

# THE RELATIONSHIP OF FINANCIAL STATEMENTS PREPARED BY THE INTERNATIONAL ACCOUNTING STANDARDS WITH EFFICIENT FINANCIAL MARKETS

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## ABSTRACT

*This research aims to find out the extent to which companies adhere to international accounting standards and the effect of adherence to international accounting standards the efficiency of the financial market, the most important conclusion of the research mechanism is that the preparation of the financial statements of the insurance company is greatly affected by the economic and legal environment surrounding it as a part of society and affects the competitive environment of the company the researchers recommend the necessity for insurance companies to adhere to international accounting standards and strive to keep pace with developments and adopt innovative and creative solutions.*

**Keywords:** Financial Statements, International Accounting Standards, Efficient Financial Markets

## INTRODUCTION

The developments that occurred the global and local levels have effectively affected the accounting aspects in terms of preparing the financial statements and that these developments led to the establishment of joint-stock companies and activated the capital markets and thus to protect those rights there must be international accounting standards that define the methods, the nature of work, and the effect of that on capital markets in terms of preparing and presenting the financial statements, and the fact that the use of international accounting standards has become a basic and necessary requirement for various parties when preparing the financial statements.

## RESEARCH METHODOLOGY

### Problem of Research

The financial markets are an effective tool for trading currency at the local and World level because of its role in developing and managing the economic process on a large scale, and for the position enjoyed by the financial markets, the financial community is demanding more disclosure financial statements, accurate presentation and in line with the requirements of international accounting standards.

The research problem lies through the following questions:

1. The impact of financial statements prepared in accordance with international accounting standards on the efficiency of financial markets.
2. What is the extent of care taken in the accuracy of the outputs of the financial statements prepared to suit international accounting standards?

### Importance of Research

The importance of research stems from the importance of financial markets as a source of money exchange, and its role in developing the local economy. The importance of the research reflected by showing the extent to which companies listed in financial markets adheres to international accounting standards.

## **OBJECTIVE OF RESEARCH**

The research aims to

1. Knowing the extent to which companies adhere to international accounting standards.
2. The impact of adherence to international accounting standards on the efficiency of financial markets.
3. Clarify the concept of efficient financial markets.

## **Hypothesis of Research**

The research based on the following hypothesis

1. The commitment of companies listed in the financial markets to international accounting standards effectively affects the efficiency of the financial markets.
2. The financial statements of companies listed in the financial markets do not provide sufficient compliance with international accounting standards.

## **FINANCIAL STATEMENTS**

### **Definition of Financial Statements**

They are the lists that are prepared by the economic units at the end of the financial period and are approved by the Chairman of the Board of Director or one of the members of the board of directors authorized in this regard, which was usually prepared on December 31 of each year to provide useful information, do not make rational economic decisions (Ali et al., 2015).

It is a set of financial statements for an economic unit, and it is considered one of the activities that all economic units apply by relying on the use of accounting principles... They are the reports that contribute to clarifying the financial situation of the economic unit and are considered one of the main sources for obtaining information, after being audited by an external auditor, to be relied upon in making many economic decisions by its users (Al-Shammari & Al-Amir, 2019).

### **Types of Financial Statements**

#### **The Income Statement**

A list discloses the results of the economic unit's activity for the past period aimed at determining the profit or loss resulting from the operational activity. It also provides investors and creditors with information that helps them predict future operating cash flows, and the most important characteristics of the income statement are that they are used to analyze financial data and compare financial durations and between economic units.

It is defined as corresponding to income (revenues and gains) with expenditures (including losses) for a specific unit to determine the outcome of the activity (profit or loss) during a specific period (Ali et al., 2015).

#### **Financial Position List**

It is a list that contains financial information related to the items related to the financial position of the economic unit, the most important of which are (Shane, 2020).

**Assets:** Potential future economic benefits that a specific company acquired or controlled as result of previous deals or events.

**Liabilities:** Potential future sacrifices of economic benefits resulting from current commitments of a specific company to transfer assets or provide services to other units in the future as a result of previous deals or events.

