Advances in Accounting, incorporating Advances in International Accounting 24 (2008) 41–48

Contents lists available at ScienceDirect

Advances in Accounting, incorporating Advances in International Accounting

journal homepage: www.elsevier.com/locate/adiac

Perceptions of accounting professionals in the adoption and implementation of a single set of global accounting standards: Evidence from Bahrain

P.L. Joshi [a,*], Wayne G. Bremser [b,1], Jasim Al-Ajmi [c,2]

[a] University of Bahrain, Box 32038, Bahrain
[b] Villanova University, Villanova, Pa. 19085, USA
[c] University of Bahrain, Bahrain

ARTICLE INFO

Keywords:
IFRS
Harmonization
Accountants
Auditors
Bahrain
Principle based
IASB
Convergence
Nationalism

ABSTRACT

In the quest for a single set of global accounting standards, the International Accounting Standard Board (IASB) continues to work with regulators in other countries toward adoption of IFRS. This study reports on an exploratory study of Bahrain's accounting and auditing professionals' perceptions about important issues relevant to developing and implementing global accounting standards. Bahrain is a financial hub of the Middle East with distinct features that could provide some insights to harmonization issues. The respondents' views portray optimism by auditors and non-auditors that harmonization of accounting standards is a worthwhile objective that can be fairly, but gradually accomplished. However, the survey data indicate expected challenges in applying the IFRS principles-based accounting standards. The survey findings suggest that there will be a growing demand for detailed application guidance for IFRS. Also, it appears that nationalism may well continue to be a major impediment to global adoption of IFRS.

1. Introduction

In a global economy, a key issue is the financial reporting practices by companies around the world, globalization of the capital markets has increased the need for high-quality, comparable financial information (Jones, 2005) across entities. Consequently, pressure has been increasing for adoption of a single set of accounting standards worldwide, this is the challenge for the International Accounting Standard Board (IASB). On the other hand, there have been warnings that "for many countries convergence with IAS will be a monumental task" (Street, 2002).

The European Union (EU) passed a regulation that required listed European companies to comply with IFRS in 2005. This was an important step toward a single set of global accounting standards. Regulators in countries such as Canada, Australia, Hong Kong and India are also working toward adoption of IFRS. Despite public differences of opinions between the IASB and US standards setters, in October, 2002 the Financial Accounting Standard Board (FASB) and IASB issued a memorandum of understanding (the Norwalk Agreement) marking their commitment to the convergence of US and IASB standards. The Securities Exchange Commission (SEC) affirmed support for this convergence program and has developed a roadmap which will eliminate the US GAAP reconciliation requirements for foreign companies using IFRS.

1.1. Harmonization

Harmonization of accounting standards is now at the forefront of consideration for financial reporting. Today's international business environment and global capital markets are increasing the urgency for harmonization. Accounting and financial reporting is an important element of this evolving market and can support underlying efficiency of markets. Reporting financial information on the Internet is becoming common, giving investors from any country ready access to the financial information of companies, regardless of their country of domicile. This globalization of capital markets and the developments in telecommunications and the Internet bring a new dimension to the need for comparable and transparent financial reporting and require new thinking by companies, investors, creditors and auditors about what financial information companies should publish and how best to communicate it to interested parties.

1.2. Motivation for the study

The aim of this exploratory study is to examine the perceptions of accounting and auditing professionals in Bahrain related implementing a single set of global accounting standards. Bahrain, as a country has some distinct features relevant to harmonization and global convergence issues, which include geographical location and being a financial hub of Middle East. Bahrain's experience in adopting and implementing global standards is likely to influence other developing countries. Therefore, the Kingdom may represent an ideal gateway to Middle East and North African countries giving serious consideration for adopting IFRS. If IFRS

* Corresponding author. Tel.: +973 17 643701; fax: +973 17 449776.
E-mail addresses: prem@acadjoshi.com (P.L. Joshi), wayne.bremser@villanova.edu (W.G. Bremser), jasimalajmi@buss.uob.bh (J. Al-Ajmi).
[1] Tel.: +1 610 519 4314.
[2] Tel.: +973 17 438583.

0882-6110/$ – see front matter © 2008 Elsevier Ltd. All rights reserved.
doi:10.1016/j.adiac.2008.05.007

are not applied in a uniform and consistent manner then the goal of significantly improving global comparability financial reports will not result even if countries have adopted a single set of globally acceptable financial reporting standards. This study provides some insights that have timely implications for convergence of accounting standards.

The remainder of the paper is organized as follows. The second section provides the literature review to provide a background for the study, followed by the third section describing the research methods utilized in this study. The forth section presents and discusses the findings. Lastly, we summarize the results and state conclusions, which include implications for future research.

