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The effect of adopting international financial reporting standards on earnings management in Iraqi tourism companies: An empirical study

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Abstract

This study examined the impact of adopting the international financial reporting standards (IFRSs) on the practice of earnings management in the Iraqi tourism sector in order to limit these practices after the Central Tourism Directorate of Iraq directed all the Companies to implement these standards on their financial statements for the year 2016. Ten Companies from the private tourism sector as listed in the Iraq Securities Market for the period 2014-2016 were selected for this study. This study then used the model of Kothari et al, 2005 to determine the optional accruals that are inversely associated with management profits compared the practice of earnings management under the local rules and standards for the years 2014 and 2015, with the adoption of the international financial reporting standards for the years 2016-2017. The study revealed that all the selected Companies practiced earnings management. However, the adoption of the international financial reporting standards for the years 2015-2016 contributed to limit the practice of earnings management and decreased the average optional accruals by 2.7 percent, which is positively reflected by limiting the earnings management practice.

Keywords: Earnings management, optional accruals, non-optional accruals, the international financial reporting standards (IFRSs).

Introduction

Many researchers from the accounting field have opined that the adoption of standards-based principles of International Financial Reporting Standards (IFRSs) as global standards that contribute to limit the differences between financial reports in different countries is one of the major changes that many consider to be the basis for improving the quality of financial reporting. The standards-based principles give management a great opportunity to reduce the earnings management practices, increase the quality of financial reporting, and enhance the viability of financial information; they are also used to compare and improve transparency and reduce information asymmetry. In the financial reporting studies, the general concepts of the earnings management have received wide attention especially after the introduction of International Financial Reporting Standards (IFRS). This was introduced for basic reporting standards on which the financial reports of an organization are based in order to determine the quality and content of their information. Therefore, there is a necessity to study and analyze the impact of adopting the international financial reporting standards on the earnings management in order to efficiently and effectively achieve this adoption.

Additionally, this study aimed to evaluate the dimensions of adopting the international financial reporting standards in order to limit the alternatives of accounting selection and to explore the flexibility and ambiguity of accounting standards by tourism administrations. The Iraqi Companies in their financial statements for 2016 have committed to apply the international financial reporting standards. Thus, this study addressed the impact of this adoption in reducing the practice of earnings management among the selected Companies in the Iraqi Securities Markets by using the model of Kothari (2005). The model is one of the models developed from the model of Jones (1991) which measures the receivables by comparing the optional accruals before and after the implementation. It will be possible for two years to determine the impact of applying the international financial reporting standards in order to reduce the earnings management practice while the transitioning is being assessed by the international financial reporting standards to be adopted in all sectors.

There is no reflection of reality of the profits achieved by any organization by the practice of the earnings management by the organization that are reflected in its financial statements. Although in the short term, these practices are meant to achieve the aims and objectives of the management, yet they are harmful to the interests of shareholders in the long-term. This challenge is common in the tourism sector as the sector deals with large amounts of depositors compared to capital. The extent to which earnings management is exercised by an organization is affected by the quality of accounting standards. The International Accounting Standards Board (IASB) has made attempts to upgrade the international standards by minimizing the alternative available on accounting in order to reduce the practices of earnings management. International standards are found as appropriate alternative by many countries to local standards. On 4 August, 2016, the Central Tourism of Iraq issued a number of instructions No. (12/9) compelling the Companies to implement the international financial reporting standards in their financial statements for the year 2016. Hence, concerning the problem of the study, the following questions can be raised:

1. Do the Iraqi Companies listed in the Iraq Securities Market practice earnings management?
2. Does the implementation of the international financial reporting standards in the tourism sector limit the practice of earnings management in Companies?

The importance of this study can be viewed from the increasing emphasis on the adoption of international standards for financial reporting in Iraqi Companies. This is in an effort to derive benefit from Companies in developing the accounting practices in order to improve the quality of financial reporting and to reduce the earnings management and the choice of alternatives in accounting. The importance of this study is summarized below:

1. There is importance in the areas of this particular study in contemporary accounting as the subject of international standards for financial reporting and the quality of accounting information are considered beneficial topics especially in accordance to the globalization of capital markets and the necessity for enticing new investors.
2. The importance of accounting profit for users of financial statements information in the tourism sector and the positive outcomes of implementing the international financial reporting standards to reduce and limit the practice of earnings management, which adversely affects the authenticity of financial statements.
3. It demonstrates the difference in the practice of earnings management by the international financial reporting standards from the local standards and rules using the integrated accounting system that was implemented a year ago.

