show a positive relationship between the quality of earnings and timely loss recognition. Ball, Kothari and Robin (2000), Lang, Raedy and Yetman (2003) and Lang, Raedy and Wilson (2006) state that higher quality earnings result in the recognition of larger losses when incurred rather than the deferral of these losses to future periods. This feature is related to the earnings smoothing behavior since the more earnings are smoothed the lower is the recognition of large losses. Previous articles conclude that firms with lower earnings smoothing to have a more negative correlation between accruals and cash flows (Lang, Raedy and Yetman, 2003; Leuz, Nanda and Wysocki, 2003; Lang, Raedy and Wilson, 2006 and Barth, Landsman, and Lang, 2006).

2.6.3 VALUE RELEVANCE OF ACCOUNTING INFORMATION

A value relevance study is the research of the relationship between accounting information and stock market values. The basis of value relevance studies is a mix of valuation theories and financial reporting arguments that allow prediction of the behavior of accounting information relating to market value (Beaver, 2002).

Holthausen and Watts (2001) believe that value relevance studies depend on two different theories of accounting: (i) “direct valuation” theory and (ii) “inputs-to equity-valuation” theory. Direct valuation theory provides a link between accounting earnings and stock market value. Inputs-to equity-valuation proposes a relationship between accounting earnings and equity market value changes. Therefore, value relevance approach is considered a tool to determine the accounting information quality, which is fundamental to the well-functioning of the economy (Beuselinck, 2005).

A research conducted by Barth et al. (2001) concluded that firms with higher quality accounting figures have a greater association between the stock price and earnings and equity book value since better quality of accounting numbers provides a better reflection of a firm’s economics condition. Ewert and Wagenhofer (2005) exhibit that accounting standards with limited opportunity for discretion will reveal in accounting earnings that have higher value relevance.

2.7 PRIOR LITERATURE ABOUT IFRS IMPACT ON ACCOUNTING QUALITY OF DIFFERENT COUNTRIES

Many research papers analyzed the impact of IFRS adoption on the accounting quality of accounting information in different countries. This includes countries in Middle East, Europe, East Asia, Africa and Australia.

Khanagha (2013) investigated the impact of IFRS adoption on the value relevance of accounting information for three Middle Eastern Countries (United Arab Emirates, Bahrain and Saudi Arabia). His tests depended on a combination of regression and portfolio approaches for companies listed in the stock exchange of these countries. His analysis showed an improvement in value relevance of accounting information in the post-period of IFRS for Bahrain and Saudi Arabia stock market but a decline in the value relevance of figures for companies in the United Arab Emirates stock market.

In Jordan, Saaydah (2012) studied the influence of IFRS introduction on the quality of accounting information of Jordanian listed companies. His sample consisted of 11 banks and 34 industrial companies within the period from 1996 to 2009. The author depended on a cross-sectional regression model that explains the market value of the company using IFRS based numbers. His tests provided mixed results since no consistent set of accounting variables showed a relationship with the market value of the firm for the period of the study. In addition, the research revealed that under IFRS, book value and earnings are better predictors of an industrial

company's market value, while operating cash flows and discretionary accruals are better predictors of a bank's market value.

Lin et al. (2012) examined whether the introduction of IFRS improved accounting information quality in Germany. Their study revealed that IFRS adoption increased earnings management, exhibited less timely loss recognition and displayed less value relevance compared to U.S. GAAP, which indicates a reduction of the accounting information quality in Germany after applying IFRS.

In addition, Paananen and Lin (2007) have explored the change in the quality of accounting amounts for a sample of German companies reporting under IFRS during the period from year 2000 to year 2006. Their study showed a decrease in accounting quality after IFRS mandatory adoption by EU in 2005. Their findings on earnings smoothing and timely loss recognition were consistent with the findings related to value relevance of accounting information.

In Spain, a study conducted by Perramon and Amat (2006) showed that IFRS adoption has a diverse effect on net profits which makes it difficult to predict its impact on accounting information quality.

In Sweden, Paananen (2008) found that the quality of financial reporting has decreased after the adoption of IFRS. His analysis showed that IFRS adoption in Sweden increased earnings management, displayed more timely loss recognition and decreased the relevancy of accounting numbers.

In U.K., a research conducted by Iatridis (2010) demonstrated that IFRS adoption improved accounting information quality. The results of the study proof that

IFRS adoption reduces earnings management, exhibits more timely loss recognition and leads to more relevant accounting numbers.

In addition, Rudra and Bhattacharjee (2011) investigated the impact of applying IFRS on earnings management in India. The research paper, which depended on a regression model to analyze data, concluded that IFRS adoption is more likely to smooth earnings, as an indication that IFRS does not guarantee a better quality of accounting information.

In China, Qu et al. (2012) used the multiple regression analysis to find whether IFRS convergence has improved accounting information quality in China Stock Market. The study revealed that investors' reliance on income statement information increased after implementing IFRS. Further, Outa (2011) explored the impact of IFRS adoption on accounting quality for listed companies in Kenya. The author relied on accounting quality metrics defined in prior literature including earnings management, timely loss recognition and value relevance. He concluded that IFRS has not significantly improved the accounting information quality since full compliance with IFRS was not implemented in Kenya.

In Turkey, Uyar (2013) studied IFRS impact on the accounting information quality of publicly listed companies in Istanbul Stock Exchange. He used earnings management, timely loss recognition and value relevance as indicators of accounting quality. The results of his tests showed an increase in timely loss recognition and value relevance of information in the post-IFRS period, in addition, his results showed a decrease in earnings management after IFRS adoption. Therefore, the

article concluded that accounting quality improved and market became more active after adopting IFRS.

Jeanjean et al. (2008) analyzed the effect of IFRS implementation on earnings management quality in Australia, France and United Kingdom. The research exhibits an increase of earnings management in France and no decline in earnings management in Australia and the United Kingdom. The authors conclude that a single set of standards is not enough to create a common business language but, instead, national institutional factors and management incentives play an important role in determining financial reporting characteristics.

Further, Barth et al. (2008) have examined whether the application of International Accounting Standards (IAS) resulted in a higher accounting quality for 21 countries around the world. They concluded that firms applying IAS achieved an improvement in accounting quality between the pre- and post adoption periods than do similar sample firms applying non-U.S. domestic standards. This was evidenced by less earnings management, more timely loss recognition and more value relevance of accounting amounts for the 21 countries applying IAS. In their research paper, Barth et al. (2008) mention that the adoption of IAS reflects combined financial reporting system effects of features, including standards, their explanation, enforcement, and proceedings. The authors could not ensure whether their findings were a result of the change in the financial reporting system and not the changes in firms' incentives and the economic environment.

Chen et al. (2010) compare the accounting information quality for publicly listed companies in 15 member states of the EU for the pre-IFRS and post-IFRS

periods. The authors considered earnings smoothing, earnings management, magnitude of discretionary accruals, accruals' quality and timely loss recognition as the main dimensions of accounting quality. The study revealed that the majority of these dimensions improved after IFRS adoption which was evidenced by a decrease in earnings management, a lower magnitude of discretionary accruals and an increase in accruals' quality. On the other hand, the results demonstrated an increase in earnings smoothing and recognition of larger losses in a less timely manner in post-IFRS periods, which indicates a decrease in accounting quality for these two proxies.

Christensen et al. (2008) compared IFRS impact on accounting quality in Germany for two types of firms, those that view IFRS as beneficial and those that have no incentives to adopt IFRS and are forced to comply. He found that earnings management decreases and timely loss recognition increases for firms that voluntarily implemented IFRS. On the other hand, the author did not identify any increase in the accounting quality for firms that resist IFRS. He concludes that incentives lead accounting standards in determining accounting quality.

In addition, Houque et al. (2010) examined the effects of the mandatory adoption of IFRS along with the investor protection on the accounting earnings quality in 46 countries around the world. The research study revealed that the quality of earnings increases for mandatory IFRS adoption when a stronger investor protection is provided by a country's regime. The study also showed that accounting practices are influenced by the macro settings at a country level. It recommended the need for regulators to design policies that limit earnings management practices by

management and highlighted the significance of the impact of investor protection on the financial reporting quality.

Further, Clarkson et al. (2010) investigated the influence of IFRS introduction in Europe and Australia on the relevance of book value and earnings for equity valuation using a sample of 3,488 firms that adopted IFRS in year 2005. The authors relied on traditional linear pricing models and non-linear models in conducting the research. Their study showed no observed change in price relevance for companies in either the Code Law or Common Law countries. Their paper also suggests that the distribution of measurement errors becomes more similar across Code Law and Common Law countries after the adoption of IFRS which indicates that IFRS enhances comparability.

Furthermore, Hung and Subramanyam (2007) examined the effects of implementing IAS in Germany on financial statements and the value relevance for the period from year 1998 to 2002. The authors followed an innovative research design which performs a comparison between accounting numbers reported under German accounting rules with those reported under IAS. They found that IAS adjustments to book value are generally value relevant while the adjustments to income are generally non-relevant.

2.8 CONCLUSION

A huge number of researches were conducted to explore the impact of IFRS on the quality of the financial statements of different entities. These studies focused on the publicly listed companies of many developed and developing countries. These

studies used different dimension to assess accounting quality including earnings smoothing, earnings management, magnitude of discretionary accruals, accruals' quality, timely loss recognition and relevance of accounting numbers.

