



FACTORS AFFECTING THE QUALITY OF ACCOUNTING DISCLOSURE AND ITS IMPACT ON THE COMPANY'S VALUE AND INVESTORS' DECISIONS (AN APPLIED STUDY AT KHALEEJI COMMERCIAL BANK)

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Abstract:

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The research aims to measure the quality of accounting disclosure in a sample of banks listed in the Iraqi Stock Exchange, with a statement of the most important factors affecting the quality of accounting disclosure, which can ultimately affect the value of the company and the decisions of investors. The research was applied in the Gulf Commercial Bank for the period (2016-2020). The quality of profits in this bank was measured with the identification of the most important factors affecting them. The research reached a set of conclusions, the most important of which was that there is a possibility to measure the quality of accounting profits of Iraqi banks, and there are a number of factors affecting the quality of accounting profits, which are the size of the economic unit, operational cash flow and return on investment, in addition to that improving the quality of accounting profits can positively affect the value of the company and the decisions of investors.

Keywords:

INTRODUCTION:

Accounting disclosure is related to the financial statements in terms of their content with regard to items and quantitative and descriptive information, as well as the accounting policies that are followed in the measurement to determine the value of each item, to help the users of these statements in making sound decisions in addition to improving the value of the company, and adequate disclosure is the most common in use. It refers to the minimum information that must be disclosed and that must be included in the financial statements. As for the quality of the accounting disclosure, it is related to the accounting information contained in the financial statements that is appropriate for the decisions of various users. As the lack of complete knowledge of the nature of the various and multiple models of decisions for which accounting data are considered inputs, as well as the lack of knowledge of the sensitivity of these decisions

to different alternatives of accounting information due to the fact that these systems are subject to many restrictions and limitations imposed on them through a set of accounting assumptions and norms that govern Methods of collecting and measuring the outputs of these systems.

The first topic: research methodology

1.1 Research problem:

The problem of the research is the low level of quality of accounting disclosure in many economic units, which can lead to a failure to provide the appropriate information through which the value of the company can be maximized, as well as not benefiting investors in making appropriate decisions as a result of the lack of accounting information or the delay in reaching them.

1.2 Importance of the research:



The importance of the research comes from the importance of the quality of accounting disclosure, through which it is possible to provide appropriate and reliable information through which to maximize the value of the company and improve investor decisions in a way that is consistent with the various and different environmental variables.

1.3 Research Objectives:

The research aims to measure the quality of accounting disclosure in a sample of banks listed in the Iraqi Stock Exchange, with a statement of the most important factors affecting the quality of accounting disclosure, which can ultimately affect the value of the company and the decisions of investors.

1.4 Research Hypotheses:

The research is based on the following hypotheses:

1. There is a possibility to measure the quality of accounting profits in banks listed in the Iraq Stock Exchange.
2. There are a number of factors affecting the quality of accounting profits, which are the size of the economic unit, the operating cash flow and the return on investment.
3. Improving the quality of accounting profits can positively affect the value of the company and the decisions of investors.

1.5 Research Sample:

A sample is represented by the Khaleeji Commercial Bank for the period (2016-2020) in order to measure the quality of profits, determine the factors affecting them, and then indicate the impact of this on the value of the bank, in addition to the statement of the impact on investors' decisions.

The second topic: the theoretical side of the research

2.1 The concept and importance of the quality of accounting disclosure:

Accounting disclosure is seen as the process of clearly displaying information in financial reports with the aim of communicating the results of economic events to its users, especially investors, in order to help them make their decisions. On the economic unit (Dechow, et.al., 1995: 194).

The accounting disclosure shows the financial information, whether it is quantitative or descriptive in the financial statements or in the margins, notes and supplementary tables in a timely manner, which makes the financial statements not misleading and suitable for users of financial statements from external parties who have no authority to review the books and records of the unit (Wang, 2007: 112).

Disclosure in financial reports is a presentation of financial information about the economic unit in order to optimally operate effective capital markets, and disclosure is a broad enough topic to say that it includes all the field of financial reports, that is, the accounting disclosure is to show the financial statements of all basic information of interest to external groups about the project. So that it helps it to make rational decisions (De-jun, 2009: 55).

Usually, the accounting disclosure is linked with the state of uncertainty, which is the degree of reducing the investor's uncertainty by publishing all the accounting information related to the unit, whether quantitative or otherwise, which helps the investor to make his decisions and reduce his uncertainty about future events. (Vafeas, 2005: 1094).