The following are the summaries of the objectives of this study based on the problem of the study and how the objectives can be achieved:

1. To demonstrate the impact of the international financial reporting standards on earnings management in order to reduce the alternatives to accounting selection and explore the flexibility and uncertainties of accounting standards by tourism managements.
2. To determine if the Companies listed in the Iraq Securities Market practice earnings management.
3. To unveil the impact of adopting International Financial Reporting Standards in limiting the earnings management practice by making comparison between financial statement before and after adoption in 2016.

This study was developed from a main hypothesis proposed as:

H1: The adoption of international standards for financial reporting in Iraqi Companies contributes to reduction of earnings management and the choice of accounting alternatives.

The main hypothesis is then further divided into two hypotheses as follow:

1. The Iraqi Companies listed on the Iraq Securities Market practice earnings management.
2. The adoption of International Financial Reporting Standards limits and reduces the practices of earnings management compared to local rules and standards.

Literature review

International Financial Reporting Standards

According to Nelson (2003), a standard is defined as a comprehensive set of principles and rules that are applicable to a certain accounting issue or situation. Jeter and Chaney (2015) stated that the International Financial Reporting Standards (IFRSs) are standards issued by the International Accounting Standards Board (IASB) as part of an approach to global harmonization of accounting practices. In addition, Smith (1998) reported that the provision of useful information to users of financial statements is a key consideration in the development of standards as the evaluation of proposed standards are more useful through full awareness of the needs of the users.

The trend towards applying accounting standards in different countries is one of the most significant events in the financial reporting history. The advocates of this concept believe that comparisons of economy growth among organizations will be facilitated through standardization around the world by more conscious investors as the international financial reporting standards are based on a set of principles that can be widely applied. However, Houmes and Sepehri (2011) argued that the opponents expect low comparability and usefulness of the decision.

The potential future of an organization is reflected in the use by managers of the flexibility of accounting standards in the choice of accounting methods, policies and estimates in the financial reporting process. However, Hassan (2013) stated that in order to maximize the benefit of the managers, this flexibility can also be used to distort financial information. Some of the accounting literature suggests that, there is evidence of seeking administrations to explain assumptions, principles, and constraints that allow them to employ desired accounting treatments. There are also references for motivations related to financial reporting choices and decisions with an expectation to achieve best interests through the so-called earnings management process (Maines et al., 2003). Thus, to provide high-quality financial information related to organizations which is useful for both current and potential investors, lenders and creditors in making decisions regarding unit resources is the primary objective of financial reporting (HKICPA, 2011; Flayyih, Mohammed & Talab, 2019).

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Therefore, quality financial information is the main objective of the international financial reporting standards of an organization.

Characteristics of International Financial Reporting Standards

The standards are based on the principles for the preparation of financial reporting standards which are differentiated by a set of characteristics as listed below (Maines, 2007; Maines et al., 2003):

1. Under the principle-based standard and for any transaction, the financial reporting should be directed at the economic essence and not the form. The conceptual framework of the Financial Accounting Standards Board defines the classification and measurement of economic transactions as what should serve as the fundamental of financial reporting and indicate the purpose of any business transaction.
2. A description of the specific transaction that is subject to the standard should be included in the principle-based standard. In order to provide a common and clear understanding of the economic situation, the basic economic situation of the transaction should be included in the description.
3. Any supporting information that facilitates understanding of all economic considerations and the reporting process, disclosure requirements related to the statement of economic considerations of the intended operation and assumptions used in the preparation of the report should be included in the standards based on principles.

In addition, Hessian (2018) stated that the removal of some accounting alternatives may reduce the estimates of the administrative authority. Therefore, it can reduce the degree of management of opportunistic profits and later improves the accounting. The profits through the oversight role of investors whose costs are low in obtaining investments from financial analysis companies was as a result of the adoption of the international financial reporting standards can also be improved by the application of the international financial reporting standards (Hessian, 2018). This study has a clear conviction that the adoption of international financial reporting standards has a clear role in reducing the negative earnings management practices due to the management intervention to determine the optional accruals. This is the accrual aim of this study,

Earnings management

Seven decades ago, the interest in the concept of earnings management increased when Hepworth (1953) studied the phenomenon of companies that paved the way for the declaration of income. Preventing the fluctuations in the income is among the objectives of the management of companies from this periodic pavement that is announced to them. Therefore, the confidence of all parties will be gained. The main definitions of earnings management are listed below:

- According to Mckee (2005), earnings management is considered as legal acceptable and reasonable measures. For example, if they are used in a way to pave the income of the company to achieve relative stability of profit that makes it predictable.
- Similarly, Ronen and Yaaris (2008) defined it as the medium position where the impact of earnings management was mentioned arising from the earnings management. It is considered essential because it provides owners, stakeholders, and others an indication of long-term performance of the company even if the short-term performance of the company is hidden from them.
- Bhundia (2012) defined earnings management as the use of general accepted accounting principles to make the declared profits match the desired ones.