Based on the above literature review, we conclude that accounting quality is measured using three dimensions, which are earnings management, timely loss recognition and value relevance metrics. Many researchers believe that firms with higher quality financial statements exhibit less earnings managements, more timely loss recognition and higher value relevance. This study will use the same assumptions and accounting quality metrics used in prior literature to determine IFRS impact on the quality of the financial statements of Palestinian listed companies.

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

In this study, we will measure the impact of IFRS adoption on the accounting quality for firms listed in the Palestinian stock market by analyzing the three dimensions of accounting quality which were extensively used in previous researches. These three dimensions are earnings management, timely loss recognition and value relevance of accounting information.

Based on prior literature, and in order to meet the objective of this study and answer the questions of this study, we found that quantitative analysis of the financial statements of the Palestinian listed firms would be the best tool to determine the three dimensions of accounting quality. We will use the approaches followed by Barth et al. (2008), Christensen et al. (2008) and Outa, E. R. (2011) by performing a comparison of the influence of IFRS implementation on the quality of the financial statements for firms listed in the Palestinian stock market during the pre-adoption period and the post-adoption period. In addition, Chen et al (2010) believe that the best tool to explore IFRS impact on accounting quality is matching companies, within a similar economic area, in the pre and post adoption periods.

Prior authors, such as Barth et al. (2008) and Christensen et al. (2008), concur that the measures of accounting quality are influenced by many direct and indirect factors of an economy. These factors include the financial reporting system as a direct

factor and include the economic environment and incentives related to the adoption of standards as indirect factors. These indirect factors were a major obstacle for Barth et al. (2008) since their research covered around 21 countries with diverse economic systems and incentives. On the other hand, Christensen et al. (2008) did not face this problem in their research because they focused on one country, which is Germany. Since this study focused on listed companies in Palestine, where IFRS is required and no diverse economic systems and incentives exist, no other effects should be adjusted to get acceptable results.

In order to obtain reliable findings, similar to previous researches such as Paananen and Lin (2007), some institutional factors in this study were held constant including stock listing requirements, accounting disclosure requirements, regulatory environments and market microstructures. While preparing the sample of this study, consistent with Paananen and Lin (2007), Outa, E. R. (2011), Saaydah (2012) and Lang et al. (2003), the year of IFRS adoption by Palestinian listed companies was identified and the industry of each listed company was specified. In addition, the audited financial statements of the Palestinian listed company were reviewed to ensure that they clearly disclose the accounting standards used. Therefore, the samples were divided into pre and post adoption periods.

3.2 POPULATION AND SAMPLE OF THE STUDY

The IFRS was officially mandatory to all Palestinian listed companies by Article Number 3 of the PEX Disclosure Regulations issued in year 2007 (<http://www.pex.ps/psewebsite/laws/Disclosure%20Regulation-modify-English.pdf>).

Therefore, year 2007, was considered as the official year for the adoption of IFRS by the Palestinian listed companies and the cutoff year in our analysis.

In this study, the population represents all the 49 companies listed in the Palestine Exchange (PEX) between years 2003 and 2012. The pre-adoption period is the period from year 2003 to year 2007 and the post-adoption period is the period from year 2008 to year 2012. The sample of this study covers 32 listed Palestinian companies from all sectors existing during the IFRS pre-adoption period and IFRS post-adoption period.

3.3 RESEARCH PROCEDURES AND METHODS

The procedures applied in this study relied on three measurement tools which are earnings management, timely loss recognition and value relevance as discussed below. Each measurement tool comprised several metrics which were obtained through statistical analysis of the raw data of the 32 listed Palestinian companies for the period from year 2003 to year 2012. The raw data represents quantitative data obtained from the annual financial statements (including the balance sheet, income statement and cash flow) of the Palestinian listed firms for the period from year 2003 to year 2012. The annual financial statements of the listed companies were obtained from the Palestine Exchange website (www.pex.ps). The raw data of the study comprises the following:

- Total assets, liabilities and owners equity of each company for each of the 10-year study period (which were obtained from the annual balance sheets of each Palestinian listed company).

- Sales, net income and earnings per share of each company for each of the 10-year study period (which were obtained from the annual income statements of each Palestinian listed company).
- Cash flow from operating activities and net change in cash flow of each company for each of the 10-year study period (which were obtained from the annual cash flow statements of each Palestinian listed company).
- The stock prices as of January 1 and June 30 of each company for each of the 10-year study period (which were obtained from PEX website in addition to the websites of the different brokers of the PEX).
- The stock return for the first three quarters (as of September 30) of each company for each of the 10-year study period (which were obtained from PEX website in addition to the websites of the different brokers of the PEX).

This raw data will be used to obtain the test variables and control variables of the study which will be statistically processed and analyzed through SPSS to obtain the metrics of each of the three measurement tools of the study, which are discussed in detail in the following section.

3.4 THE THREE MEASUREMENTS OF ACCOUNTING

QUALITY AND THE METRICS OF EACH MEASURE

The following section explains the three measurements tools of accounting quality and the metrics used for each of them:

3.4.1 EARNINGS MANAGEMENT

Previous studies state that there are two kinds of earnings management, which are earnings smoothing and managing towards small positive earnings. Based on Barth et al. (2008) and Outa, E. R. (2011), earnings smoothing is measured by three figures: variability of changes in earnings, variability of changes in earnings relative to the variability of changes in cash flow and negative correlation between accruals and cash flows. According to Lang et al. (2003), Leuz et al. (2003) and Outa, E. R. (2011), the high variability of earnings is consistent with less smoothing of earnings.

The other measurement of earnings management is managing towards small positive earnings and this happens since management prefers to report small positive net income rather than negative net income.

➤ **METRIC 1: VARIABILITY IN EARNINGS (EQUATION 1)**

A small variance of the change in net income is explained as an evidence of earnings smoothing, in addition, it could be interpreted by other factors unrelated to earnings smoothing. In order to moderate these factors, prior research papers, such as Outa, E. R. (2011), measured earnings variability as the variance of the residuals from the regression of change in net income on control variables identified by prior studies.

The following represents the residuals from the regression equations used in prior studies including Barth et al. (2008) and Outa, E. R. (2011):

EQUATION 1

$$\Delta NI_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_7 CF_{it} + \alpha_8 AUD_{it} + \alpha_9 NUMEX_{it} + \alpha_{10} XLIST_{it} + \alpha_{11} CLOSE_{it} + \sum_{k=0}^5 \alpha_{K+11} + \epsilon_{it} \text{Equation 1}$$

Where:

ΔNI_{it} - Change in annual earnings (based on end of year total assets) for firm I year t.

SIZE - is the natural logarithm of market value of equity in millions of dollars as of year end

GROWTH - Annual % of change in sales

EISSUE - annual % change in common stock

LEV - end year total liabilities divided by end year book value of equity

DISSUE - annual % change in total liabilities

TURN - Sales divided by end of year total assets

CF - Annual net cash flow from operating activities scaled by end of year total assets

AUD - an indicator that equals 1 if the auditor is one of the large international accounting firms

NUMEX - Number of exchange listings (In our case, it is 1)

XLIST - an indicator that equals 1 if the firm is listed on any U.S. Stock Exchange and world scope (Will not be applicable in our case)

CLOSE - % of closely held shares (Not applicable in our case)

In this equation, a summary is made of all the NI in the pre and post adoption period and regressed against the controls.

➤ **METRIC 2: VARIABILITY OF Δ NI OVER Δ CF (EQUATION 2)**

In general, firms with more volatile cash flows typically have volatile net income. The principle behind this prediction is that when firms use accruals to manage earnings, then variation in income should be lower than the variance of operating cash flows.

EQUATION 2

$$\Delta CF_{it} = \alpha_0 + \alpha_1 SIZE_{it} + \alpha_2 GROWTH_{it} + \alpha_3 EISSUE_{it} + \alpha_4 LEV_{it} + \alpha_5 DISSUE_{it} + \alpha_6 TURN_{it} + \alpha_7 CF_{it} + \alpha_8 AUD_{it} + \alpha_9 NUMEX_{it} + \alpha_{10} XLIST_{it} + \alpha_{11} ICLOSE_{it} + \sum_{k=0}^6 \alpha_{k+11} + \varepsilon_{it}$$

Where:

ΔCF_{it} - change in annual net cash flow from operations (based on end of year total assets) for firm i year t.

Like ΔNI , ΔCF can also be influenced by other factors not related to IFRS.

Therefore, ΔCF was considered a dependent variable.

➤ **METRIC 3: CORRELATION OF ACCRUALS TO CASH FLOW**
(EQUATIONS 3 AND 4)

The paper issued by Lang et al. (2003) revealed that companies with less earnings smoothing exhibit a more negative correlation between accruals and cash flows. The reason for this is that accruals repeat over time and are generally negatively correlated to cash flows. Consequently, Spearman's correlation between accruals and cash flows is applied.