2.2 Types and components of accounting disclosure:

The accounting disclosure is divided according to two main entries, and these two entries can be clarified through the following: - (Farinha & Moreira, 2007:10)

1. The traditional disclosure approach: everything that makes it not misleading to stakeholders is disclosed in the financial reports. This is the rule, but it is a traditional expression for disclosure in accounting, and it is known as the preventive disclosure, which aims to protect the financial community, in particular the ordinary investor, who is restricted in terms of ability. On the use of financial information, as accounting policies are disclosed, as well as changes in accounting policies, changes in accounting applications, correction of errors, potential gains and losses, and subsequent events.
2. The educational disclosure entrance: This entrance appeared as a result of the increasing importance of one of the main characteristics of information as a result of the shift towards the demand for the disclosure of appropriate information for decision-making purposes. Accounting disclosure can be divided according to this entrance into three types, as follows:
 - a. Comprehensive disclosure: This disclosure refers to the comprehensiveness of the financial reports and the importance of covering any information that has a significant impact on the reader.
 - b. Fair disclosure: This disclosure is concerned with balanced care for the needs of all beneficiary parties, as the financial statements and reports must be



produced in a manner that ensures that the interest of a particular group is not given priority over the interest of other groups.

- c. Adequate disclosure: This disclosure includes determining the minimum amount of accounting information to be available in the financial statements.

As for the components of accounting disclosure, its information of trust and interest, whether inside or outside the economic unit, can be summarized through the following: (Chan, et.al., 2006:1043)

1. Determining the user of the accounting information: The user's identification of the accounting information leads to knowing or determining the characteristics that must be available in that information because the users of the accounting information have different levels of interpreting the information.
2. Determining the purposes of using accounting information: Determining the purposes of using accounting information would achieve the appropriateness characteristic so that the user benefits from the information and gain him the ability to predict and help some of them in making decisions.

The responsibility for preparing and presenting the financial statements of the facility lies primarily with its management. The management is also concerned with the information contained in the financial statements, although it has access to additional financial and administrative information that enables it to perform its basic functions in the areas of planning, decision-making and control. The administration is able to determine the form and content of this additional information so that it meets its information needs (Ball & Shivakumar, 2005: 84).

2.3 Factors affecting the quality of accounting disclosure:

There are factors that affect the quality of disclosure in financial reports, and they can be divided into several factors related to the environment of the society in which the financial reports are prepared, others related to the financial information to be disclosed, and factors related to the economic unit, as follows: (Bryan, et.al., 2004:8)

1. Environmental factors: Financial reports differ from one country to another for economic, social and political reasons resulting from the beneficiaries needing more information about environmental changes and their impact on the project for the purpose of comparing

economic units with each other and determining the social responsibility of each.

2. Factors related to information: The degree of accounting disclosure is affected by the information that is disclosed and the extent to which a number of characteristics are available to judge its efficiency. That the information is appropriate for the decisions that the beneficiaries will take, and that there is confidence in this information.
3. Factors related to the economic unit: There are several factors related to the economic unit, and they can be clarified as follows: (Dechow & Schrand, 2004: 2)
 - a. Project Size: Preparing and extracting accounting information in an accurate and timely manner requires direct costs resulting from preparing financial statements and reports, and indirect costs resulting from revealing all information about the project to other competing companies and resulting from the lack of clarity of information for investors.
 - b. Number of shareholders: There is a relationship between the number of shareholders and the degree of disclosure, provided that the increase in the number of shareholders leads to more information that must be disclosed by the shareholders or their representatives.
 - c. Registration of the company in the stock market: This factor may have a direct impact on increasing the degree of disclosure, as the companies registered in the stock market, which are dealt with in shares or bonds issued by them, fill out a number of forms and clarifications about the company's objectives, activities and business results.
 - d. The External Auditor: The external auditor who examines the company's accounts affects the degree of disclosure through what he adheres to of accepted accounting principles and concepts or professional rules imposed by the constitution of the profession to which he belongs.
 - e. Laws and Legislations: Laws and legislation prevailing in the economic unit environment play a very important role in the field of disclosure, as well as accounting standards and local auditing standards, as they also greatly affect disclosure.



2.4 The relationship between the quality of accounting disclosure, the value of the company and the decisions of investors:

The different needs of data and information needed by different entities, which means that the financial statements should be prepared in light of the objectives that are expected to benefit the needs of multiple users, whether in planning, control or performance evaluation processes, which can be positively reflected on the value of the company. (Abdelghany, 2005:1002).

The data contained in the financial statements should help provide useful information to many parties related to the company in order to take various decisions, which means the need to ensure that information is provided to those users who do not have the authority, ability or capabilities to request information directly from the economic unit to the side of the users from within the economic unit, and thus it can be said that

$$NDA_t = a1 \left(\frac{1}{A_{t-1}} \right) + a2 \left(\frac{\Delta REV - \Delta REC}{A_{t-1}} \right) + a3 \frac{PPE_t}{A_{t-1}} + et$$

Where: NDA_t: non-discretionary accruals in year t. REV: The change in the current year's revenue from the previous year's revenue. REC Change in accounts receivable between the current year and the previous year. PPE_t: total fixed assets. A_{t-1}: the total assets of the year prior to the measurement year. Which is used as a function of voluntary accruals that express the quality of accounting disclosure (Zhai, 2006:52).