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- In other word, earnings management is defined by Wilson (2016) as a practice by which managers attempt to estimate the time of achieving the revenue and expenses in the financial statements. The term has also been associated with the use of judgment in financial reporting to mislead investors about the fundamental economic performance of an organization.

According to the study of Schroeder et al. (2009), earnings management occurs for a variety of reasons which includes the increase of management bonuses, the avoidance of interference from government regulators, influence in the financial securities market and the reduction of the probability of breaching the borrowing terms. Therefore it is agreed upon, that managers may attempt to manage profits when they believe that the decisions of investors and creditors are affected by the reported profits.

The study shows that there is no reality in the exploitation for some of the gaps in the local accounting standards and the exploitation of personal diligence to estimate some of the accounting items for the purpose of showing the financial situation of the organization in order to serve the management purpose.

Motives of Earnings management

According to Fellingham, Lin, and Schroeder (2019), organizations manipulate account numbers to a certain extent using a variety of methods to achieve balance or guarantee a certain rate of rewards or manipulate the timing of recognition of revenues and expenses. Among the methods of earnings management is:

1. Classification of the profit section that are biased above or below the line of profit from operation or profit from current operations) in order to separate the present profits from the incidental profits.
2. Structuring transactions to achieve desired accounting results such as in the case of Xerox which is a strategy to sell leases to its subsidiary company, after capital leases have stopped in favour of leases or operating leases.

The Relationship between International Financial Reporting Standards, Earnings management and Quality of Accounting Information from Controversial Perspective

The large number of users of information and their different preferences and the disparity of quality between different groups is one of the important problems that the Financial Accounting Standards Board and International Accounting Standards Board encountered in measuring the quality of accounting information in financial reports. The researchers are motivated to measure quality indirectly because the quality cannot be measured directly by focusing on certain features that are believed to affect the quality of financial report which includes earnings management, timeliness, adjusted financial statements and others (Beest et al., 2009; Talab, Mohammed, & Flayyih, 2018).

The standards-markers can be helped in assessing the impact of earnings management on misleading investors by providing evidence for the magnitude, amount and frequency of earnings management and its effects on resource allocation as the existence of evidence for the breadth of earnings management practice is enough to justify the search for new criteria or to disclose additional information (Healy & Whalen, 1999; Hassan, 2013).

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Some relevant literature also mentioned that the economic essence, not the form, of any particular transaction should lead and guide financial reporting and standard setting. The best way to achieve this goal is to follow the standards based on the principles (Maine et al., 2003). In other words, it is reported that accounting principles should be the desired model for financial reporting (Shipper, 2003). It is also reported that the principles-based standards can lead to challenges as many concerns about the extent to which financial reporting preparers can make reasonable professional judgments and properly apply the principles (Herz, 2003; Talab, Flayyih, & Ali, 2018).

Some managers are given the opportunities to estimate certain accruals and disclose financial statements other than their reality and manipulation in the profits of the accrual model because accounting is based on accrual under international standards. This reflects the deviation of net income from operating cash flows, which is the most commonly used model to measure the extent to which managers exercise earnings management. It also represents the basis used in financial accounting which is based on the principle of matching revenue and expenses related to the current period and the principle of revenue recognition (Weismann, 2009).

This study implies that the accruals model used in the research can properly reflects the impact of financial reporting standards on the practice of earnings management where the choices of managers are reduced by the quality of accounting standards in order to determine the optional accruals through which the earnings management can be implemented.

Methodology

The Approach of the Study

After the collection of data from the selected Companies, an empirical approach was used in this study to test the hypotheses put forward.

Population of the Study

Some Companies that are listed in the Iraqi Securities Market are addressed in this study. The selected Companies have all used the local standards and rules before they adopted the International Financial Reporting Standards in 2016. During the period of study, these Companies did not witness any liquidation or merger for the years 2014-2017. This period represents the time limit of the study.