EQUATION 3

$$CFit = \alpha_0 + \alpha_1 SIZEit + \alpha_2 GROWTH it + \alpha_3 EISSUEit + \alpha_4 LEVit + \alpha_5$$

$$5DISSUEit + \alpha_6 TURNit + \alpha_7 AUDit + \alpha_8 NUMEXit + \alpha_9 XLISTit + \alpha_{10} CLOSEit$$

$$+ \varepsilon_{it}$$

EQUATION 4

$$ACCit = \alpha_0 + \alpha_1 SIZEit + \alpha_2 GROWTH it + \alpha_3 EISSUEit + \alpha_4 LEVit + \alpha_5$$

$$5DISSUEit + \alpha_6 TURNit + \alpha_7 AUDit + \alpha_8 NUMEXit + \alpha_9 XLISTit + \alpha_{10}$$

$$10CLOSEit + \varepsilon_{it}$$

Where:

CFit - Annual net cash flow from operating activities scaled by end of year total assets for firm i year t.

ACCit - earnings less cash flow from operating activities (scaled by end of year total assets) for firm i year t.

All the data in pre and post adoption period will be calculated separately and tested for statistical significance, as in Barth et al. (2006), by performing the t-test based on the empirical distribution of the differences.

➤ **METRIC 4: EARNINGS MANAGEMENT TOWARDS A TARGET**
(SMALL POSITIVE EARNINGS NI) (SPOS) (EQUATION 5):

According to a study conducted by Leuz et al. (2003), a large frequency of small positive earnings is an indication of managing towards positive earnings. The study found that companies applying IFRS report little positive earnings with lower frequency. The following equation measures the tendency towards small positive net income, the third measure of earning management.

EQUATION 5

$$IFRS(0,1)_{it} = \alpha_0 + \alpha_1 SPOS_{it} + \alpha_2 SIZE_{it} + \alpha_3 GROWTH_{it} + \alpha_4 EISSUE_{it} + \alpha_5 \\ + LEV_{it} + \alpha_6 DISSUE_{it} + \alpha_7 TURN_{it} + \alpha_8 CFI_{it} + \alpha_9 AUD_{it} + \alpha_{10} NUMEX_{it} + \alpha_{11} \\ XLIST_{it} + \alpha_{12} CLOSE_{it} + \varepsilon_{it}$$

Where:

IFRS (0,1) it is an indicator variable that equals one for the post-IFRS adoption period and zero for pre-IFRS adoption period.

SPOS it is an indicator variable that equals one if net income scaled by total assets is between 0 and 0.01.

Interpretation:

A negative coefficient on SPOS indicates that pre-IFRS adoption period firms manage earnings towards small positive amounts more frequently than do IFRS firms.

3.4.2 TIMELY LOSS RECOGNITION

Timely loss recognition is defined as to an entity's ability to recognize losses as they occur and not performing practices to defer the losses to other periods. It is measured as a coefficient of large negative net income (LNEG) in the regressions equations 7 and 8 shown below.

The higher quality earnings are those that present losses when they occur instead of being deferred to future periods (Lang et al. (2003)). Based on Barth et al. (2008), this measure is based on the regression equations below:

➤ **METRIC 5: LARGE NEGATIVE INCOME (EQUATION 6):**

EQUATION 6

$$\begin{aligned} \alpha_0 + \alpha_1 LNEG_{it} + \alpha_2 SIZE + \alpha_3 GROWTH_{it} + \alpha_4 EISSUE_{it} + \\ \alpha_5 + LEV_{it} + \alpha_6 DISSUE_{it} + \alpha_7 TURN_{it} + \alpha_8 CFit + \alpha_9 AUD_{it} + \alpha_{10} NUMEX_{it} + \\ \alpha_{11} XLIST_{it} + \alpha_{12} CLOSE_{it} + \epsilon_{it} \end{aligned}$$

LNEG is an indicator variable that equals one for observations for which annual net income scaled by total assets is less -.20 and Zero otherwise. A positive coefficient of LNEG indicates that post-IFRS adoption period firms recognize large losses more frequently than pre-IFRS adoption period firms.

3.4.3 VALUE RELEVANCE

Value relevance represents the ability of the accounting numbers reported in the financial statements of an entity to reflect the underlying economic value of a

firm. In other words, value relevance attempts to link between a firm's value, which is expressed in stock prices, to the financial statements of a firm (mainly the balance sheet and income statement).

➤ **METRIC 6: PRICE (EQUATION 7):**

Value relevance is measured through simultaneous stock prices. Authors agree that IFRS implementation improves value relevance of financial statements. Barth et al. (2008), measured value relevance by regressing stock price, on industry fixed assets and the residuals from this regression on equity book value per share and net income per share.

EQUATION 7

$$P^*_{it} = \beta_0 + \beta_1 BVEPS_{it} + \beta_2 NIPS_{it} + \epsilon_{it}$$

Where:

P it -Price as of 6 months after fiscal year end (Ensures accounting information is in public domain)

BVEPS - Book value of equity per share

NIPS - Net income per share

➤ **METRIC 7: REGRESSION OF EARNINGS ON STOCK RETURNS**

(EQUATION 8):

The next value relevance test is based on the adjusted R² from the regression of earnings on stock returns, which are estimated separately for post-IFRS adoption period and pre-IFRS adoption period firms. The following equation represents a regression with accounting earnings as the dependent variable:

EQUATION 8

$$[EPS/P]_{it} = \beta_0 + \beta_1 RETURN_{it} + \varepsilon_{it}$$

Where:

EPS/P - earnings per share divided by beginning of year prices

RETURN - annual stock return from 9 months prior to 3 months after the firms fiscal year end

➤ **METRIC 8: REGRESSION OF EARNINGS ON STOCK RETURNS FOR**

GOOD NEWS ONLY (EQUATION 9):

Equation 8 above sets accounting earnings as the dependent variable rather than stock return since this allows to separate firms based on the return sign (negative or positive) when considering whether the association between these two variables differs for good news, i.e., positive stock return, and bad news, i.e., negative stock return. According to Barth et al. (2006), good news observations are those for which RETURN is non-negative. The following is the value relevance equation for earnings

on return with the existence of good news (relevance metrics is the R^2 from the regression equation below estimated for good news firms):

GOOD NEWS (EQUATION 9):

$$[EPS/P]_{it} = \beta_0 + \beta_1 RETURN_{it} + \varepsilon_{it}$$

Where:

EPS/P - earnings per share divided by beginning of year prices

RETURN - annual stock return from 9 months prior to 3 months after the firms fiscal year end,

Good News – are evidenced by positive returns

These equations will be estimated separately for pre-IFRS adoption period and post-IFRS adoption period firms.

➤ **METRIC 9: REGRESSION OF EARNINGS ON STOCK RETURNS FOR BAD NEWS ONLY (EQUATION 10):**

Based on Ball et al. (2000), accounting quality differences will be more obvious for “bad news” because when firms have good news, they have less incentive to manage earnings. According to Barth et al. (2006), bad news observations are those for which RETURN is negative. The following is the value relevance equation for earnings on return with the existence of bad news (relevance metrics is the R^2 from the regression equation below estimated for bad news firms):

BAD NEWS (EQUATION 10):

$$[EPS/P]_{it} = \beta_0 + \beta_1 RETURN_{it} + \varepsilon_{it}$$

Where:

EPS/P - earnings per share divided by beginning of year prices

RETURN - annual stock return from 9 months prior to 3 months after the firms fiscal year end,

Bad News – are evidenced by negative returns

3.5 CONCLUSION

This study will examine the impact of IFRS introduction in Palestine on the accounting information quality by analyzing the financial statements of 32 listed Palestinian companies for a 10-year period from year 2003 to year 2012. Since IFRS was mandatory to all listed Palestinian companies in year 2007, the study period will be divided into two equal periods before and after IFRS adoption. The pre-adoption period covers the period from year 2003 to year 2007 and the post-adoption period

The methodology of this study depends on the prior literature's definition of the measurements of accounting quality which are earnings management, timely loss recognition and value relevance. Each of these measurement tools will be analyzed separately for the pre-adoption and post-adoption period of IFRS. An

increase in accounting information quality will be verified by a decrease in earnings management, an increase in timely loss recognition and an increase in the value relevance of accounting information. Each of these measurements is determined by different metrics as shown below:

1. **Earnings management** is measured by four metrics which are:
 - ✓ Variability of earnings: an increase in variability of earnings indicates less management earnings.
 - ✓ Variability of earnings over variability of cash flow: an increase in the variability of earnings over variability of cash flow indicates less management earnings.
 - ✓ Correlation of accruals to cash flow: an increase in the correlation of accruals to cash flow indicates less management earnings.
 - ✓ Managing towards positive earnings: a negative coefficient of small positive earnings indicates less management earnings.

2. **Timely loss recognition** is measured by one metric which is:
 - ✓ Large negative income: a positive coefficient of large negative income indicates more timely loss recognition.

3. **Value relevance** is measured by four metrics which are:
 - ✓ Price: an increase in adjusted R^2 from the regression of price equity on book value per share and net income per share indicates more value relevance.

- ✓ Regression of earnings on stock returns: an increase in adjusted R^2 from the regression of earnings on stock returns indicates more value relevance.
- ✓ Regression of earnings on stock returns for good news only: an increase in adjusted R^2 from the regression of earnings on stock returns for good news indicates more value relevance.
- ✓ Regression of earnings on stock returns for bad news only: an increase in adjusted R^2 from the regression of earnings on stock returns for bad news indicates more value relevance.