**Ownership Right:** It is the right remaining on the assets of a specific unit after deducting its obligations, and in business establishments, it is the rights of owners, it is the residual value of net assets after deducting the liabilities, and the classification of equity ownership varies according to the type of economic unit.

### Changes in Equity

It is a list that reflect the changes in owners 'rights during the reporting period resulting from transactions of owners' accounts, Including the increase or decrease in assets in the past period, as it provides detailed information on the elements of ownership, the most important of which are: (Al-Jabouri, 2017)

1. Comprehensive income that explains in detail the balances of the amounts about the economic unit and the shares not controlled by it.
2. Changes in accounting policies and the effects of retroactive application, if any
3. Book value at the beginning and end of the period, including disclosure of profits or losses resulting from comprehensive income and the value of investments and distributions.

### The Cash Flow Statement

The Cash Flow Statement is concerned with presenting the cash flows and changes in cash and cash equivalents of the economic unit for the period of reporting in detail and its information is useful in evaluating the cash capacity of the economic unit.

Briefly, it was defined as a summary of the cash inflows and outflows of the operating, investment, and financing activities of a particular unit during a specific period (Ali & Saad, 2020).

E- List of notes: It is the list that was recently approved because of the data it provides and detailed information the elements that were not mentioned in the previous lists, as well as information about the type of economic unit, the mother country, address, description of the nature of the economic activity and the date of issuance of the financial statements or any other information (IFRS) (M8, 2009).

### Characteristics of Financial Statements

The financial statements are distinguished by various characteristics, the most important of which are: (Rawi, 2013)

1. **Clarity:** the financial statements provide information on financial operations based on their actual or actual content.
2. **Convenience:** Financial statements contribute to assisting decision-makers in economic units.
3. **The Ability to compare:** the financial statements provide the possibility of comparison between them to determine the nature of the trend of the financial position and evaluate the performance of the economic unit.
4. **Materiality:** The financial statements contain all the important elements that affect the decision-making process.
5. **Reliability:** It is the truthfulness of the information contained in the financial statements and is far from being influenced by personal ideas.

## The Objectives of the Financial Statements

The financial statements are among the most important elements in the business environment and their objectives are summarized according to the following: (Al-Qaralah, 2013).

1. Paying attention to all the categories used for these financial statements.
2. Follow up on information that helps in estimating the size and degree of risk affecting future cash flows.
3. Providing reliable information on the economic elements of the economic units.
4. Providing information about apparent changes in total resources.
5. Determining the extent of the economic unit's ability to pay its debts to suppliers and creditors.
6. To disclose all information appropriate to the needs of individuals who use the financial statements.

## Entities Benefiting from the Financial Statements

Several bodies are interested in the information contained in the financial statements, namely: (Al-Jajawi & Al-Masoudi, 2014)

1. **The Department of the Economic Unit:** The administration, as the main responsible for achieving the planned goals, is directly concerned with the financial information contained in the financial statements.
2. **Owners:** The owners, as providers of capital, are mainly concerned with the results achieved and for the sake of reassurance of the financial position of the economic unit.
3. **Creditors and Lenders:** Knowing the strength of the financial position of the economic unit gives creditors and lenders reassurance of the capacity of the unit.
4. **Governmental Agencies:** the economic units contribute a part of the country's national product, and as a result, they are subject to the laws of that country.

## FUNDAMENTALS ABOUT FINANCIAL MARKETS

Stock markets are of great interest in developed and developing countries alike, as they represent the mirror of the economy in which they exist; this is why these markets play an important role in mobilizing national savings and directing them into investment channels that support the national economy.

## The Concept of Financial Markets

It defines the financial market, as “the framework that brings together the saved units that wish to invest and the deficit units that need funds for investment, through specialized groups operating in the market, provided effective communication channels are available. The efficiency of the stock market is the market in which the share price issued by a firm reflects all the information available on it, whether that information is represented in the financial statements Or information broadcast by the media or represented in the historical record of the share price in the past days, weeks and years (Masadawi, 2014).

## Financial Market Objectives

The main objective that financial markets aspire to achieve is financing various economic activities, *i.e.*, providing the necessary financing needs.

