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The Extent of Compliance with the Requirements of IAS 34: An Applied Study on Jordanian Commercial Banks

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Abstract

Interim financial reports are important because they keep stakeholders current on the firm's results and events that it faces regularly and continuously. This study aims to determine the extent of compliance with IAS 34 by Jordanian commercial banks (JCBs) for 2015-2019. To measure the IAS 34 compliance, a content analysis approach is utilized depending on an index with 21 paragraphs represent the IAS 34 requirements. This study also aims to examine the effect of firm characteristics (firm size, firm age, and leverage) on IAS 34 compliance. The results show that JCBs comply with IAS 34 at 71% of its requirements. Firm size has an insignificant negative effect on IAS 34 compliance, and firm age has a significant positive effect on IAS 34 compliance, while the leverage has negative but an insignificant effect on IAS 34 compliance. It is possible to conclude that the characteristics of banks may not be an important issue for the level of compliance with IAS 34. In other words, it may be that legislation and laws push Jordanian banks to comply with IAS 34 more than their characteristics.

Keywords: *IAS 34, Interim reporting, STATA, firm characteristics and Jordanian banks.*

1. Introduction

The purpose of financial reports is to provide stakeholders valuable financial information about the firm; at the same time, financial reports are the primary source of information for stakeholders. However, with the rapid changes that the firm is facing, stakeholders need to stay current on business results. On the other hand, a wide range of users of the financial reports led to increased different needs of accounting information (Kim, 2013). Therefore, financial reports that cover interim periods (less than a year) became necessary to improve the quality and timeliness of accounting information and thus stakeholders' decisions (Qasim et al., 2017).

Firms' preparation of interim reports is not new; publicly traded railroad firms in the United Kingdom first published interim reporting in the 1830s (Lee & Parker, 2014; AL-Rashdan, 2020). Interim reports are considered voluntary; IAS 34 does not require the publication of interim reports by companies or the number of times these reports are published. However, many regulations require firms to publish interim reports; for example, according to the Jordan Securities Commission (2004), all publicly traded firms in Jordan have been required to publish quarterly and semi-annual financial reports in addition to yearly reports. Although interim financial reports are voluntary and are primarily determined by national laws and regulations, the primary goal of IAS 34 is to specify the minimum content of interim financial reports and describe the basis for recognition and measurement to be used when preparing these reports.

2. Literature Review

In accounting literature, IAS 34 was and still is a wide debate among researchers from various aspects. For example, Alsharairi et al. (2015) investigated the extent of compliance with IAS 34 by the financial sector in Jordan; they found that the Jordanian financial sector complies with general requirements of IAS 34 at 75.2% and 85.1% with technical requirements of IAS 34. AL-Shatnawi (2017) conducted another study in Jordan to investigate the quality of interim financial reporting under IAS 34 and discovered that interim financial reporting has a significant positive effect on investment decision-making. Besides, Albawwat et al. (2020) investigated about the interaction between corporate governance and timeliness of Jordanian interim financial reporting. In another developing country, Ali (2020) found that listed companies on Bahrain Stock Exchange (BSE) comply with IAS 34 in their interim reports, while AL-khawaja et al. (2020) founded significantly positively effects of most of electronic Islamic banking services' quality on customer satisfaction in Jordan, although national accounting legislation in Bahrain does not require firms to prepare interim financial statements. Indeed, companies' compliance with voluntary regulations imposes additional costs such as opportunity costs. Therefore, this result proves that companies' compliance with voluntary regulations may have motives such as reducing information asymmetry, improving the company's image, and gaining investor confidence. In other words, the benefits to compliance with voluntary regulations by firms could be more cost incurred by them.

2.1. Firm size and IAS 34 compliance

In developing countries, preparation of interim reports are not given enough attention compared to developed countries (Alsharairi et al., 2015). According to Joshi and Bremser (2003), large firms in developing countries are among the first to adopt IAS 34. The extensive debate about the relationship of firm size and compliance with IFRS/ IAS among researchers. Indeed, political cost theory is a common argument to explain why large firms tend to compliance with IFRS/ IAS than others. The political costs are not the same for all companies. In other words, larger companies are expected to face higher political costs (Watts and Zimmerman, 1990). Therefore, improving the quality of financial statements by complying with IFRS/IAS could effectively reduce these costs (Guerreiro et al., 2008). On the other hand, compliance with IFRS/IAS imposes additional costs and challenges for firms. Larger firms are expected to have better information systems already; consequently, IAS/IFRS' compliance is generally less expensive than smaller firms (Lopes & Rodrigues, 2007).