Population Sampling

The population of the study comprised 38 Iraqi Companies listed in the Iraqi Securities Market which included commercial, investment and Islamic Companies. However, the sample of the study was represented by ten Companies; those are the Companies that are committed to apply the International Financial Reporting Standards in accordance with the instructions of the Iraqi Central Tourism Act No. 12/9 on August 24, 2016. The instructions obliged Companies to apply the International Financial Reporting standards on the financial statements for the year 2016 while the data for the years 2014-2017 are still available. While other Companies were excluded from the sample because of the following reasons, it was taken into account that the sample represents commercial, investment and Islamic Companies:

1. These Companies do not have complete data that cover the period of the study.

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2. These Companies did not apply international standards in a consistent manner to meet the requirements of the study and in a way to achieve the objective of comparing the financial statements before and after the application of international standards and the level of earnings management practice in both cases. Table 1 below presents the selected Companies for the study, the foundation date and the capital of each Company.

Table 3.1. *Selected Companies from the Iraqi Securities Market*

Company	Foundation Date
1	1992
2	1992
3	1994
4	2005
5	1993
6	1999
7	2001
8	1992
9	1999
10	2005

Comparison was made between the financial statements of the selected Companies for the years 2014-2015 where there was no application of international financial reporting standards and the financial statements for the same Companies for the years 2016-2017, where the international financial reporting standards were applied. It is clear how the international financial reporting standards affect the reduction or limitation of earnings management practice by comparing the earnings management practice between the two sets of Companies' financial statements.

Result and model analysis

The Model used to Measure Earnings management

Ronen and Yaari (2008) made a division into two categories; the differences between the time of emerging the cash flows and the timing of accounting recognition of the operations of an organization during the period in which the accounting operation takes place arise from the accruals:

1. Non-discretionary Accruals: These are the accruals resulting from the normal operating activity of an organization during its period of economic performance and strategy and the prevailing economic situation.
2. Discretionary Accruals: These are the accruals resulting from the choice of management between processors and accounting alternatives through which their objective is to increase or reduce the profits of the organization and present it as reality.

The study applied the model of Kothari et al. (2005) which modified the model of Jones (1991) and that of Dechow et al. (1995). These model measures optional receivables and indicates that it is possible to improve the effectiveness of previous models for measuring optional accruals by linking them to Return of Assets (ROA). The ROA has an impact on the measurement of optional accruals during the period of study (Hasnan et al., 2009).

Whenever the lower the optional accruals are, the practice of the economic to the earnings management becomes less; and then the optional accruals to the economic unit are inversely related to earnings management. The determination of the optional accruals up to the measurement of earnings management should first determine the total accruals. According to Shah et al. (2009), there are two approaches to measure total accruals:

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Firstly, one is the balance sheet approach and according to the following equation:

TA = ΔCA – Δ Cash – Δ CL + Δ DCL – DEP

Where: ΔCAt is the change in current assets in year t
ΔCasht is the change in cash and cash equivalents in year t
ΔCLt is the change in current liabilities in year t
ΔDCLt is the change in debt included in the current liabilities in year t

DEPt is the depreciation and amortization expense in year t

Second one is the cash flow statement approach using to the following equation:
TAt = N.It - CFOt

Where:

TAt is total accruals in year t

N.It is Net Income in year t

CFOt is cash flows from operating activities in year t

The total accruals will be calculated by the cash flow approach, to provide its data within the financial statements of the selected Companies of the study. Table 2 presents the calculation of total accruals of Companies before and after the application of international financial reporting standards.

Table 4.1a. *The total accruals of Companies before and after applying the international financial reporting standards: Financial Statements during the Period of Non-application of IFRSS Standards for the Selected Companies*

Company	Year	TAi, t =	NIi, t-	CFOi, t
1	2014	-21330785840	10462291179	31793077019
	2015	37853938481	8109355097	-29744583384
2	2014	19580868000	8546555000	-11034313000
	2015	471442666000	9610271000	4345915000
3	2014	124502219807	26333903009	-98168316798
	2015	-52341346183	22831113680	75172459863
4	2014	-33804346000	13366584000	47170930000
	2015	-45006466000	14424896000	59431362000
5	2014	-22740235000	34841656000	57581891000
	2015	-37847996000	20864892000	58712888000
6	2014	17780770758	42753350943	24972580185
	2015	2995489358	13912907430	10917418072
7	2014	13711766607	6738980058	-6972786549
	2015	-83756250457	418348238	84174598695
8	2014	68914159000	32847000000	-36067159000
	2015	318227456000	1326673000	-316900783000
9	2014	-373105000	2714445000	3087550000
	2015	36542000000	4259172000	-32282828000
10	2014	86927885252	44387824305	-42540060947
Average:		**50021981798**		
Standard Deviation:		**131812227927**		