To achieve the aforementioned objectives, the market performs two main functions

- A. Mobilizing investors' savings
- B. Optimum allocation of resources

Financial markets, in performing the first job, provide attractive returns to investors by offering encouraging interest rates or providing guarantees on companies' shares, as for the

optimal allocation of resources, efficient financial markets strive to direct the savings of investors to productive projects to ensure that they contribute to achieving economic growth (Al-Sharji & Jamakajji, 2019).

### **Success Factors for Developing Financial Markets**

Most of the world's countries, both developed and developing, have paid great attention to developing their financial markets, a result of the growing conviction of the importance of the role, these markets play in the economic development process, especially after the global financial crisis.

The success of the financial market development process depends on providing the following elements and frameworks.

- A. **Macroeconomic framework:** financial markets play a fundamental role in the performance of the overall economy, in terms of capital formation through increased savings.
- B. **The Legal Framework:** The legislative and legal environment within which the financial system operates would have a positive impact on enhancing confidence in these markets.
- C. **The Regulatory and Supervisory Framework:** The main cause of the global financial crisis is the circumvention of legislation and regulatory systems; they were created to protect the markets from adventure, recklessness, and speculation. To strengthen and develop the legislative infrastructure and regulatory frameworks for listed companies.
- D. **Accounting Framework and Auditing:** The financial crisis that marked recent years with the bankruptcy of some major international companies, It raised a very important issue related to the quality of financial and accounting information and its importance at the micro and macro levels.

To avoid the occurrence of such crises in the financial markets, it is necessary to introduce governance systems and to oblige companies to implement them, Good corporate governance increases disclosure and transparency rates about the financial situation, work plans, and the progress of financial information This is done through a periodic and expanded publishing process that helps to improve performance and diversify companies' investments, which increases the rates of return on their investments (Muhammad & Habib, 2015).

It is not sufficient for there to be adequate conditions for the establishment of a financial market, but for the success of this market, there are several factors, some of which are essential and others complementary: (Al-Qur'an, 2013)

### **The Basic Factors**

They are summarized in the following points:

1. The existence of laws and regulations to regulate financial markets by governments
2. Establishing securities markets within the country and diversifying investment tools in those markets.
3. Availability of financial information systems that reflect the financial position and financial position to assess the true value of companies' shares.

### **Complementary Factors**

These are summarized in the following points:

1. Geographical location of the financial market and its proximity to international markets.
2. The presence of a large number of national and foreign banks, investment companies, and joint-stock companies.
3. An increase in the saving rate of individuals.

The motives for companies listing their shares in the stock market:

There is no doubt that the public shareholding companies' endeavor to list their shares in the stock market brings those many benefits, including (Ahmad, 2017)

- A. **Promotion and Publicity:** the company's listing of its shares on the stock exchange allows it to promote and advertise itself and its activities, thus making it in direct contact with the public of investors.
- B. **Fair Evaluation:** The market provides a mechanism for supply and demand on share prices for companies listed in the market, which reflects the true values of the shares.
- C. The efficiency of the electronic trading, clearing, and settlement system: the stock exchange provides a system for trading and clearing that provides the best services in this field by relying on modern electronic systems.
- D. **Ownership and Merger Opportunities:** companies can benefit from the advantages of the market in facilitating and organizing mergers and acquisitions.

### THE APPLIED SIDE OF THE RESEARCH

The scientific aspect of the research conducted in the National Insurance Company, which is one of the companies listed on the Iraq Stock Exchange, It is intended to apply international accounting standards to demonstrate the effect of applying international accounting standards on the efficiency of these companies, and the values of its shares listed on the Iraq Stock Exchange. Below are the financial statements of the company (Table 1).

