THE IMPACT OF IMPAIRMENT OF ASSET VALUES ON THE FINANCIAL PERFORMANCE OF COMPANIES LISTED ON THE IRAQ STOCK EXCHANGE

Forat Sattar Hassoon Hassoon
PhD student in Finance at the Faculty of Economic Sciences and Management, Sfax University. Tunisia
Lecturer at Al-Qadisiyah University, Faculty of Management and Economics, Iraq, forat.Hssoon@qu.edu.iq
Soulef Smaoui
Faculty of Economics Sciences and Management, Sfax University. Tunisia, Soulef.smaoui@fsegs.usf.tn

Article history:		Abstract:
Received: 6th July 2024 **Accepted:** 6th August 2024		This study emphasizes the importance of using fair value for assets rather than book value because it more accurately reflects the asset's value in the event of a sale between parties in a regular market. Fair value is calculated on a specific date using available information and market conditions. The study investigates how asset value declines affect the financial performance of Iraq Stock Exchange-listed companies, specifically profitability and liquidity indicators, and how this information can be used to make investment decisions. It also investigates accounting procedures for asset value reductions in Iraqi businesses, proposing solutions to mitigate the effects of asset depreciation. The study, which ran from 2018 to 2022 on Iraqi industrial companies, discovered that asset value declines occur when market or fair value falls below book value. Recognizing impairment losses lowers profits, which affects dividends and limits distributions to shareholders and lenders. Companies address these declines by taking into account market value drops, negative environmental and legal changes, asset performance shifts, rising costs, and projected future losses.

1.INTRODUCTION:

Asset value declines occur when an economic entity is unable to recover an asset's net book value over its useful life. The impairment loss is the amount by which the asset's carrying value exceeds its fair value, which is the price at which the asset could be purchased or sold in a current transaction between two parties. This decrease in value is calculated as the difference between the book value and the fair value. Essentially, the decrease represents the asset's recoverable value minus its net book value, whether through continued use or eventual sale. This decline can be caused by factors such as the introduction of more advanced assets, which shorten the useful

Physical depreciation of an asset from its recorded book cost can cause financial statements to not accurately reflect the asset's current financial value, making them less useful to decision-makers. This is because financial reports frequently show assets at their historical cost. Historical cost is an important principle in valuing assets for financial statement preparation because it includes all expenses incurred by the economic unit in acquiring the asset and preparing it for use in its intended location. While historical cost is useful for evaluating assets within an economic unit for their original purpose, it may not account for changes in asset value over time due to depreciation.

Historical cost is simple to verify and rational because the prices are fixed and fully known at the time of the transaction, rendering them indisputable and unchangeable. It is also dependable due to the availability of supporting documentation. As a result, financial statements prepared using historical costs are considered accurate, objective, verifiable, and free of subjective judgment. However, the use of historical cost is heavily criticized, especially during periods of inflation. During such times, historical values become less relevant because they no longer reflect the true economic value of assets. As a result, while historical cost remains an important principle for asset valuation in financial statements, it can lead to financial reports that fail to represent the actual financial position of economic entities as market conditions change.

LITERATURE REVIEW

The studies reviewed all have a common focus on the recognition, causes, and consequences of asset impairment, particularly in the context of changing accounting standards, corporate environments, and investor reactions. They

investigate how asset damage, particularly intangible properties such as helpfulness, affects financial journalism, investor decision-making, and company estimate in a variety of marketplaces and regulatory environments.

Larger companies are more likely to disclose impairment losses, while smaller firms may delay recognition, according to research by Cristina and Luis (2015), Knauer and Wöhrmann (2015), and Nawaiseh et al. (2016) on the recognition of impairment losses in three different regions: Portugal, Spain, and Jordan. By relating impairment reporting to firm size, market performance, and external economic conditions, these studies highlight how crucial it is for investors.

In the meanwhile, Joyce V. (2018) and Bond et al. (2016) talk about how regulatory frameworks like AASB, US GAAP, and IFRS impact the consistency and timing of impairment recognition. According to Bond et al., discretionary practices are evident in the fact that Australian enterprises often fail to recognize impairments despite external evidence. In a similar vein, Joyce V. finds that discrepancies between US GAAP and IFRS lead to different reporting practices, with US companies exhibiting a greater correlation between unexpected profits and impairment losses.

Collectively, these studies demonstrate that, although asset impairment is a significant component of financial reporting, the way it is recognized and how it affects financial performance varies according on the size of the company, the state of the market, and the accounting principles applied. Every study advances our knowledge of the wider effects of impairment losses on investor confidence, market responses, and regulatory compliance by showing how management discretion and regional regulatory frameworks commonly affect impairment reporting.