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Table 4.1b. *The total accruals of Companies before and after applying the international financial reporting standards: Financial Statements during the Period of application of IFRS Standards for the Selected Companies*

Tourism	Year	TAi, t =	NIi, t-	CFOi, t
1	2016	-21283617000	8499841000	29783458000
	2017	-14934324000	11358895000	26293219000
2	2016	-30159481000	8785426000	38944907000
	2017	-13528874000	8882282000	22411156000
3	2016	71793056695	1245851061	-70547205634
	2017	-25253614329	-3130871887	22122742442
4	2016	23145998000	15477426000	-7668572000
	2017	27565993000	15348585000	-12217408000
5	2016	-31574028000	13045318000	44619346000
	2017	23486679000	5415527000	-18071152000
6	2016	-38741765678	6955475034	45697240712
	2017	137138232004	5040967413	-132097264591
7	2016	103262314000	5112131000	-98150183000
	2017	12417864000	2685442000	-9732422000
8	2016	270157997000	26801406000	-243356591000
	2017	29107727000	9454532000	-19653195000
9	2016	5090931000	4442285000	-648646000
	2017	-46538112000	471357000	47009469000
10	2016	33819077000	55446794000	21627717000
	2017	-76200682000	48817858000	125018540000
Average:		**21938568535**		
Standard Deviation:		**77757553795**		

The average value of the total accruals during the period where the international financial accounting standards was not applied was (50021981798) with a standard deviation of (131812227927), whereas the average value of the total accruals when the international financial reporting standards were applied was (21938568535) and the standard deviation was (77757553795). The positive signs of the values indicate that the recognized revenue exceeds the received cash i.e. an increase in accruals which may be a facet of earnings management. The result will be negative in the case of the net income is less than cash flows from operations. Thus, the lower average at applying IFRSs can be inferred as a decrease in the earnings management.

The Use of Model of Kothari et al. (2005) to Estimate the Model Parameters for Non-Discretionary Accruals

According to Kothari et al. (2005):

$$TA_{i,t}/ A_{i,t-1}= \alpha+\alpha_1(1/ A_{i,t-1})+\alpha_2\{(\Delta REV_{i,t}-\Delta REC_{i,t})/A_{i,t-1}\}+ \alpha_3(PPE_{i,t}/ A_{i,t-1}) + \alpha_4 ROA_{i,t}+ \varepsilon_{i,t}$$

Some data should be provided for the purpose of estimating the parameters of the model as shown in Table 3.

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Table 4.2a.*The necessary data to estimate the regression equation for non-optional accruals before and after applying IFRS Financial statements during the period of non-applying IFRSs for study sample Companies*

Company	Year	Ai,t-1	ΔREVi,t	ΔRECi,t	PPEi,t	ROAi,t
1	2014	334843250328	-2075705111	1199043692	1386013237	0.026685576
	2015	449272568429	63739589	2481363637	950228217	0.018768142
2	2014	455486699000	-21035605000	-533905000	18681765000	0.018440574
	2015	471442666000	-7968505000	8702311000	21301812000	0.020233838
3	2014	754864896253	-24895749863	26028100717	54696167278	0.038967047
	2015	543468780474	-2479894551	14915873299	58317518493	0.040598377
4	2014	355829503000	2348008000	13990248000	27055755000	0.033881078
	2015	436248512000	543867000	37087937000	29124512000	0.032485616
5	2014	520596472000	546546207000	-9016889000	17351992000	0.064566304
	2015	558655517000	-18797021000	-3512809000	16580431000	0.0375812
6	2014	11338334582	-6093837642	13501670505	52338463962	0.053509983
	2015	816478697199	-16698206794	5239572946	49981898240	0.017097798
7	2014	313154909488	-179690863	9160630961	13240349750	0.0211405921
	2015	324384477435	-6318635475	14362427701	34191072803	0.0009982009
8	2014	1764904558000	-8473692000	29704821000	57417617000	0.018286889
	2015	1827505325000	3416226000	31798769000	56344221000	0.007853425
9	2014	311033773000	-29530967000	6011300000	20705813000	0.007420072
	2015	420615472000	-2711031000	10294471000	27073270000	0.010779932
10	2014	1077019848758	13210663596	-10338263414	47655874060	0.041516126
	2015	1061321503545	71684126397	9521450007	5654179109	0.047847982