CHAPTER FOUR

FINDINGS OF THE STUDY

4.1 INTRODUCTION

This chapter comprises four sections which are Data Composition, Data Descriptive Statistics, Findings and Discussion of Quantitative Results and Conclusions.

The first section “Data Composition” provides a summary of the observations included in this study and presents the descriptive statistics of these observations. The second section “Data Descriptive Statistics” illustrates the descriptive statistics, obtained from SPSS, of the variables of this study including the mean, median, standard deviation and skewness.

Further, the third section of this study “Findings and Discussion of Quantitative Results” displays the quantitative results obtained after analyzing the gathered data using SPSS and discusses these quantitative results. This part also answers the questions of the study. Finally, this chapter includes the “Conclusions” section which summarizes the overall results and conclusions that revealed from the data analysis.

4.2 DATA COMPOSITION

The data of this study covered 300 observations of 32 companies listed on the Palestine Exchange (PEX) during the period from year 2003 to year 2012 (10 years), as detailed below:

Table (1): Observation Sample Selection

No. of Observations	Pre-Adoption	Post-Adoption	Total
From PEX	160	160	320
Omitted due to missing data	(10)	(10)	(20)
Total Sample Observations	150	150	300

The financial data of the 32 listed companies was obtained from the financial statements of these firms which are available on the website of the PEX (www.pex.ps). All Palestinian listed companies were officially required to prepare their financial statements in accordance with IFRS from year 2007, based on Article Number 3 of the PEX Disclosure Regulations issued in year 2007, which is available at:

(<http://www.pex.ps/psewebsite/laws/Disclosure%20Regulation-modify-English.pdf>)

Therefore, the 10-year study period was divided into the following two periods:

- **Pre-adoption Period:** represents the period before IFRS was officially required by the PEX Disclosure Regulations, which is the period from year 2003 to year 2007.

- **Post-adoption Period:** represents the period after IFRS was officially required by the PEX Disclosure Regulations and officially adopted by all Palestinian listed companies, which is the period from year 2008 to year 2012.

The Palestinian listed companies are categorized into five main sectors, which are: the Banking and Financial Services, Industry, Insurance, Investment and Service Sector. This study covered firms from all sectors; the major representation of firms was from the Investment Sector (88%), followed by the Banking and Financial Services and Industry Sector (67%), and then the Insurance Sector companies (57%) and finally the Service Sector companies (54%). The following table, Table (2), shows the percentages of firms covered in this study from each sector:

Table (2): Descriptive Statistics of Industry Breakdown Percentage

Sector	# of Listed Companies as of December 31, 2012	# of Firms Covered in the Study	% of Firms Covered
Investment	8	7	88%
Banking and Financial Services	9	6	67%
Industry	12	8	67%
Insurance	7	4	57%
Service	13	7	54%
Total	49	32	65%

The 32 listed companies covered in this study are represented in Appendix 1.

This study covered 300 observations of 32 companies over a period of 10 years. The breakdown of the observations during the 10-year study period for each firm per sector is illustrated in the table below:

Table (3): Descriptive Statistics for Application of IFRS by Industry Breakdown

Sector	# of Firm Year Observations	% of Firm Year Observations For Each Sector	# of Observations in the Pre-Adoption Period	# of Observations in the Post-Adoption Period
Investment	66	22%	33	33
Banking and Financial Services	54	18%	27	27
Industry	80	27%	40	40
Insurance	36	12%	18	18
Service	64	21%	32	32
Total	300	100.00%	150	150

The above table shows that the greatest percentage of observations covered in this study was from the Industry Sector which had a total of 80 observations, followed by Investment Sector companies with 66 firm year observations, followed by the Service Sector companies with 64 firm year observations, and then the Banking and Financial Services companies with 54 firm year observations and finally the Insurance Companies with 36 observations.

Table (4) below, demonstrates this data by showing the number of firm year observation for each year:

Table (4): Descriptive Statistics for IFRS Observation by Year**Breakdown**

Year	# of Firm Year Observations	% of Firm Year Observations	# of Pre- Adoption Period Observations	% of Pre- Adoption Period Observations	# of Post- Adoption Period Observations	% of Post- Adoption Period Observations
2003	28	9%	28	100%	-	-
2004	28	9%	28	100%	-	-
2005	30	10%	30	100%	-	-
2006	32	11%	32	100%	-	-
2007	32	11%	32	100%	-	-
2008	28	9%	-	-	28	100%
2009	28	9%	-	-	28	100%
2010	30	10%	-	-	30	100%
2011	32	11%	-	-	32	100%
2012	32	11%	-	-	32	100%
Total	300	100%	150		150	

4.3 DATA DESCRIPTIVE STATISTICS

The 300 observations were analyzed through SPSS. Table (5), presented in Page 51, demonstrates the descriptive statistics for earnings smoothing, timely loss recognition and value relevance followed by control variables:

Table (5): Descriptive Statistics for IFRS Post-adoption Period and IFRS Pre-adoption Period

	IFRS Post-adoption Period				IFRS Pre-adoption Period			
	Mean	Median	Standard Deviation	Skewness	Mean	Median	Standard Deviation	Skewness
Test Variables								
Δ NI	0.0043	0.0029	0.0622	0.4960	0.0115	0.0087	0.1279	0.7510
Δ CF	0.0001	0.0020	0.0880	0.6050	0.0018	0.0025	0.2538	1.6850
ACC	-0.0060	-0.0110	0.0820	0.3750	0.0031	-0.0026	0.1150	1.7120
CF	0.0332	0.0275	0.0917	0.1730	0.0280	0.0185	0.0949	-0.5870
SPOS	0.1866	0.0000	0.3925	1.6400	0.1467	0.0000	0.3550	2.0180
LNEG	0.0008	0.0000	0.0096	-	0.0136	0.0000	0.1148	8.5790
RETURN	0.1069	0.0500	0.1820	2.6020	0.1486	0.0400	0.3431	0.9050
EPS/P	0.0388	0.0533	0.1326	-1.4230	0.0765	0.0273	0.2066	3.1770
P	1.6658	0.9900	1.3897	1.4720	1.9891	1.0500	1.7089	1.5610
BVEPS	1.4955	1.2334	0.9142	1.5270	1.4166	1.0507	1.1400	3.0620
NIPS	0.1069	0.0564	0.1826	1.0900	0.1392	0.0421	0.2990	3.2300
Control Variables								
	IFRS Post-adoption Period				IFRS Pre-adoption Period			
	Mean	Median	Standard Deviation	Skewness	Mean	Median	Standard Deviation	Skewness
LEV	1.8810	0.5566	4.9348	3.9290	2.7829	0.6580	9.9977	10.5250
GROWTH	0.2122	0.0641	0.7899	4.9640	1.1617	0.1924	8.2374	6.7980
EISSUE	0.0613	0.0000	0.1359	2.6590	0.1422	0.0000	0.4311	5.8860
DISSUE	0.2629	0.0908	1.2833	10.0470	0.4604	0.1205	1.9957	9.5090
TURN	0.3239	0.1488	0.4085	2.1730	0.2567	0.1155	0.3231	2.0600
SIZE	7.2990	7.3553	0.6564	0.0350	7.2672	7.2407	0.6526	0.1990
CF	0.0332	0.0275	0.0917	0.1730	0.0280	0.0185	0.0949	-0.5870

The following is the definition of each variable:

Δ NI - Change in annual earnings (based on end of year total assets)

Δ CF - change in annual net cash flow (based on end of year total assets)

ACC - earnings less cash flow from operating activities scaled by end of year total assets

SPOS - is an indicator that equals 1 for observations with annual earnings scaled by total assets between 0.00 and 0.01

LNEG - is an indicator that equals 1 for observations with annual earnings scaled by total assets less than -0.20

RETURN - annual stock return from 9 months prior to 3 months after the firms fiscal year end

P - Price as of 6 months after fiscal year end

EPS/P - earnings per share divided by beginning of year prices

BVEPS - Book value of equity per share

NIPS - Net income per share

LEV - end year total liabilities divided by end year book value of equity

GROWTH - Annual % of change in sales

EISSUE-annual % change in common stock

DISSUE - annual % change in total liabilities

TURN-Sales divided by end of year total assets

SIZE - is the natural logarithm of market value of equity in millions of dollars as of year end

NUMEX - Number of exchange listings

AUD - an indicator that equals 1 if the auditor is one of the large international accounting firms

XLIST - an indicator that equals 1 if the firm is listed on any U.S. Stock Exchange and worldwide

CLOSE - % of closely held shares

Table (5) shows a decrease in the variability of earning from 0.0115 in the pre-adoption period to 0.0043 in the post-adoption period. This change suggests that there was lower variability in earnings after IFRS adoption and, therefore, a decrease in the quality of accounting information after IFRS adoption. In addition, the change in cash flow declined from 0.0018 in the pre-adoption period to 0.0001 in the post-adoption period. This decline could be explained by the depressed performance in the Palestinian economy during the post-adoption period, which is supported by Appendix 2 that shows that Al-Quds Index dipped between years 2007 and 2012 in comparison to prior years. During this time, the index worsened from 527.26 in year 2007 to 477.59 in year 2012.