3. PROBLEM STATEMENT
3.1 Search problem
The following inquiries can be used to summarize the study's issue:
1. How do the profitability metrics of businesses listed on the Iraq Stock Exchange alter as a result of the drop in asset values?
2. How do the liquidity metrics of businesses listed on the Iraq Stock Exchange alter as a result of the drop in asset values?

3.2 The importance of the study :
Understanding the idea of asset depreciation and how it impacts publicly traded corporations' financial performance is crucial for this subject. It aims to clarify a crucial problem: the drop in asset values brought on by market dynamics, technological improvements, and obsolescence. The study looks into how this drop impacts the quality of financial performance and business decision-making, highlighting the significance of figuring out an asset's fair value instead of depending just on book value, which might not accurately represent an asset's genuine value. By identifying the discrepancy between book value and fair value, the study seeks to enhance investment choices and a company's capacity to sustain a dynamic equilibrium with its surroundings. Lastly, the research looks into how asset depreciation impacts the long-term attainment of targeted economic results.

3.3 Objectives of the study:
Because fair value accurately represents the assets' worth in the event of a transaction between parties in a regular market, this study is important in highlighting the significance of using fair value of assets rather than depending on book value. On a given date, fair value is established using the information that is currently accessible and the state of the market. The influence of asset impairment on the financial performance of publicly traded corporations is also examined in the study, with particular attention paid to the ways in which this decline impacts indices of profitability, liquidity, activity, and debt. Additionally, by proving the fair value of assets and offering pertinent and trustworthy accounting data, it seeks to support better informed investment decisions.

3.4 Hypotheses of the study:
• The first hypothesis: There is no statistically significant effect between the decline in asset values and profitability indicators in companies listed on the Iraq Stock Exchange.
• The second hypothesis: There is no statistically significant effect between the decline in asset values and liquidity indicators in companies listed on the Iraq Stock Exchange.

4. RESULTS AND DISCUSSION:
Descriptive statistic
The study was applied to a sample of industrial companies listed on the Iraq Stock Exchange, namely: Ready-Made Garments and General Trading Company, Al-Khazir Road Company for the Production and Trade of Construction Materials, Modern Sewing Company, Modern Chemical Industries Company, Iraqi Engineering Works Company, Iraqi Carpets and Furniture Company, Fallujah Company, Al-Kindi Company, Al-Mansour Pharmaceutical Industries and Medical Supplies Company, National Chemical and Plastic Industries Company, National Home Furniture

Manufacturing Company, National Metal Industries and Bicycles Company, Baghdad Packaging Materials Company, Baghdad Soft Drinks Company, and Iraqi Dates Manufacturing and Marketing Company. (235) questionnaires were distributed to employees in these companies. The questions covered the time frame 2018-2022. The responses were standardized and analyzed through the statistical program, and the results were circulated to examine the relationship between the decline in the value of the asset and its reflection on the financial performance of companies.
The distribution of the sample members by age and educational background is shown in Tables 1 and 2 below.

Table No. (1) Distribution of sample members by age

Age Group	Iteration	Ratio
from 30-40 years	24	%10.21
from 41-50 years	87	%37.02
More than 50 years	124	%52.77
Total	235	%100

.

Table No. (2) Distribution of sample members by academic qualification

Education level	Iteration	Ratio
Bachelor	149	%63.40
Master	67	%28.51
Doctor	19	%8.09
Total	235	%100

The sample distribution by age shows that 89.79% of employees are over 40, with nearly half (52.77%) being over 50, indicating a more mature and experienced workforce. The majority (63.40%) have a bachelor's degree, followed by master's (28.51%) and doctoral (8.09%) degrees. This mix of education and experience may indicate a skilled and mature workforce that is well-suited to managing intricate financial duties and making decisions in industrial organizations.

.**Hypothesis test:**

Testing the first hypothesis:
The initial assumption is that "There is no statistically significant effect between the decrease in asset values and profitability indicators in companies listed on the Iraq Stock Exchange." A number of statistical metrics, such as the adjusted coefficient of determination and the coefficient of determination (R^2), will be computed in order to evaluate this hypothesis. The regression parameter and t-test value for the variables under estimation will also be used in an analysis of variance (ANOVA). The purpose of this is to ascertain how the independent and dependent variables relate to one another. Because it enables the researcher to evaluate the effect of the independent variable (decreased asset values) on the dependent variable (profitability indicators), regression analysis is a crucial tool in this process. How much of the fluctuation in profitability is attributable to changes in asset values can be found by computing the coefficient of determination (R^2) and adjusted R^2. To assist make sense of the results for this hypothesis, these values will be compiled in the table that follows:

Table No. (3) Model summary between asset depreciation and profitability index

Model Summary[b]							
					Change Statistics		
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	Sig. F Change
1	- .974[A]	.949	.863	.564129	.822	173.216	.000
a. Predictors: (Constant), Profitability Indicators							
b. Dependent Variable: Depreciation of asset values							

Table No. (4) Analysis of variance (ANOVA) between asset depreciation and profitability index

ANOVA						
Model		Sum of Squares	Push	Mean Square	F	Sig.
1	Regression	156.472	1	114.004	173.216	.000
	Residual	28.199	235	.275		
	Total	184.671	236			
a. Dependent Variable: Depreciation of asset values						

b. Predictors: (Constant), Profitability Indicators

Table (5) Results of regression estimation between asset depreciation and profitability indicators

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.533	.312		14.862	.000
	(Asset Values Impairment)	-.705	.068	.377	-4.672	.000
a. Dependent Variable: (Profitability Indicators)						

The analysis of the three tables (3-4-5) reveals a strong and statistically significant negative relationship between asset depreciation and profitability indicators in Iraq Stock Exchange-listed companies. According to the model summary, changes in profitability indicators account for 94.9% of the variance in asset depreciation, with an adjusted R² of 0.863. The ANOVA results support this relationship, with an F-statistic of 173.216 and a p-value of 0.000, indicating that the model is statistically significant. The regression coefficients show that for each unit increase in asset depreciation, profitability falls by 0.705 units, which is statistically significant (t-value of 4.672 and p-value of 0.000). The simple linear regression model for the relationship between the decline in asset values and profitability indicators for the study sample is as follows:

Profitability Indicators = (-0.705) Assets Low Values + e

These findings show that profitability indicators have a significant impact on asset depreciation, thereby rejecting the null hypothesis that there is no relationship between the two variables. Specifically, the findings indicate that asset depreciation has a negative impact on profitability, emphasizing the importance of accurately estimating asset values for informed financial decisions. The study highlights how crucial it is to gauge how well operations are working to generate profits through the best possible asset utilization for management of companies listed on the Iraq Stock Exchange. A more accurate evaluation of the business's financial performance and health can be achieved by computing profitability ratios utilizing financial indicators that compare different aspects of the income statement and balance sheet.

Testing the second hypothesis:
The second hypothesis states that "the decline in asset values and liquidity indicators in companies listed on the Iraq Stock Exchange do not statistically significantly affect each other." The findings shown in the following tables offer compelling evidence in favor of testing the hypothesis about the connection between liquidity indicators and asset depreciation.

Table No. (6) model Summary between asset depreciation and liquidity indicators

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	Sig. F Change
2	945-	.893	.828	.465128	.813	167.902	.000
a. Predictors: (Constant), Liquidity Indicators							
b. Dependent Variable: Depreciation of asset values							

Table No. (7)Analysis of variance (ANOVA) between asset depreciation and liquidity indicators

Model		Sum of Squares	Push	Mean Square	F	Sig.
2	Regression	148.322	1	129.255	167.902	.000
	Residual	22.314	235	.201		
	Total	170.636	236			
a. Dependent Variable: Depreciation of asset values						
b. Predictors: (Constant), Liquidity Indicators						

Table (8)Results of the regression estimation between asset depreciation and liquidity indicators

Coefficients a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
2	(Constant)	1.953	.392		12.662	.000
	(Asset Values Impairment)	-.684	.061	.217	4.561	.000
a. Dependent Variable: (Liquidity Indicators						

According to the tables above, the analysis reveals a strong correlation between low asset values and liquidity indicators in the companies studied. The coefficient of determination (R-Square) is 0.893, with an adjusted R-Square of 0.828, indicating that the regression model accounts for 82.8% of the total variability in the dependent variable, with the remainder attributed to variables not included in the study. The ANOVA results for the second hypothesis, which investigates the impact of low asset values on liquidity indicators, show a calculated F-value of 167.902, which is significant at the 5% level (p=0.000). This indicates that the model is valid and emphasizes the homogeneity of variance across groups, implying that the independent variable has an equal impact on each sample member. To assess their strategic position, the companies in the study sample compare their liquidity ratios to those of their competitors. Liquidity ratios are used by investors to assess the liquidity of Iraqi industrial companies listed on the Iraq Stock Exchange. They are calculated by dividing the company's cash and cash-equivalent securities by its current liabilities.

The regression analysis yields a parameter value of -0.684 and a t-value of 4.561, both significant at the 5% and 1% levels, resulting in the rejection of the null hypothesis in favor of the alternative and confirming significant relationships between declining asset values and liquidity indicators. The simple linear regression model that represents this relationship is: Liquidity Indicators = -0.684 (Asset Low Values) + e, indicating that decreases in asset values have a negative impact on liquidity indicators. Thus, the study suggests that the sampled companies use a variety of ratios to assess their ability to meet short-term obligations, including measuring their ability to convert assets into cash or maintain sufficient cash inflows.