Table 4.2b. *The necessary data to estimate the regression equation for non-optional accruals before and after applying IFRS Financial statements during the period of non-applying IFRSs for study sample Companies*

Company	Year	Ai, t-1	ΔREVi, t	ΔRECi, t	PPEi, t	ROAi, t
1	2016	414889153817	59924000	68805000	1500671000	0.020885754
	2017	423819261000	5882037000	885311000	1759817000	0.025088021
2	2016	478478052000	1021892000	-21125016000	21607004000	0.019165698
	2017	447196700000	2650443000	1471496000	20638340000	0.019373973
3	2016	58317518493	-24051253728	247436737449	57715985178	0.00224667
	2017	526401681357	-2232488707	5723966048	56366473472	0.005987528
4	2016	451830440000	2152160000	-18816729000	28452650000	0.039561909
	2017	382770655000	-14127074000	-7220046000	15071963000	0.040439632
5	2016	551734351000	-12197792000	4334720000	15468580000	0.02313213
	2017	577870247000	-6896012000	7199119000	20789779000	0.009405412
6	2016	810971493477	-12123205178	-43443181743	33817752045	0.008618624
	2017	802022034419	-146255243	-83275280761	32345592639	0.007174044
7	2016	514465302029	4535988000	-1637026000	30759784000	0.011136474
	2017	403270912000	325149000	-3231564000	26234713000	0.006898365
8	2016	1549536698000	-6292359000	-66730951000	31818240000	0.02000503
	2017	1200424117000	-19486349000	-49463817000	37389666000	0.008255154
9	2016	369588387000	1098794000	18252757000	21310636000	0.01233802
	2017	351772887000	993471000	-13223825000	18787734000	0.001270591
10	2016	1022533002343	13667030000	-55412217000	38705067000	0.056772246
	2017	959325675000	-10536706000	-17027950000	40636332000	0.048300236

The result from the system shows the estimated parameters for the study sample as in Table 4 after estimating the regression equation by using the Microsoft Office Excel programme.

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Table 4.3. *Estimation of model parameters before and after applying IFRSs using Kothari's model*

Model's Parameters after applying IFRSs		**Model's Parameters before applying IFRSs**	
Estimated value	***Parameters***	***Estimated value***	***Parameters***
0.098304468	Intercept: $TA_{i,t}/A_{i,t-1}$	0.068985394	Intercept : $TA_{i,t}/A_{i,t-1}$
-49532690497	â$_1$ $(1/A_{t-1})$	-9053574708	â$_1$ $(1/A_{t-1})$
-0.328913674	â$_2$ $(\Delta REV_{i,t}-\Delta REC_{i,t})/A_{it-1}$	-0.059270748	â$_2$ $(\Delta REV_{i,t}-\Delta REC_{i,t})/A_{it-1}$
0.452926303	â$_3$ $(PPE_{i,t}/A_{i,t-1})$	0.480393492	â$_3$ $(PPE_{i,t}/A_{i,t-1})$
-0.304172953	â$_4$ $(ROA_{i,t})$	-0.581822681	â$_4$ $(ROA_{i,t})$

The values of the parameters in the regression equation should be compensated to estimate the values of non-optional accruals:
According to DeFond and Park (1997) and Kothari et al. (2005)
NDAt= â1 (1/At-1) + â2 (ΔREVt-ΔRECt) + â3 (PPEt) + â$_4$ (ROAt)…
Where:
AR_{it} = accounts receivable;
$\Delta REV_{it} - \Delta AR_{it}$ = change in cash-based revenue;
ΔPPE_{it} = gross property plant and equipment.

The tables below show the non-optional accruals of the selected companies.