The Palestinian economy is distinguished from other economies in that it is an unstable economy. It is directly influenced by the political situations in Palestine which can either improve or worsen the performance of the Palestinian economy. The war on Gaza in year 2008, covered in the post-adoption period, had a negative impact on the performance of the Palestinian economy and, accordingly, a depressing Palestinian stock market performance during this year. This is evidenced by Al-Quds Index which declined in year 2008 by 16.23%, as it decreased to 441.66 in year 2008 in comparison to 527.26 in year 2007, as illustrated in Appendix 2.

Unlike the change in earnings and change in cash flow, the cash flow variable increased from 0.0280 to 0.0332. While this contradicts the performance in the Palestinian economy which was declining during the post-

adoption period, it is possible there could have been other factors this study did not control for.

By analysis of the output of the variables shown in Table (5), presented in Page 51, we find that in the post-adoption period firms have more incidents of small positive earnings (since SPOS increased from 0.1467 in the pre-adoption period to 0.1866 in the post-adoption period). In addition, LNEG decreased from 0.0136 to 0.0008 which indicates a lower frequency of large negative earnings after adopting IFRS. Although these descriptive statistics do not control for other factors, they show that in the post-adoption period firms are more likely to manage earnings towards a target and less likely to recognize losses on a timely manner than in the pre-adoption period. This suggests that the quality of financial statements did not improve after the adoption of IFRS.

Moreover, RETURN has also declined from 0.1486 to 0.1069. This decline can also be a result of the negative performance of the Palestinian economy in the post-adoption period which also resulted in a decrease in share prices from 1.9891 in the pre-adoption period to 1.6658 in the post-adoption period, as shown in Table (5). Further, there was a small decrease in the Net Income per Share (NIPS) from 0.1392 to 0.1069 and this is mainly due to the increase in the number of shares and decrease in net income, therefore, this does not indicate any value variations that could be attributed to IFRS adoption. In addition, the Book Value of Equity per Share (BVEPS) increased slightly from 1.4166 to 1.4955. This can be explained by the fact that the number of shares went up because of new issues of shares which was parallel with the increase in the book values of equity.

In terms of control variables, Table (5) indicates a decline in the LEV, GROWTH, EISSUE and DISSUE variables and an increase in the TURN, SIZE and CF variables. As shown, LEV (which presents end of year total liabilities divided by end of year book value of equity) declined from 2.7829 to 1.8810 in the post-adoption period which could have arisen from the shortage of credit in the Palestinian economy or the application of IFRS.

In addition, GROWTH (which is the annual percentage change in sales) also declined from 1.1617 in the pre-adoption period to 0.2122 in the post-adoption period. This could have been as a result of either the worsening political situation in Palestine or the implementation of IFRS. The EISSUE (annual percentage change in shares) declined from 0.1422 to 0.0613 and DISSUE (annual percentage change in total liabilities) declined from 0.4604 to 0.2629. This could either be due to the worsening political situation in Palestine or as a result of IFRS implementation. If it is due to IFRS implementation, then the changes could reflect the outcome of the new standards' constraints and strict measures for liabilities (including accruals).

Further, there is some indication that the post-adoption period firms are less likely to issue debt compared to the pre-adoption period, since the DISSUE variable decreased from 0.4604 to 0.2629 (mean but not median difference is significant). Also, there is evidence that post-adoption period firms are less likely to issue equity compared to the pre-adoption period, as the EISSUE variable decreased from 0.1422 to 0.0613 (median but not mean difference is significant) and are less highly leveraged since the LEV variable decreased from 2.7829 to 1.8810 in the post-adoption period. Accordingly, we considered

these factors as control variables and controlled for these factors, where possible, in our study analysis.

Moreover, TURN (sales divided by end of year total assets) increased slightly in the post-adoption period from 0.2567 to 0.3239 and SIZE (natural logarithm of market value of equity) increased from 7.2672 to 7.2990 in the post-adoption period. Since this opposes the performance in the Palestinian economy which was declining during the post-adoption period, it is probable that there could have been other factors which were not taken into consideration in this study.

The descriptive statistics report with all the variables not controlled send mixed signals as to whether accounting quality improved as a result of IFRS adoption or not. Only four of the indicators suggest that quality could have improved. Nevertheless, given that the variables are uncontrolled, more refined results are contained in the next section.

4.4 FINDINGS AND DISCUSSION OF QUANTITATIVE RESULTS

The following represents the findings and analysis of results for the three measurement tools of the quality of accounting information which are the earnings management, timely loss recognition and value relevance of accounting information. Details follow:

4.4.1 ANALYSIS AND RESULTS OF EARNINGS MANAGEMENT

As mentioned in Chapter 3 “Methodology”, this study will use the variability of earnings as the measurement tool for earnings smoothing, in accordance with prior literature (Lang et al. (2003); Lang et al. (2006) and Leuz et al. (2003)).

The variability in earnings measurement is based on the fact that higher variability in earnings indicate less managed earnings where there is a tendency to represent regular pre-determined numbers. Prior research studies identified that IFRS reporting should enable minimization of managerial discretion and, therefore, earnings reported during the post-adoption period of IFRS are predicted to have higher variability in comparison to earnings reported under the pre-adoption period.

Results for earnings smoothing provide evidence of more earnings smoothing during the post-adoption period of IFRS. Table (6), presented in Page 59, shows that the variability in earnings metrics, which represents the variance of the residuals “residual variance” from the regression of change in net income on variables identified in prior research, decreased from 2.300 to 0.429 which suggests that there was lower variability in earnings in the post-adoption period of IFRS. Consequently, we conclude that accounting quality did not improve in the post-adoption period.

The second metric (variability of ΔNI over ΔCF) is inconsistent with the first one as it shows that variability of the residuals from the regression of change in Net Income (ΔNI) over the variability of the residuals from the

regression of change in Cash Flow (ΔCF) increased during the post-adoption period from 0.325 to 0.432, as shown in Table (6).

Prior authors confirm that firms with more volatile cash flows usually have more volatile net income, and this measure assumes this. If firms use accruals to manage earnings, the variability of the change in net income should be lower than the variability of cash flows. Therefore, the increase in the variability of ΔNI over ΔCF indicates lower smoothing of earnings in the post-adoption period.

Table (6): Comparison of Pre-adoption and Post-adoption Accounting Quality for Earnings Management - First Two Metrics

		Prediction (Post>Pre)									
		IFRS Pre-adoption Period (N=150)					IFRS Post-adoption Period (N=150)				
Metric No.	Metric	R ²	Observed Variance S ² r	Estimated Error Variance S ² e	Residual Variance S ² p=S ² r-S ² e	Percentage Explained S ² e/S ² r (F)	R ²	Observed Variance S ² r	Estimated Error Variance S ² e	Residual Variance S ² p=S ² r-S ² e	Percentage Explained S ² e/S ² r (F)
1	Variability of Δ NI	0.037	2.390	0.089	2.30	0.769	0.240	0.564	0.136	0.429*	6.286
	Variability of Δ CF	0.246	9.402	2.317	7.086*	6.492	0.123	1.130	0.138	0.992**	2.772
2	Variability of Δ NI over Δ CF		0.254	0.038	0.325	0.118		0.499	0.986	0.432	2.268
	Variability of CF	0.074	1.314	0.097	1.217***	1.868	0.147	1.229	0.180	1.048*	4.015
	Variability of ACC	0.038	1.931	0.074	1.857	0.928	0.119	0.982	0.014	0.968	0.338

* P-value<0.001, ** P-value <0.01, *** P-value <0.1

The following are the statistical tests presented in the above table:

- *Variability of Δ NI(Δ CF): is the variance of residuals from a regression of the Δ NI (Δ CF) on the control variables.*
- *Variability of Δ NI over Δ CF: is the ratio of the variability of Δ NI to the variability of Δ CF.*
- *Variability of ACC: is the variance of residuals from a regression of the ACC on the control variables.*

Δ NI, Δ CF, ACC and control variables are defined in Page 52.

The third metric (correlation of ACC and CF) is consistent with the first metric as it demonstrates that Spearman Correlation of accruals (ACC) to cash flows (CF) declined from -0.736 to -0.787, as shown in Table (7) below. Since accounting accruals reverse over time, there is a negative correlation between accruals and cash flows. Many authors, such as Lang et al. (2003) and Leuz et al. (2003), consider that a more negative correlation between accruals and cash flows is an evidence of earnings smoothing because managers appear to react to the poor cash flow results by increasing accruals. Therefore, the increase in the negative correlation between ACC and CF, as shown in Table (7), indicates more earnings smoothing in the post-adoption period. Despite that the finding is only marginal at 5 % significant level, the output exhibits a decline in the accounting quality during the post adoption period.

Table (7): Comparison of Pre-adoption and Post-adoption Accounting Quality for Earnings Management - Last Two Metrics

Metric No.	Metric	Prediction	Pre (N=150)		Post (N=150)
3	Spearman Correlation of ACC and CF	Post>Pre	-0.736		-0.787
4	Small Positive NI (SPOS) Coefficient (Beta)	Negative Coefficient		0.101	

Spearman Correlation of ACC and CF: is the partial spearman correlation between the residuals from ACC and CF regressions; both sets of residuals are from a regression of each variable on control variables.