The third topic: the practical aspect of the research

3.1 Introduction to Al Khaleej Commercial Bank:

Al Khaleej Commercial Bank was established in 1999 with a capital of (600) million dinars fully paid, and the capital has been increased several times until it became in (2013) an amount of (250) billion dinars. From the implementation of their banking operations with great flexibility, and in light of this, the Banking Awareness and Public Protection Department in general was established. The bank aims to provide innovative and Shariah-compliant financial solutions, prepare leaders and specialized cadres in the banking industry, as well as raise the level of institutional performance within the application of governance principles and horizontal expansion. Al-Amoudi provides services to achieve growth and financial strength.

3.2 Measuring the quality of accounting disclosure in Khaleeji Commercial Bank and its impact on the bank's value and investors' decisions:

the accounting disclosure is of the required quality, the more it leads to the rationalization of investment decisions (Ball, et.al., 2008: 170).

Therefore, the data contained in the financial statements should clarify the possibility of comparison with the data of a previous financial period in order to help provide the appropriate data and information for taking decisions regarding performance evaluation and making or planning future decisions, as well as making various comparisons, and providing the necessary information regarding how the economic unit was practiced Its various activities by analyzing those activities and clarifying how its funds were managed and the areas in which those funds were used (Wild, 1994:249).

There are many models presented by researchers through which the quality of accounting disclosure can be measured, and one of these models is the modified receivables model, which can be clarified through the following equation: (Bagus,2020:57)

In order to measure the quality of the accounting disclosure in the Khaleeji Commercial Bank, it is necessary to calculate the total dues, non-voluntary dues and optional dues for the period (2016-2020), as shown in the following table:

Table (1): Calculation of the total dues, non-elective dues and optional dues for Khaleeji Commercial Bank for the period (2016-2020)

Year	Total accruals	Non elective accruals	Elective accruals
2016	-0.045	0.182	-0.226
2017	0.171	0.356	-0.185
2018	-0.002	0.233	-0.235
2019	-0.018	0.322	-0.34
2020	0.033	0.192	-0.159
Average	0.028	0.257	-0.229

Source: Prepared by the researcher based on the financial statements of the research sample bank.

It is evident from the above table that the total dues for the years 2016, 2017, 2018, 2019, 2020 were (-0.045), (0.171), (-0.002), (-0.018), (0.033) respectively, while the non-discretionary dues for these For the years (0.182), (0.356), (0.233), (0.322), (0.192) respectively, either the voluntary benefits were during these years (-0.226), (-0.185), (-0.235), (-0.34), (-0.159) respectively.

In order to categorize the quality of the accounting disclosure in Al Khaleej Commercial Bank to good and not good for Al Khaleej Commercial Bank, the absolute value of the optional accruals must be calculated. The



accountant at Al Khaleej Commercial Bank through the following table:

Table (2): Classification of the quality of accounting disclosure in Al Khaleej Commercial Bank to good and not good for Al Khaleej Commercial Bank for the period (2016-2020)

Year	Voluntary accruals	Absolute value of voluntary accruals	Average absolute value of voluntary accruals	Accounting disclosure quality rating
2016	-0.226	0.226	0.229	Good
2017	-0.185	0.185	0.229	Good
2018	-0.235	0.235	0.229	Not good
2019	-0.34	0.34	0.229	Not good
2020	-0.159	0.159	0.229	Good
Average	-0.229	0.229	-	Good

Source: Prepared by the researcher based on the financial statements of the research sample bank.

It is clear from the above table, that the level of accounting disclosure for the Gulf Commercial Bank during the years 2016, 2017, 2020 was good, while the level of accounting disclosure in the bank in the research sample was not good during the years 2018 and 2019 due to the general conditions that the country experienced in general during these two years.

The factors affecting the quality of accounting disclosure, represented by the size of the bank, operating cash flow and return on investment, will be determined through the following model:

$$QOD_{it} = a + B1Size_{it} + B2CFO_{it} + B3ROA_{it} + e_{it}$$

Where:

QOD: The quality of disclosure expressed in voluntary accruals.

Size: represents the size of the bank during the year and is measured in the natural logarithm of total assets.

CFO: represents the operating cash flow during the year.

ROA: represents the return on investment, measured by net profit divided by total assets.