Table 4.4a. *The non-optional accruals of the selected Companies Financial statements during the period of non-applying IFRSs for the selected Companies*

Company	Year	NDA_t	$(1/At_{-1})$	$(\Delta REVi_{,t}-\Delta RECi_{,t})$	(PPE_t)	(ROA_t)
1	2014	859928550	0.00000000000299	-3274748803	1386013237	0.026685576107
	2015	599777837	0.00000000000223	-2417624048	950228217	0.018768142324
2	2014	10189749419	0.00000000000220	-20501700000	18681765000	0.018440574488
	2015	11221343587	0.00000000000212	-16670816000	21301812000	0.020233838083
3	2014	29293977513	0.00000000000132	-50923850580	54696167278	0.038967046846
	2015	29046416526	0.00000000000184	-17395767850	58317518493	0.040598376523
4	2014	13687452896	0.00000000000281	-11642240000	27055755000	0.033881078385
	2015	16157220386	0.00000000000229	-36544070000	29124512000	0.032485616211
5	2014	- 24592856231	0.00000000000192	555563096000	17351992000	0.064566303987
	2015	8871037825	0.00000000000179	-15284212000	16580431000	0.037581200264
6	2014	26304497893	0.00000000008820	-19595508147	52338463962	0.053509982926
	2015	25311247247	0.00000000000122	-21937779740	49981898240	0.017097798150
7	2014	6914185713	0.00000000000319	-9340321824	13240349750	0.021140592083
	2015	17650950943	0.00000000000308	-20681063176	34191072803	0.000998200869
8	2014	29845918556	0.00000000000057	-38178513000	57417617000	0.018286888785
	2015	28749651634	0.00000000000055	-28382543000	56344221000	0.007853424926
9	2014	12053554563	0.00000000000322	-35542267000	20705813000	0.007420071895
	2015	13776668547	0.00000000000238	-13005502000	27073270000	0.010779932169
10	2014	21497809236	0.00000000000093	23548927010	47655874060	0.041516125811
	2015	-968197481	0.00000000000094	62162676390	5654179109	0.047847982297
Average:			**13823516758**			
Standard Deviation:			**13475594096**			

Table 4.4b. *The non-optional accruals of the selected Companies Financial statements during the period of applying IFRSs for the selected Companies*

Company	Year	NDA i,t	(1/At-1)	(ΔREVi,t-ΔRECi,t)	(PPEt)	(ROAt)
1	2016	682614450	0.00000000000241	-8881000	1500671000	0.020885754
	2017	-846424098	0.00000000000236	4996726000	1759817000	0.025088021
2	2016	2501959562	0.00000000000209	22146908000	21607004000	0.019165698
	2017	8959875247	0.00000000000224	1178947000	20638340000	0.019373973
3	2016	115437200414	0.00000000001715	-271487991177	57715985178	0.00224667
	2017	28146845208	0.00000000000190	-7956454755	56366473472	0.005987528
4	2016	5989999254	0.00000000000221	20968889000	28452650000	0.039561909
	2017	9098304436	0.00000000000261	-6907028000	15071963000	0.040439632
5	2016	12443896014	0.00000000000181	-16532512000	15468580000	0.02313213

	2017	14052319065	0.00000000000173	-14095131000	20789779000	0.009405412
6	2016	5015380847	0.00000000000123	31319976565	33817752045	0.008618624
	2017	-12692103506	0.00000000000125	83129025518	32345592639	0.007174044
7	2016	11901526533	0.00000000000194	6173014000	30759784000	0.011136474
	2017	10712540029	0.00000000000248	3556713000	26234713000	0.006898365
8	2016	-5467761534	0.00000000000065	60438592000	31818240000	0.02000503
	2017	7074764054	0.00000000000083	29977468000	37389666000	0.008255154
9	2016	15294320572	0.00000000000271	-17153963000	21310636000	0.01233802
	2017	3833195840	0.00000000000284	14217296000	18787734000	0.001270591
10	2016	-5190566024	0.00000000000098	69079247000	38705067000	0.056772246
	2017	16270204707	0.00000000000104	6491244000	40636332000	0.048300236
Average			**12160904554**			
Standard deviation			**25936975654**			

When the company follows or uses conservative accounting policies, there is an emergence of the negative non-optional accruals. That shows there are no optional accruals when these accruals are positive while the company follows unreserved policies or the emergence of non-optional accruals may be required by the nature of the company's activity. When the average is observed in both cases, i.e. before and after applying the international financial reporting standards, it shows that the value decreased from (13823516758) to (12160904553). The following equations must be applied when these standards are applied, and to determine the optional accruals that represent the difference between total accruals and non-optional accruals (Shah et al., 2009): $\mathbf{DA_{i,t}=TA_{i,t} - NDA_{i,t}}$

Table 6 below presents the optional dues or accruals for the selected Companies of this study. From the equation:

- Da i,t represents the optional accruals for the Companies from the selected sample before applying the international financial reporting standards;
- NDa i,t represents the optional accruals for the Companies from the selected sample after applying the international financial reporting standards.