Small Positive NI (SPOS) Coefficient: we regress an indicator variable that equals 1 for post-adoption period firms and 0 for pre-adoption period firms on SPOS and

control variables. SPOS is an indicator variable that equals 1 when annual net income scaled by total assets is between 0 and 0.01 and 0 otherwise; the coefficient on the indicator variable is tabulated.

CF, ACC, SPOS and control variables are defined in Page 52.

Another approach to examining earnings management is to focus on the target toward which firms might manage earnings. A regular target is managing towards small positive earnings (Leuz et al. (2003)). This measurement is based on the assumption that management prefers to report small positive earnings rather than negative earnings. Table (7) shows that the SPOS coefficient (Beta) is 0.101, which is derived from the regression of an indicator variable (that equals 1 for the post-adoption period and 0 for the pre-adoption period) on SPOS and control variables.

Based on Bath et al. (2006), when comparing firms in the post-adoption and pre-adoption period, a negative coefficient of SPOS indicates that firms manage earnings toward small positive amounts more frequently in the pre-adoption period compared to the post-adoption period. Consequently, the negative coefficient is an evidence of low occurrence of small positive earnings in the post-adoption period. Our data analysis, illustrated in Table (7), demonstrate that the SPOS coefficient is +0.101 which is positive and, therefore, indicates more incidents of small positive earnings in the post-adoption period.

Accordingly, this finding is consistent with the results of the first and third metrics (variability in net income and correlation of ACC and CF) which provide

evidence that earnings are more managed in the post-adoption period of IFRS than the pre-adoption period.

4.4.2 ANALYSIS AND RESULTS OF TIMELY LOSS RECOGNITION

Timely loss recognition is the measure for the occurrence of large negative earnings where large negative results suggest that the recognition of losses is not performed on timely manner.

Table (8), presented in Page 63, shows that the timely loss recognition which is measured by the coefficient (Beta) of LNEG is -0.475 at a 95% confidence level, which is derived from the regression of an indicator variable (that equals 1 for the post-adoption period and 0 for the pre-adoption period) on LNEG (which is an indicator variable that equals 1 when annual net income scaled by total assets is less than -0.20 and 0 otherwise) and control variables (control variables are LEV, GROWTH, EISSUE, DISSUE, TURN, SIZE and CF which are defined in Page 52).

Based on Barth et al. (2006), a positive coefficient on LNEG indicates that firms recognize large losses more frequently in the post-adoption period than they do in the pre-adoption period. In accordance with this assumption, and since the coefficient (Beta) of LNEG is -0.475 which is not positive, as shown in Table (8) below, this result indicates a decrease in the timely recognition of large losses in the post-adoption period. Consequently, this result reveals that IFRS adoption did not result in accounting quality improvements.

**Table (8): Comparison of Pre-adoption and Post-adoption Accounting Quality
for Timely Loss Recognition**

Metric No.	Metric	Prediction	Pre (N=150)		Post (N=150)
5	Large Negative NI (LNEG) Coefficient (Beta)	Positive Coefficient		-0.475	

Large Negative NI (LNEG) Coefficient: we regress an indicator variable that equals 1 for post-adoption period firms and 0 for pre-adoption period firms on LNEG and control variables. LNEG is an indicator variable that equals 1 when annual net income scaled by total assets is less than -0.20 and 0 otherwise; the coefficient on the indicator variable is tabulated.

LNEG and control variables are defined in Page 52.

4.4.3 ANALYSIS AND RESULTS OF VALUE RELEVANCE

The final measurement test of accounting quality we considered in this study is the test of value relevance. The first value relevance measure is the adjusted R^2 from the regression of the stock price on net income and equity book value for firms in the pre-adoption period and post-adoption period. Table (9), presented in Page 64, shows that the adjusted R^2 for the firms in the post-adoption period is 0.803 which is significantly greater than the adjusted R^2 for pre-adoption period firms which is 0.365. This means that in the post-adoption period, 80.3% (adjusted R^2) of the variance in stock price is explained by the variance in net

income per share and equity book value per share. On the other hand, for the pre-adoption period, only 36.5% of the variance in stock price is explained by the variance in net income per share and equity book value per share. Therefore, we conclude that there is greater value relevance for financial information in the post-adoption period in comparison to the pre-adoption period.

**Table (9): Comparison of Pre-adoption and Post-adoption Accounting
Quality for Value Relevance**

Metric No.	Metric	Prediction	IFRS Pre-adoption Period		IFRS Post-adoption Period	
			Adjusted R ²	F-value	Adjusted R ²	F-value
6	Price	Post>Pre	0.365	33.537*	0.803	277.723*
	Return Regression					
7	All observations	Post>Pre	0.148	16.239*	0.304	47.358*
8	Good News Only	Post>Pre	0.032	3.185**	0.128	18.775*
9	Bad News Only	Post>Pre	-0.006	0.899	0.859	184.323*

* P-value<0.001, **P-value<0.1

The price regression: is based on a regression of price on the book value of equity per share (BVEPS) and net income per share (NIPS).

The good/bad news regression: is the regression of EARNINGS (earnings per share divided by beginning of year prices) on RETURN (annual stock return from 9 months prior to 3 months after the firms fiscal year end).

Good (bad) news observations are those for which RETURN is nonnegative (negative).

The second value relevance metric is based on the adjusted R^2 from the regression of earnings per share on stock returns per share, which we estimate separately for pre-adoption period and post-adoption period firms. According to Barth et al. (2006), an increase in quality earnings is expected to increase the value relevance of earnings and stock returns to the level that firms performing earnings management have a lower association between earnings and stock returns. It is expected that firms having good news will be less motivated to manipulate earnings and vice versa. Therefore, firms facing bad news are assumed to have more differences in accounting quality results.

The adjusted R^2 from the regression of earnings on stock returns increased from 14.8% in the pre-adoption period to 30.4% in the post-adoption period, which is statically significant at a 0.001 level. In other words, 30.4% (adjusted R^2) of the variance in earnings is explained by the variance in stock returns in the post-adoption period whereby only 14.8% of the variance in earnings is explained by the variance in stock returns in the pre-adoption period.

In addition, results from the value relevance regressions for good news and bad news indicate an increase in value relevance in the post-adoption period compared to the pre-adoption period. The regression statistics for good news is consistent with prediction since it shows that the value relevance increased from 3.2% in the pre-adoption period to 12.8% in the post-adoption period, as shown in Table (9). Moreover, the bad news metric significantly improved from -0.006% to

85.9% which indicates that the value relevance of accounting amounts improved after IFRS implementation.

However, the greater R^2 for the post-adoption bad news firms in comparison to post-adoption good news firms (85.9% compared to 12.8%) confirms the assumption that firms perform more earnings smoothing when facing bad news than good news and, therefore, bad news are being reflected in earnings on a more timely manner than good news (Basu, 1997).

An overall assessment of the value relevant measures reveal that post-adoption period firms have greater value relevance based on both the price and return regressions as the two of them show value relevance of accounting information.

4.5 CONCLUSION

The results from this study are mixed as they indicate that the Palestinian listed companies in the IFRS post-adoption period show more evidence of earnings management (decrease in the quality of financial statements), less timely loss recognition (decrease in the quality of financial statements) and more value relevance of accounting amounts (increase in the quality of financial statements) than Palestinian listed companies in the IFRS pre-adoption period.

Five measures out of the nine measures were in line with the prediction that IFRS adoption improved accounting information quality. Table (10), presented in Page 67, illustrates a summary of the results of the nine accounting quality

measures analyzed in this study for the IFRS post-adoption period and IFRS pre-adoption period:

Table (10): Summary of Results for Accounting Quality Metrics

Metric No.	Metric	Prediction	Actual Results	Conclusion	Impact on Quality of Financial Statements	Details
Earnings Management						
1	Variability of ΔNI	Post>Pre	Post<Pre	More earnings management in post-adoption period	Decrease in quality	Table (6)
2	Variability of ΔNI over ΔCF	Post>Pre	Post>Pre	Less earnings management in post-adoption period	Increase in quality	Table (6)
3	Spearman Correlation of ACC and CF	Post>Pre	Post<Pre	More earnings management in post-adoption period	Decrease in quality	Table (7)
4	Small Positive NI (SPOS) Coefficient	Negative Coefficient	Positive Coefficient	More earnings management in post-adoption period	Decrease in quality	Table (7)
Timely Loss Recognition						
5	Large Negative NI (LNEG) Coefficient	Positive Coefficient	Negative Coefficient	Less timely loss recognition in post-adoption period	Decrease in quality	Table (8)
Value Relevance						
6	Price	Post>Pre	Post>Pre	More value relevance in post-adoption period	Increase in quality	Table (9)
7	All observations	Post>Pre	Post>Pre	More value relevance in post-adoption period	Increase in quality	Table (9)

8	Good News Only	Post>Pre	Post>Pre	More value relevance in post-adoption period	Increase in quality	Table (9)
9	Bad News Only	Post>Pre	Post>Pre	More value relevance in post-adoption period	Increase in quality	Table (9)

According to Barth et al. (2008), different accounting quality results are due to the interactions of features of the financial reporting system (including accounting standards, their interpretations, enforcement and litigation) although there are similar controls for the accounting quality. In addition, Barth et al. (2008) also states that it is not easy to ensure that the results of accounting quality analysis are absolutely due to the changes in the financial reporting system, even after the mitigation of the effects of incentives and the economic environment, rather than the changes in firms' incentives and the economic environment.