The parameters of the model can be estimated through the following table

Table (3): Estimation of the model parameters for Khaleeji Commercial Bank for the period (2016-2020)

Year	QOD	Size	CFO	ROA
2016	-0.226	802022034	41644237	0.007
2017	-0.185	603312990	-133181981	0.007
2018	-0.235	578336519	1810026	0.001
2019	-0.34	549145531	6287320	-0.007
2020	-0.159	510798284	-18048172	-0.001
Average	-0.229	608723071.6	-20297714	0.0014

Source: Prepared by the researcher based on the financial statements of the research sample bank.

It is clear from the above table that the general average of the accounting disclosure expressed in voluntary accruals, bank size, operating cash flow and return on investment were (-0.229), (608723071.6), (-20297714), (0.0014) respectively, and after estimating the parameters of the model for Khaleeji Commercial Bank, a (Pearson) correlation matrix will be clarified between the model variables for this bank, as shown in the following table:

Table (4): Correlation Matrix (Pearson) between model variables for Khaleeji Commercial Bank for the period (2016-2020)

Details	QOD	Size	CFO	ROA
QOD	1			
Size	0.544*	1		
CFO	0.673*	0.804 *	1	
ROA	0.345-	0.255	0.611	1

*The correlation between the two variables is significant at the 0.05 level of significance.

Source: prepared by the researcher based on the statistical program (SPSS-24).

It is noted from the above table that the correlation between the quality of accounting disclosure and the size of the bank is a direct relationship, as the correlation coefficient reached (0.544), as the relationship is significant between the two variables, and the correlation between the quality of accounting disclosure and operational cash flow is a direct relationship, as the correlation coefficient reached (0.673), since the relationship is significant between the two variables, While the correlation between the quality of accounting disclosure and the return on investment is an inverse relationship, as the correlation coefficient is (0.345), but this relationship is not significant between the two variables during the years of research, and the relationship of the effect of the



model variables can be tested for the Gulf Commercial Bank for the period (2016-2020) through The following table:

Table (5): Testing the relationship of the effect of model variables for Khaleeji Commercial Bank for the period (2016-2020)

The independent and other control variables	Model Summary		ANOVA			Coefficients		
	R	R ²	F	Sig .F	Dependent variable	β_i	T	Sig .T
Size	0.544	0.296	6.225	0.034	QOD	2.508	5.634	0.019
CFO	0.673	0.453	5.450	0.031		3.214	4.002	0.015
ROA	0.345	0.119	6.892	0.013		1.667-	3.010-	0.005

Source: prepared by the researcher based on the statistical program (SPSS-24.)

It is noted from the above table that there is an influence relationship between the size of the bank and the quality of the accounting disclosure.), and there is an impact relationship between operational cash flow and the quality of accounting disclosure, the higher the operational cash flow, the higher the quality of the accounting disclosure, as the correlation coefficient was (0.673) and the coefficient of determination was (0.453), the value of F was (5.450) and the value of T (4.002) As for the relationship between the return on investment and the quality of accounting disclosure, it is not statistically significant during the years of research.

Based on the foregoing, it is clear that improving the quality of accounting disclosure will, in turn, improve the value of the bank from the point of view of management and users, as well as help in improving investment decisions. Therefore, the bank works to provide information to those users who do not have the authority, ability, or capabilities to request information in an appropriate manner. Live .

Fourth topic: conclusions and recommendations

4.1 Conclusions:

1. Accounting disclosure is the process of presenting information in financial reports in a clear way to communicate the results of operations to its users to help them make rational decisions.
2. There are factors that affect the quality of disclosure in financial reports, and they can be divided into several factors related to the environment of the society in which the financial reports are prepared, others related to the financial information to be disclosed, and factors related to the economic unit.
3. The financial statements must be prepared in light of the objectives that are expected to benefit the needs of multiple users, whether in the planning, control or performance evaluation processes, which can reflect positively on the value of the company.
4. The data contained in the financial statements should help in providing useful information to many parties that have a relationship with the company in order to make various decisions.
5. There is a possibility to measure the quality of the accounting profits of Iraqi banks, and there are a number of factors affecting the quality of accounting profits, which are the size of the economic unit, the operational cash flow and the return on investment.

4.2 Recommendations:

1. The necessity of improving the quality of accounting disclosure and working to provide accounting information that has the characteristics of appropriateness and reliability to meet the needs of different users.
2. The necessity of ensuring that information is provided to users who do not have the authority, ability or capabilities to request information directly from the economic unit, along with users from within the economic unit.
3. Work to improve the value of the company from the point of view of both management and customers in a manner consistent with the various environmental changes .
4. The need to work on addressing the factors that negatively affect the quality of accounting disclosure in order to improve this quality and reach the required level.
5. The necessity of leading the Iraqi economic units by measuring the quality of their



disclosure from one period to another while determining the impact of this on the company's value and investors' decisions, and working hard to meet the users' information needs in the required manner.

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