5. CONCLUSION AND RECOMMENDATIONS

The correlation between asset values and financial performance metrics, particularly profitability and liquidity within companies listed on the Iraq Stock Exchange, is emphasized in this study. According to the research, a decline in asset values may have a negative impact on profitability, with an unbreakable link indicating that when asset values fall, profitability falls as well. Regression research supports the association, showing that variations in asset depreciation may be largely explained by shifts in profitability. Furthermore, the results imply that decreased asset values have an effect on liquidity measurements as well. The study comes to the conclusion that asset value losses affect a company's capacity to pay short-term debts based on strong statistical data.

Investors use liquidity ratios to evaluate a company's financial health, which highlights the importance of good asset management techniques. Companies must carefully monitor and manage their asset values in order to maintain profitability and liquidity, both of which are essential for preserving a competitive edge and guaranteeing long-term financial viability. The results emphasize how crucial it is for business executives to understand the effects of asset depreciation and take proactive measures to lessen its influence on financial performance.

Recommendations:

1. The necessity of disclosing the latest and circumstances that led to the proof or reversal of the impairment loss and the amount of the impairment loss that has been proven or reversed for an individual asset, including goodwill or a cash generating unit for which impairment losses have been recognized or reversed during the period.

2. Relying on the financial analysis system in the industrial sector in general, because it is one of the important and necessary methods to evaluate the efficiency and effectiveness of industrial activity and the entire administrative apparatus based on the financial data and information contained in the final financial statements within the annual report of the company, and making a comparison between the study year and previous years leads to giving a clear idea of the level of development and progress reached by the company to neutralize its weaknesses to avoid them in the future.

3. Commitment to international accounting standards when preparing financial statements for the industrial sector, because these standards contribute to the disclosure of all financial and accounting data and information necessary to give a clear idea of the nature of industrial activity and the most important services it provides, and information that benefits industrialists, investors and researchers to draw their future plans on dealing with the Industrial companies.

4. The necessity for the companies of the study sample to disclose the amount of impairment losses that have been recognized in the income statement, the amount of reversal of impairment losses that have been recognized in the income statement, the amount of impairment losses on revalued assets within the comprehensive income, and the amount of reversal of impairment losses on revalued assets during the period.

REFERENCES:
1. Ali, Salama Ibrahim (2020), "Impairment of Fixed Assets – 1 Conceptual Approach", https://coadec.uobaghdad.edu.iq/?p=2445
2. Albrecht, S., Stice, E., Stice, J., & Swain, M. (2011). Accounting: Concepts and applications (11th ed.). Mason: South-Western, pp. 396–397.
3. Bond, D.; Govendir,J., and Wells, A.(2016). An Evaluation of Asset Impairments by Australian Firms and Whether They Were Impacted by AASB 136. Accounting and Finance 56(1): 259-288.
4. Cristina R., & Luis N.(2015). Impairment losses: causes and impacts. Review of Business Management 12(5): 216-228.
5. Erasmus, F. (2013), "Impact of size and age on firm performance: evidence from microfinance institutions in Tanzania", Research Journal of Finance and Accounting, Vol. 4 No. 5, pp. 105-116.
6. FASB, Statement of Financial Accounting Standards (2011) No.144, Accounting for the impairment or disposal of long-live Assets, Norwalk. CT.
7. Glodston, David, (2018), "Venture Capital Investing", New Jersey, Prentice-Hall, Englewood Cliffs.
8. Joyce V.(2018). A Study of Long-Lived Asset Impairment Under U.S. GAAP and IFRS Within the U.S. Institutional Environment. Journal of Management 2(1):55-67.
9. Knauer, T. & Wöhrmann, A. (2015), Market Reaction to Goodwill Impairments. European Accounting Review Volume 25, 2016 - Issue 3.
10.Al-Kubaisi, Abdul Razzaq Abdul Aziz, (2010), "Analysis and Evaluation of Performance Efficiency: 6 A Field Study in the National Company for Chemical and Plastic Industries", Master Thesis, College of Administration and Economics, University of Baghdad, Iraq.
11.Nawaiseh, M.; Ibbini ,O., and Falah H. (2016). Impairment of Non- current Assets Implementation and Disclosure: Evidence from Industrial Firms in Jordan. Advances in Management and Applied Economics (6)(4):111-126
12.Riedl, E.,(2004), "An examination of long-lived asset impairment", The Accounting Review,79 (4), pp. 823-824.
13.Venkatraman, N, & Ramanujam, V., (2020), "Measurement of business performance in strategy research: A comparison approaches", (A.M.R), VOL. 11, No.4.