<b>Table 1</b>					
<b>AHLIYA FOR INSURANCE FINANCIAL YEAR 31 DECEMBER - CURRENCY (IRAQ DINARS)</b>					
<b>Balance Sheet</b>					
<b>Current Asset</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Cash	163394280	246562923	1069444933	223334031	367790786
investment	2594961066	2752156229	2029269510	2988755536	2956713616
Debtors	40410218	91128233	21198524	24571524	21865524
total Current Asset	2798765564	3089847385	3119912967	3236661091	3346369906
<b>Fixed Assets</b>					
AT Book value	293359637	274834061	252856419	231400625	210568698
Total Asset	3092125201	3364681446	3372769386	3468061716	3556938604
<b>Short term sources</b>					
Creditors	227943535	129319841	77752601	70953279	214648976
provisions	48986658	90917870	362321667	623171198	613443198
Total Short term sources	278930193	220237711	440074268	694124477	828092174
<b>Long term sources</b>					
Paid up capital	2500000000	2500000000	2500000000	2500000000	2500000000
Reserves	315195008	644443735	432695118	27393239	228846430
Total long term sources	2815195008	3144443735	2932695118	2773937239	2728846430
Total sources of Finance	3092125201	3364681448	3372769386	3468061716	3556938604
<b>Current operations statement</b>					
Current Activities Revenues	2012	2013	2014	2015	2016
Insurance operation Revenues	1243989287	959425841	523628510	408006926	217267646
investment Revenues	25316623	25049726	22246642	21454794	21341927
Total Revenues	1400337537	1190954245	706439463	575360594	302813708
<b>Current Activities expenses</b>					
Insurance operation expenses	824988306	555181640	696773256	506280825	136460716
Depreciation	25316623	25049726	22246642	21454794	21341927
Administrative expenses	321779085	223387952	178626511	182061092	182230787
Total expenses	1163084014	803619318	897646409	709796711	340033430
Surplus of current operations	237253559	387334927	191206946-	134436117-	37219722-
Other transferring Revenue	7670221	6245212	3741840	3053239	1777305

Other Revenue	31927493	8864368	12767282	1015311	
Total Other transferring Revenue	39597714	15109580	16509122	4068550	1777305
<b>Transferring operations expenses and Other expenses</b>					
transferring operations expenses	48886010	44968921	32345793	21693834	9647392
Other expenses	1426254			21578750	1000
Total	50312264	44968921	32345793	43272584	9648392
<b>To Be distributed As</b>					
Income tax provision	33302000	45035000	4705000	9728000	
Legal Reserve	9661850	15622029			
Surplus distribution	183575159	296818557	211748617	183368151	
Excess activity	226539009	357475586	207043617-	173640151-	45090809-

### Analyzing the Company's Financial Statements to demonstrate its Commitment to Applying International Accounting Standards

<b>Table 2</b>				
<b>SHARE TURNOVER RATIO-1</b>				
<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
31.33	12.05	10.48	3.16	2.85

Note that the return on shares was during 2012 (31.33) and 2013 (12.05) it indicates a decrease in the return on shares, as it recorded during the year 2016 (2.85), which is an indicator of the decline in the company's profits, the Weakness of its financial policy notes that it does not apply international accounting standards That completely affected its financial position during subsequent years.

<b>Table 3</b>				
<b>EARNINGS PER SHARE - 2</b>				
<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
0.08	0.12	-	-	-

We note that the return on shares was during 2012 (0.080) and 2013 (0.120)

And then there is a clear absence of any return on shares, which are an indication of the decline in the company's profits and the inability of the company to continue.

<b>Table 4</b>				
<b>OWNERSHIP RATE - 3</b>				
<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
91.04	93.45	88.95	79.99	76.72

The table 4 shows that the ownership percentage of the company was (91.04) during 2012 and it increased to (93.45) during 2013, however, it began to decline gradually; reaching (76.72) in 2016, and this is an indication of the increase in compensation claims.

<b>Table 5</b>				
<b>INTEREST REPETITION - 4</b>				
<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
11.38	7.33	-	-	-

It appears from the table 5 that the number of profits for the company was (11.38) during 2012, then it decreased clearly during 2013, reaching, then this indicator faded due to the lack of profits and the increase in the company's indebtedness (7.33).