Previous authors, such as Paananen (2008), raised concerns about including the Banking and Financial Services companies in the studies of the impact of accounting standards on the quality of financial statements. The reason for these concerns is that these companies are subject to special regulations under bank supervision which may not fully comply with IFRS requirements. Therefore, these special banking regulations may influence the results of the studies of IFRS impact on the quality of financial statements.

On the other hand, prior literature proof that no significant changes were noted in studies that included firms from the financial sector. Paananen (2008), for

example, examined IFRS impact on the quality of financial statements for the Swedish listed companies by performing two different tests. One test included the data of the financial sector companies with the other listed companies in Sweden and the other test excluded the financial sector companies from the other listed companies. In her final analysis, Paananen concluded that no qualitative differences were noted between the two tests.

In addition, Chen et al. (2010) conducted a similar research for 15 countries from the European Union. The authors concluded that the outputs did not quantitatively differ after excluding the financial institutions from the sample of the study. A similar approach was adopted by Abd-Elsalam (1999) to address similar concerns on the impact of IFRS adoption in Egypt. The findings concluded that inclusion of financial services companies did not have any specific impact on the results of the study. Further, Outa (2011) included the financial services sector data in his study of the impact of IFRS adoption on Kenya listed companies. He found that their inclusion did not have any impact on the outcome of the study. Consequently, we can say that the inclusion of the Palestinian Banking and Financial Services Companies, which are under the control of the PMA regulations, does not influence the results of this study.

The last concern of this research paper was whether the analysis of data from serious and non-serious adopters could have an impact on the results. In the Swedish study, Paananen (2008) divided committed adopters from the less serious ones; her study revealed that the quality of accounting information worsened with the serious adopters. In the Kenyan study, Outa (2011) was not concerned about

serious and non-serious IFRS adopters since the author expected Kenya listed companies to vigorously implement IFRS and, therefore, he did not consider such a test relevant since the institutional framework around the Kenya listed companies are similar.

In this study, Palestinian listed companies are expected to be fully committed to IFRS requirements which was required by the Article Number 3 of the PEX Disclosure Regulations issued in year 2007. In addition, the audited financial statements of all Palestinian listed companies clearly state that the financial statements of these companies are prepared in accordance with the International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB). The financial statements of these companies also disclose the standards that have been issued by the IASB but are not yet mandatory as of the date of the financial statements. It is worth mentioning that the financial statements of all Palestinian listed companies are audited by one of the big four auditing companies existing in Palestine. Accordingly, we can say that all Palestinian listed companies are fully committed to the IFRS and, consequently, we did not find that the analysis of data from serious and non-serious adopters is relevant to this study.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

This chapter is the final chapter of the study which comprises two sections. The first section presents a summary of the study, whereby the whole study is summarized and major points are highlighted. The second section displays the conclusions and recommendations of the study.

5.1 SUMMARY OF THE STUDY

The globalization of accounting standards is considered one of the major accounting changes that have taken place around the world. Emerging and developing nations have managed to converge their financial reporting requirements with international accounting standards, in order to gain authority in global markets and, consequently, access capital markets, attain economic development and increase wealth (Irvine, 2008). The introduction of IFRS by different countries has stimulated studies examining the effectiveness of IFRS in improving the financial reporting quality.

Many researches were conducted to investigate the impact of IFRS adoption on financial reporting quality. These researches differed in their investigation period, settings and contexts and utilized different proxies to measure the financial reporting quality consequences. Moreover, these researches revealed inconsistent and sometimes contradictory results.

This study aims to investigate whether the adoption of International Financial Reporting Standards (IFRS) in Palestine has been associated with higher accounting quality for Palestinian listed companies. The International Accounting Standards Board (IASB) supposes that the beneficial outcomes from implementing IFRS includes transparency, conservatism, relevance, reliability and reduced cost of capital. Accordingly, this study relied on three measurement tools for accounting quality which are earnings management (assessed through four metrics), timely loss recognition (assessed through one metric) and value relevance (assessed through four metrics). Each of these measures was analyzed using different metrics which were defined in prior literature, such as Barth et al. (2008), Outa (2011) and Lang et al. (2003).

This study covered 32 listed Palestinian companies existing during the period from year 2003 to year 2012. The 10-year period of the study was divided into two periods which are: the IFRS pre-adoption period (representing years 2003 to 2007) and IFRS post-adoption period (representing years 2008 to 2012). The data of this study comprised the financial figures derived from the annual audited financial statements of the 32 listed companies for the study period, including assets, liabilities, owners' equity, net income, sales, cash flow from operating activities, earnings per share and others. The annual financial statements of these listed companies were obtained from the Palestine Exchange website (www.pex.ps) and the websites of the PEX brokers.

The data was used to compute the test variables and control variables of the study (as shown in chapter four). These variables were processed through SPSS and

statistically analyzed (for the pre-adoption period and post-adoption period) based on the linear models of the accounting quality metrics detailed in Chapter Three. The statistical analysis included mainly a regression analysis of dependent variables on independent (control) variables which was conducted separately for the data of the pre-adoption period and post-adoption period in order to determine the change in statistical outputs between the two periods. The statistical outputs include the variability of residuals, correlations between variables and the adjusted R^2 from the regressions which were used to interpret the different metrics of accounting quality. This study differs from the prior studies conducted on other countries around the world by overcoming difficulties in controlling for confusing factors faced in previous studies which could have revealed less reliable results.

5.2 CONCLUSIONS AND RECOMMENDATIONS OF THE STUDY

5.2.1 CONCLUSIONS

In line with prior literature, this study revealed mixed results. The outcomes of this study show that five out of the nine metrics indicate an improvement in accounting quality, while four metrics indicate a decline in accounting quality. The study revealed that one out of the four metrics of earnings management improved while the others declined, the metric of timely recognition of losses declined and the four metrics of value relevance improved. In particular, firms that adopt IFRS show more evidence of earnings management, less timely recognition of losses and

greater value relevance. Accordingly, we conclude that IFRS adoption in Palestine resulted in financial statements with less reliability, less conservatism and more value relevant accounting measures. However, since our results are mixed, we cannot conclude whether IFRS adoption in Palestine would provide financial statements that would assist investors in making informed and unbiased judgments.

Nonetheless, the findings of this study relating to earnings management and the value relevance of financial information under IFRS are useful for stock market authorities and financial analysts, since they allow them to strengthen the current auditing regulatory body and supervisory framework in Palestine. Therefore, the annual accounts of Palestinian firms should be adequately and properly reviewed and audited by internal and external auditors, in order to verify that the financial statements reflect the true financial situation of an entity and do not mislead investors (Cervantes, 2004). Further, the findings of this study are also useful for standard setters and regulators for future guidelines in developing accounting standards.

The findings of this study do not differ from the results of previous studies in other parts of the world, such as studies conducted by Clarkson et al. (2010), Houque et al. (2010), Paananen and Lin (2007), Outa (2011), Saaydah (2012) and many others, which found that the implementation of IFRS does not necessarily lead to enhanced financial reporting quality. A similar study conducted by Paananen (2008) for IFRS impact in Sweden demonstrated that IFRS implementation did not improve the quality of financial statements in Sweden. Based on these results, Paananen (2008) states that it is dangerous to draw

conclusions on using this kind of measures. Therefore, the mixed results of this study contribute to the previous arguments about the reason accounting quality outcomes are still not in line with IFRS promises. Accordingly, the research results should be taken into consideration as part of the evidence testing IFRS consequences.

Further, the mixed findings of this study can be a result of not fully complying with IFRS requirements by the Palestinian listed companies. This is evidenced by the World Bank review of the financial statements of certain Palestinian listed companies which revealed certain non-compliances with IFRS, including non-adequate disclosures for the financial statements, such as revenue recognition disclosures, and non-compliances with IFRS requirements for the recognition and measurement of assets and liabilities of certain companies (World Bank, 2010). The reason for not fully adhering to IFRS by the Palestinian listed companies may be due to the lack of knowledge of the IFRS requirements by the Palestinian listed companies since the Palestinian accounting education system is based on the American accounting standards rather than IFRS (World Bank, 2010). This issue creates a discrepancy between Palestinian accounting education and professional requirements in Palestine which require IFRS for the listed companies. Therefore, it is expected that full compliance with IFRS by the Palestinian listed companies would have improved the quality of financial statements for these companies.

Despite the mixed outcomes, these findings can also be used to prove that IFRS adoption can improve certain accounting quality metrics rather than changes

in managerial incentives. A study conducted by Christensen et al (2008) exhibits that corporate incentives play a major role in leading accounting standards to influence accounting quality. The study found that improvements in accounting quality are limited to firms with incentives to adopt IFRS.

Furthermore, Soderstrom and Sun (2007) state that conclusions cannot be compared for studies where adoption is mandatory, like Palestine, to studies where adoption is voluntary. They believe that, after IFRS adoption, accounting quality depends on several factors such as a country's legal and political system, the quality of accounting standards and financial reporting incentives (including capital structure, ownership and tax system and financial market development). A review of this in the Palestinian context indicated some defects in the economic environment that influenced the consequences of IFRS adoption. The main issue in Palestine is the political situation which negatively influences the economical environment in Palestine and, therefore, negatively impacts the performance of the Palestinian stock market and increases the variability of accounting figures between one year and another.