The empirical evidence showed mixed results regarding the effect of firm size on the level of compliance with IFRS/IAS. For example, Alsharairi et al. (2015) found that firm size did not affect compliance with IAS 34 in a study conducted over the Jordanian financial sector. Besides, Tsegba et al. (2017) found insignificant relationship of firm size and IFRS compliance in a study conducted over Listed Financial Services Companies in Nigeria. On the other hand, Alnaas & Rashid (2019), Uyar et al. (2016), Maimako & Ayila (2015), Kim et al. (2013), and Al-Shammari et al. (2008) all found that firm size is a significant positive determinant to compliance with IFRS/IAS. Therefore, depending on the discussion above and the majority of empirical evidence, the researcher developed the following hypothesis:

H_1: Firm size has a positive effect on IAS 34 compliance.

2.2. Firm age and IAS compliance

Firm age is another factor that could be related to the level of compliance with IAS 34. Alnaas & Rashid (2019) argue that older organizations may have more expertise in emphasizing the value of IFRS adoption to raise their level of transparency. On the other hand, older companies are more likely to have a variety of users who want a high level of information; as a result, these companies may attempt to embrace IFRS/IAS than other age combines (Alnaas & Rashid, 2019). Regarding the empirical evidence, Alsharairi et al. (2015) found that firm age has no significant effect on the level of compliance with IAS 34. Besides, Alnaas & Rashid (2019), Al-Shammari et al. (2008) found no significant effect of firm age on compliance with IAS/ IFRS. On the other hand, Hijazin & Al-naimat (2019) found a significant positive impact of firm age on compliance with IAS 34 in a study conducted over Jordanian industrial companies. Therefore, depending on the discussion above and the majority of empirical evidence, the researcher developed the following hypothesis:

H_2: Firm age has a positive effect on IAS 34 compliance.

2.3. Leverage and IAS 34 compliance

In general, firms with a high leverage ratio have higher agency costs (Alnaas & Rashid., 2019). This view supports the positive relationship between leverage and compliance with IFRS/ IAS; the financial reporting is a monitoring tool over executive directors; therefore, companies with higher leverage ratios will be more motivated to embrace IFRS/IAS than companies with lower leverage ratios (Guerreiro et al., 2008). However, regarding the empirical evidence, the results were contradictory, for example, Alnaas & Rashid. (2019), Uyar et al. (2016) and Guerreiro et al. (2008) found that leverage is not associated with IFRS/IAS compliance. On the other hand, Kim et al. (2013), found a negative effect of leverage on IFRS/IAS compliance. Besides, Tsegba et al. (2017) found that the leverage has negative but insignificant relationship with IFRS compliance. However, Al-Shammari et al. (2008) & Iatridis and Rouvolis (2010) found a positive effect of leverage on IAS/IFRS compliance. Therefore, depending on the discussion above and the majority of empirical evidence, the researcher developed the following hypothesis:

H_3: The leverage has a positive effect on IAS 34 compliance.

3. Methodology

3.1. Sample selection

The current study aims to determine the level of compliance with IAS 34 in Jordanian commercial banks. Therefore, the study sample is all Jordanian commercial banks (13 banks) for 2015-2019.

3.2. Measurement variables and study model

To capture the dependent variable, the extent of compliance with IAS 34 requirements, this study depends on the secondary data for the banks available on their website. Furthermore, to achieve study objectives, the content analysis approach is an appropriate technique to investigate the extent of compliance with IAS 34. Content analysis is "a research technique for making replicable and valid inferences from data"(Krippendorff, 1980, p. 21). Researchers widely uses this approach to measure the extent of compliance with IAS 34 (Alsharairi et al., 2015) or to measure the compliance with other IAS/IFRS (Alnaas & Rashid., 2018). To achieve a content analysis approach, the researcher depends on an index developed by (Alsharairi et al., 2015; Zuqaibeh & Al-Zaqeba, 2021). This index contains 21 paragraphs related to IAS 34 requirements. Appendix A shows compliance with IAS 34 requirements index.

3.2.1. Study model

$$IAS34_{it} = \beta 0 + \beta 1\ SIZE_{it} + \beta 2\ AGE_{it} + \beta 3\ LEV_{it} + \varepsilon_{it}$$

Where:

$IAS34_{it}$ is the level of compliance with IAS 34 measured by the index that represents its requirements. If the bank complies with index paragraphs, number 1 is given; otherwise, it does not comply with the specific requirement, then number zero is given.

β0: is the constant of the model.

$SIZE_{it}$: is the log of bank' total assets.

AGE_{it}: is the bank age.

LEV_{it}: is the leverage measured by total debts divided by total assets.

4. Findings

4.1. Descriptive statistics

Table 1 shows the descriptive statistics of study variables. As shown in the descriptive table, the minimum extent of IAS 34 compliance by Jordanian commercial banks (JCB) is 52.4%, and the maximum compliance with IAS 34 by JCB is 90.5%. This indicates that all JCBs apply the majority of IAS 34 requirements. Moreover, the overall compliance by JCBs with IAS 34 is 70.5%. Indeed, the Jordanian banking sector is regulated by various roles and regulations that lead to high compliance with IAS 34.