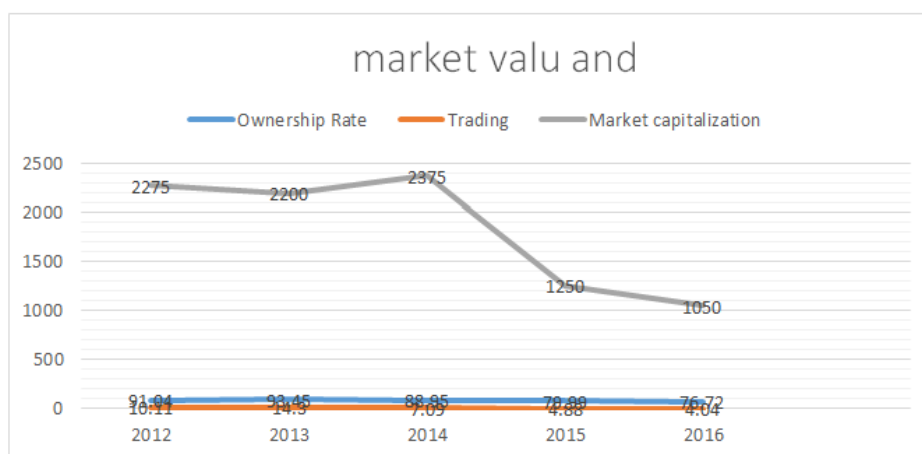
Table 6 RATE TRADING -5				
2012	2013	2014	2015	2016
10.11	14.03	7.09	4.88	4.04

It is noticed that the trading ratio was during 2012 (10.11) and during 2013 it increased to (14.03), then it started to decline, It reached (4.04) in 2016 due to the increase in the company's claims The decrease in profits due to the increase in compensation led to a lack of interest in the company's share.

Table 7 MARKET CAPITALIZATION (MILLION)-6				
2012	2013	2014	2015	2016
2275	2200	2375	1250	1050

The financial statements of the company show that the market value of the company was (2275) during 2012 and then decreased during 2013 to (2200) Then it increased during 2014 to (2375) and then began to decline, as it reached (1050) in 2016 and that the decline in the company's market values is due to losses incurred by the company as a result of non-compliance with the application of caution and caution as this indicates the weakness of the company's financial policy.

As the company's failure to fully implement international accounting standards has a clear impact on the company's financial statements which, in turn, clearly affected the efficiency trust gap between the owners of capital and the management of companies, which caused a clear confusion in the financial dealings at the Iraq Stock Exchange in terms of the demand for the company's shares.



**FIGURE 1  
MARKET VALUE, EQUITY AND CIRCULATION RATIO**

The above chart shows the market value, trading ratio, and ownership right of the company based on the financial statements prepared by the company the chart shows the clear decrease in the market capitalization of the insurance company, as well as the decrease in the right of ownership because of the increase in debt.



## CONCLUSION

Through the theoretical and practical side, the researcher concluded several things, the most important of them.

1. The preparation of the financial statements of the insurance company is greatly affected by the economic and legal environment surrounding it as a part of society and affects the competitive environment of the company.
2. The Company has not fully committed to implementing international accounting standards the permission for compliance with the application of financial legislation and instructions leads to the growth of the company.
3. The insurance companies in Iraq have some legal problems, which constitute an obstacle to achieving profits, which is the absence of a law for compulsory insurance.
4. Through the financial statements of the insurance company, there is a clear decrease in the profitability index of the company as the profitability of the company during the years (2014, 2015, 2016) was below the required level or almost non-existent.
5. It is noted from the financial statements of the company that there is a clear decrease in insurance premiums.
6. The Company is characterized by its inability to fulfil its financial obligations if the status of the company continues, and this was clear through the company's liquidity ratios.

## RECOMMENDATIONS

The researcher recommends several things, the most important of them:

1. The necessity for insurance companies to adhere to international accounting standards and strive to keep pace with developments and adopt innovative and creative solutions in providing services and presenting financial statements.
2. The necessity for insurance companies to train their staff to be able to apply international accounting standards.
3. The necessity of diversifying the sources of investment with the company to ensure the diversity of its sources of revenue.
4. Working on using modern methods and methods in marketing insurance services through forming teams and holding seminars.
5. Benefiting from the experiences and expertise of other companies in developed countries.
6. Increasing the company's capital is one of the most important methods that the company can follow to face the increase in liabilities and the decrease in the right of ownership.

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