In addition, Chen et al. (2010) also argue that IFRS adoption would not have the same implications across different countries. The authors state that implementing IFRS would not necessarily provide accounting information with the same quality across countries since factors, other than accounting standards, may influence accounting quality. In conclusion, the findings of this study are in line with many other findings where quality improvements are not evident from the implementation of IFRS.

5.2.2 LIMITATIONS OF THE STUDY

Despite that the objectives of this study have been achieved, and the research questions have been successfully answered, this study has some limitations, as detailed below:

- Although IFRS was not mandatory to the Palestinian listed companies before year 2007, this does not mean that Palestinian listed companies were not implementing IFRS before year 2007. Palestinian listed companies were implementing various accounting standards before year 2007, as they see appropriate, including IFRS, Generally Accepted Accounting Principles and others. The difference in the accounting standards implemented by the Palestinian listed companies before year 2007 may impact the consistency of the accounting basis used in the pre-adoption period of the study.
- Although the accounting measures used in the study aim to explain the managerial decisions of firms, the actual management behavior and management decision-making may not always be clear. Therefore, the relationship between the firm's selection of accounting policies and the related accounting measures may not be accurately presented by the theoretical predictions used in the study.
- Another key issue is the degree to which a firm's financial performance is reflected by the stock returns and the degree of reliability of investors on stock returns for financial decision-making. This depends on the investors' evaluation of the reported accounting

information and the efficiency of the stock market, since investors maintain their own set of values and expectations (Verrecchia, 2001 and Dye, 1998).

- This study has limited ability to separate the impact of IFRS from the impact of the general macroeconomic changes and general developments in financial markets on the financial statements. However, we used control variables to mitigate such effects.
- The findings of this study may be influenced by the changing conditions and circumstances over time. For example, the number of listed companies may increase and the number of financial analysts may also increase in the future.

5.2.3 RECOMMENDATIONS

The following represent our recommendations based on the findings of this study:

- Palestine and other developing countries should communicate their specific financial reporting needs to the IASB. This will be useful since the IASB may consider these needs and, therefore, provide some reporting alternatives (such as IFRS treatments or other alternatives from other standards).
- In developing countries, such as Palestine, the government must have a major role in enforcing the execution of regulations by firms and providing legal protection to stakeholders.

- Since regulators, external and internal auditors and top management are the key players in standards setting and the implementation of these standards; they need to work together and enforce adherence to IFRS, in order to have a more feasible impact of IFRS. The findings of this study may be useful to investors for understanding IFRS influence on Palestinian capital markets, which may provide insights for regulators and accounting standard setters. Investors tend to be more permissive for any overstatements in financial statements when the economy and financial markets are doing well, and less tolerant during economic and financial markets slowdowns (Al-Hogail, 2004).
- Accounting staff and management of the Palestinian firms, including the listed companies, should attend education and training courses relating to IFRSs. In addition, the Palestinian Association of Certified Public Accounting (PACPA) should work to improve the knowledge of accountants about accounting standards.
- PACPA should cooperate with the Palestinian universities to improve the contents of the accounting educational material and ensure that IFRSs are adequately presented to students in order to increase students' skills in relation to IFRSs.
- More research should be carried out by researchers to study IFRSs and discuss accounting standards flaws raised by companies and researchers before the standards are effective.
- Arabic version of IFRSs should be updated frequently to reflect IFRS updates. Moreover, Arabic textbooks relating to IFRSs should be updated, translated

and provided to the different concerned parties (such as accountants, managers, students and others).

5.2.4 RECOMMENDATIONS FOR FURTHER RESEARCH

The following represents the recommendations for those who would be doing similar or related studies in the future:

- This study reflects the situation during the years 2003 to 2012. It would be interesting to replicate the study in the future to examine how quality has progressed in Palestine. For example, Paananen et al. (2007) expanded their researches from a baseline study to subsequent periods and their findings revealed a decrease in quality. Therefore, a similar study can also be extended in Palestine.
- Future research may be carried out after considering the relationship between accounting standards' measures and other macroeconomic measures, such as total market performance, overall growth in the economy and any factor that may influence investor behavior.
- Similar studies can be conducted on other entities, other than listed companies, such as public limited companies, private companies, cooperative societies and other companies which do not fall under regulators or stock listing requirements. Such studies could provide a more accurate conclusion on the impact of IFRS implementation on the quality of accounting in Palestine, which is not only limited to Palestinian listed companies. This study focused

on Palestinian listed companies, mainly because clear records are available from the Palestine Exchange.

- Another interesting area for study could be the reasons for the mixed outcomes of IFRS adoption, which can be negative or positive, taken into consideration the global belief that IFRS improves accounting quality. Such researches could highlight the flaws of IFRS and the areas IFRS adoptions are not improving reporting quality and, therefore, provide the appropriate IFRS amendments for improving accounting quality.
- Future research should also examine the impact of regulatory announcements on the stock market behavior in periods of crisis, and provide regulatory and market authorities with approaches for crisis management.
- Future research may pay attention to the behavior of managers and may consider the development of a comprehensive framework for investigating the behavior of entities.

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<http://www.abinvest.ps>

www.padico.com

www.ifrs.org

www.kpmg.com

APPENDIX 1: PALESTINIAN LISTED COMPANIES INCLUDED IN THE STUDY

The following represents the 32 Palestinian listed companies included in the study:

#	Company Name	Symbol	Sector
1	Arab Islamic Bank	AIB	Banking and Financial Service Sector
2	Bank of Palestine	BOP	Banking and Financial Service Sector
3	Palestine Islamic Bank	ISBK	Banking and Financial Service Sector
4	Palestine Commercial Bank	PCB	Banking and Financial Service Sector
5	Palestine Investment Bank	PIBC	Banking and Financial Service Sector
6	Al Quds Bank	QUDS	Banking and Financial Service Sector
7	The National Bank	TNB	Banking and Financial Service Sector
8	Arab Company for Paints Products	APC	Industry
9	Palestine Poultry	AZIZA	Industry
10	Birzeit Pharmaceuticals	BPC	Industry
11	Golden Wheat Mills	GMC	Industry
12	Jerusalem Cigarette	JCC	Industry
13	Jerusalem Pharmaceuticals	JPH	Industry
14	Palestine Plastic Industries	LADAEN	Industry
15	The Vegetable Oil Industries	VOIC	Industry
16	Ahliea Insurance Group	AIG	Insurance
17	Al Mashriq Insurance	MIC	Insurance
18	National Insurance	NIC	Insurance
19	Trust International Insurance	TRUST	Insurance
20	Arab Investors	ARAB	Investment
21	Jerusalem Real Estate Investment	JREI	Investment
22	Palestine Development & Investment	PADICO	Investment
23	Palestine Investment and Development	PID	Investment
24	Palestine Industrial Investment	PIIC	Investment
25	Palestine Real Estate Investment	PRICO	Investment
26	The Arab Hotels	AHC	Service

27	Arab Real Estate Establishment	ARE	Service
28	Palestine Telecommunications	PALTEL	Service
29	Palestine Electric Company	PEC	Service
30	Arab Palestinian Shopping Centers	PLAZA	Service
31	The Ramallah Summer Resorts	RSR	Service
32	Palestinian Distribution and Logistics Services	WASSEL	Service

APPENDIX 2: TOTAL ANNUAL ACTIVITY OF PEX FROM YEAR 1997 TO 2012

The following represents the total annual activity of the PEX which was obtained from Tadawul, Monthly Statistical Newsletter # 73 issued in April 2013:

Total annual activity of PEX from year 1997 to year 2012

Al-Quds Index Yearly Growth (%)	Al-Quds Index	Market Capitalization (USD)	Value (USD)	Volume	No. of Trading Sessions	Year
----	139.13	510,036,142	25,181,030	10,000,526	66	1997
11.39	154.98	600,496,739	68,531,587	16,746,845	100	1998
52.77	236.76	735,936,934	150,092,262	68,788,626	146	1999
-12.31	207.62	768,190,283	188,964,084	93,190,283	211	2000
-6.08	195.00	727,270,525	74,496,050	33,424,798	161	2001
-22.48	151.16	581,826,876	45,081,693	18,663,494	100	2002
18.95	179.81	655,463,931	58,280,758	40,304,432	223	2003
54.36	277.56	1,096,525,380	200,556,709	103,642,845	244	2004
306.6	1128.59	4,457,227,305	2,096,178,223	369,567,295	246	2005
-46.39	605.00	2,728,811,088	1,067,367,951	222,689,351	238	2006
-12.85	527.26	2,474,679,018	813,469,090	299,422,814	248	2007
-16.23	441.66	2,123,057,098	1,185,204,211	339,168,807	244	2008
11.62	493.00	2,375,366,531	500,393,39	238,877,373	246	2009
-0.69	489.60	2,449,901,545	451,208,529	230,516,370	249	2010
-2.59	476.93	2,782,469,900	365,648,216	184,544,375	248	2011
0.14	477.59	2,859,140,375	273,440,441	147,304,208	149	2012