Table 1: Descriptive statistics of study variables

Variable	Mean	Std. Dev.	Min	Max
IAS 34 compliance	0.71	0.10	0.52	0.90
Size (log)	9.42	0.37	8.93	10.42
Leverage	1.51	2.26	0.82	9.33
Age	44.15	17.38	20	89

Table 1 also shows that the minimum size of JCBs is 8.93, and the maximum size is 10.42. The minimum age of JCBs is 20, and the maximum age is 89; this indicates the wide variations of banks' age in Jordan. The leverage ratio has a minimum ratio of 0.82 and a maximum ratio of 9.33.

4.2 Regression results

Table 2 shows the results of linear regression using STATA.

Table 2: Linear regression results

	Coef.	Std. Err.	t	P>t
Size (log)	-0.049	0.041	-1.2	0.236
Leverage	-0.004	0.004	-1.03	0.308
Age	0.005	0.001	5.39	0
_cons	0.975	0.360	2.71	0.009

Model summary:
Dependent variable (IAS 34 compliance)
R-squared = 0.4540 Adj R-squared = 0.4272

The findings indicate that bank size measured by the log of total assets has an insignificant negative impact on the extent of compliance with IAS 34. This result is consistent with findings of Tsegba et al. (2017) and Alsharairi et al. (2015) but inconsistent with findings of Alnaas & Rashid (2019), Uyar et al. (2016), Maimako & Ayila (2015) who found a significant and positive impact of firm size on IFRS/IAS compliance. Therefore, the first hypothesis is rejected. In terms of firm age, findings reveal that firm age has a significant positive impact on IAS 34 compliance. This result agrees with much evidence such as Hijazin & Al-naimat (2019) and supports the view that states older firms have more experience promoting the significance of IFRS adoption to improve their degree of transparency (Alnaas & Rashid., 2019). Therefore, the second hypothesis is accepted. On the other hand, the leverage ratio has negative but insignificant effect on IAS 34 compliance by Jordanian commercial banks. Indeed, this result is compatible with Alnaas & Rashid. (2019), Uyar et al. (2016) and Guerreiro et al. (2008). Therefore, the third hypothesis is rejected.

5. Conclusions

The financial statements and the notes attached constitute are the primary reporting method on which users of accounting information depend. Moreover, with the rapid developments and events experienced by the firm, there is an increasing need for financial reports that covered a period of less than a year. Interim financial information is regularly found to be valuable for existing and potential capital providers (i.e. investors and creditors) in making variance strategic financial decisions (Abdel-Khalik & Espejot, 1978; Butler et al., 2007; Al-Zaqeba, 2019). From here, interim financial statements derive their importance. This study aimed to verify the level of compliance with International Accounting Standard 34 (interim financial reporting), which aims to describe the minimum required in the content of interim financial reports in Jordanian commercial banks. This study collect the data using content analysis and following an index that includes 21 paragraphs for the requirements of IAS 34, it was found that Jordanian commercial banks adhere to the standard's requirements by 71%, which indicates a high commitment by Jordanian banks to implement the requirements of IAS 34. In addition, the study examined the effect of firm characteristics (firm size, firm age, and leverage) on the level of compliance with the requirements of the IAS 34. The results showed that firm size and leverage has insignificant relationship with IAS 34 compliance, while the firm age has a significant positive relationship with IAS 34 compliance.

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Appendix A: compliance with IAS 34 requirements index

1. A brief introduction and scope about the company and its reporting basis were included in the interim financial report

2. The related accounting policies for interim reporting were included in the interim financial reports

3. The company disclosed the general principles for the recognition and measurement of the components of the interim

4. The periods for which interim financial statements are required to be presented were clearly shown in every interim financial report

5. The company applied the recognition and measurement principles accordingly

6. The company disclosed the basis used related to the impairment of its assets

7. A specific figure was measured and allocated for the interim income tax expense

8. The earnings per share were provided in the interim financial reports

9. The company disclosed whether it is the first time IFRS was adopted in reporting for their interim or annual financial statements

10. The interim financial reports' minimum content (statement of financial position, statement of profit & loss, statement of changes in equity, statement of cash flow, and selected explanatory notes) were included

11. A review report supported the interim financial statements for the interim period

12. A specific quantification was included in the reviewer's opinion about the interim financial statements

13. The entity disclosed that its interim financial reports comply with IAS 34

14. The interim profit & loss statement included comparative information for the interim period and of the immediately preceding financial year

15. The interim statement of cash flows included figures for the current financial year to date with a comparative statement for the immediately preceding financial year

16. The interim profit & loss statement separated the figures for the year-to-date financial information, and the second quarter period

17. The interim statement of financial position included figures of the current interim period and the comparative figures of the immediately preceding financial year

18. The interim statement of changes in equity included figures for the current financial year to date with a comparative statement for the immediately preceding financial year

19. The company disclosed the fair value of its financial instruments

20. The entity disclosed that the same accounting policies were followed in the interim financial statement as compared with the most recent annual financial statements or, if those policies have been changed; then it was disclosed correctly

21. The company included an explanation of events and transactions that changed significantly since the end of the last annual reporting period