Table 4.5a. *Non-optional accruals or dues for the selected Companies*

Company	**Year**	**Da $_{i,t}$ (1)**	**Ta $_{i,t}$**	**NDA $_{i,t}$**
1	2014	-22190714390	-21330785840	859928550
	2015	37254160644	37853938481	599777837
2	2014	9391118581	19580868000	10189749419
	2015	460221322413	471442666000	11221343587
3	2014	95208242294	124502219807	29293977513
	2015	-81387762709	-52341346183	29046416526
4	2014	-47491798896	-33804346000	13687452896
	2015	-61163686386	-45006466000	16157220386
5	2014	1852621231	-22740235000	-24592856231
	2015	-46719033825	-37847996000	8871037825
6	2014	-8523727135	17780770758	26304497893
	2015	-22315757889	2995489358	25311247247
7	2014	6797580894	13711766607	6914185713
	2015	-101407201400	-83756250457	17650950943
8	2014	39068240444	68914159000	29845918556
	2015	289477804366	318227456000	28749651634
9	2014	-12426659563	-373105000	12053554563
	2015	22765331453	36542000000	13776668547
10	2014	65430076016	86927885252	21497809236
	2015	100129144653	99160947172	-968197481
Average		36198465040	50021981798	13823516758
Standard Deviation		130311438801	131812227927	13475594096

Table 4.5b. *Non-optional accruals or dues for the selected Companies*

Company	Year	$Da_{i,t}$ (2)	$Ta_{i,t}$	$NDA_{i,t}$
1	2016	-21966231450	-21283617000	682614450
	2017	-14087899901	-14934324000	-846424099
2	2016	-32661440563	-30159481000	2501959563
	2017	-22488749247	-13528874000	8959875247
3	2016	-43644143720	71793056695	115437200415
	2017	-53400459537	-25253614329	28146845208
4	2016	17155998746	23145998000	5989999254
	2017	18467688564	27565993000	9098304436
5	2016	-44017924014	-31574028000	12443896014
	2017	9434359935	23486679000	14052319065
6	2016	-43757146526	-38741765678	5015380848
	2017	149830335511	137138232004	-12692103507
7	2016	91360787466	103262314000	11901526534
	2017	1705323971	12417864000	10712540029
8	2016	275625758535	270157997000	-5467761535
	2017	22032962945	29107727000	7074764055
9	2016	-10203389572	5090931000	15294320572
	2017	-50371307841	-46538112000	3833195841
10	2016	39009643024	33819077000	-5190566024
	2017	-92470886707	-76200682000	16270204707
Average		9777663981	21938568535	12160904554
Standard Deviation		82603159296	77757553795	25936975654

It is noted in both cases that the optional accruals which shows that Companies are practicing earnings management but the average of optional accruals at applying International financial reporting standards decreased by (26420801059) ID and by (2.7%). Table 7 shows that the implementation of the international financial reporting standards has a positive effect in reducing earnings management practice among the selected Companies of the study.

Table 4.6. *Optional accruals before and after applying the international financial reporting standards*

	$Da_{i,t}$ (2)	$Da_{i,t}$ (1)	$Da_{i,t}$ (2) - $Da_{i,t}$ (1)	$Da_{i,t}$ (2) - $Da_{i,t}$ (1) /$Da_{i,t}$ (2)
Average	9777663981	36198465040	-26420801059	-2.70
Standard Deviation	82603159296	130311438801	-47708279505	-0.58

Conclusion

In accordance with the hypotheses tested and the results of analysis, the following conclusion is reached by this study:

1. There will be a decrease in the average of Companies' total accruals from (50021981798) to (21938568535) when the selected Companies of the study sample use the international financial reporting standards. This shows that there is reduction of earnings management practice with decrease of the average.
2. With the average of the optional accruals to positive, it means the Companies listed in the Iraqi Securities Market are practicing the profits management before and after applying the international financial reporting standards which are inversely proportion to the management of profits.

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3. The impact of the implementation of the international financial reporting standards has been positive in reducing or limiting the practice of earnings management. Thus, the average optional accrual in the application is decreased by 2.7%.

Recommendations

From the results of this study and the conclusion derived, a continuous application of international financial reporting standards (IFRSs) in the tourism sector is recommended and generalizing its adoption in all sectors is encouraged. In addition, the tourism sector should work on enhancing the procedures and methods of control in the tourism sector in order to detect and reduce earnings management practice as it has negative effect on the credibility of a financial statement.

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