2. Literature review

The difficulties of harmonization experienced both between and within-countries have been documented in several prior studies. In the UK, where IAS have been considered close to UK GAAP, there still exist “a surprising number of differences” (Holgate & Gaull, 2002) and the recent IASB (2002) proposals on goodwill and intangibles raised some concerns in the UK (Simmonds & Sleigh-Johnson, 2003). The problem of companies claiming to follow international accounting standards but in reality failing to do so also has been discussed (Street, Weishar, & Gray, 2001), and the US companies such as Exxon, FMC and General Electric were compelled to drop such assertions (Cairns, 2000).

Various researchers have identified national differences in financial reporting, and they have hypothesized about the factors that caused them (Frank, 1979; Goodrich, 1982; Mueller, 1967; Nair & Frank, 1980). Six factors are discussed below, and the first five factors were drawn from Nobes (1992) as important causes of international differences between financial reporting systems.

A study (Al-Hayale, Hussey, & On, 2005) of regulators in Jordan found that IFRSs are espoused as the quality to be met, but family affiliations and business ties mitigate against their rigorous enforcement. The Jordanian government is gradually implementing policies to improve competition and foster transparency, but accounting regulators confront a difficult task in achieving adherence to international financial reporting standards.

A recent survey by Deloitte Touche Tohmatsu (2007) reported that seventy-four countries have required IFRS for all their domestic listed companies. IFRS represent a principles-based or ‘substance over form’ regime (Abacus Editorial, 2004; Chambers & Wolnizer, 1991). Parmod, Patel, and Patel (2005) investigated whether there are differences in judgments of the big 4 and non-big 4 professional accountants in Fiji when applying the selected IAS/IFRS. This research is important because significant within-country differences in judgments of professional accountants have serious implications for convergence of accounting standards. They found strong evidence of differences in judgments of big 4 and non-big 4 professional accountants when provided with ‘new’ accounting standards that require complex judgments. An important implication of this study is that if professional accountants in emerging economies are not adequately trained and experienced in applying IFRS, then standard setters of these countries may consider mandating a set of accounting standards with a greater focus on rules as opposed to principles that require the exercise of professional judgments.

The Parmod et al. (2005) study results show that differences in judgments between professional accountants could be significant, even within-countries, if standards are ‘new’ and require complex judgments. Specifically, the results show that there were no significant differences in judgments of big 4 and non-big 4 professional accountants when provided with both, ‘old’ and ‘new’ accounting standards that require simple and less complex judgments. Evidence from prior studies show many similarities in organizational culture of the big multinational accounting firms (Cushing & Loebbecke, 1986; Manson, McCartney, Sherer, & Wallace, 1998; Patel, 2003), similarities that may be lacking across smaller firms.

The accounting literature is somewhat limited with respect to research on the issue of principles-based standards for financial reporting. Several studies shed light on issues related to the benefits and costs related to the principles and rules-based accounting standards (for example, Dye, 2002; Gibbins, Salterio, & Webb, 2001; Hronsky & Houghton, 2001; Nelson, Elliott, & Tarpley, 2002). Still there are few studies that have examined the judgments of professional accountants in interpreting and applying principles-based accounting standards.

There are some key IFRS implementation issues. Ball (2006) predicts that there “will be substantial differences among countries in implementation of IFRS, which now risk being concealed by a veneer of uniformity.” Ball also warns that uniform standards alone are not sufficient to produce uniform financial reporting. Schipper (2005) observes that there will be a growing demand for detailed application guidance, which is an important implementation issue for the IASB. Schipper identified reliable fair value measurement and defining the entity for consolidation purposes as key financial reporting issues. Pacter (2005) observes, “IASB does not have any direct power to enforce the application of its standards. In an international environment with national capital markets in various stages of development and maturity, enforcement of IASB standards seems to be more challenging than in the US environment.”

3. Methodology

We developed a survey plan for investigating the perceptions of accounting and auditing professionals in Bahrain related to developing and implementing a single set of global accounting standards. Bahrain has experienced substantial economic growth and is viewed as a financial hub of the Middle East. Foreign investors are allowed to trade shares on the Bahrain Stock Exchange, which had 52 listed companies in the spring of 2007. There are over eleven audit firms in Bahrain, and seven are international firms. The Commercial Companies Act (CCA), 1975 required limited liability companies to prepare books of accounts (income statement, balance sheet, and Board of Directors' report on distribution of dividends) and to have them audited. The CCA in 1975 did not require the limited liabilities companies to follow a specific set of accounting standards. However, in 1993, through an official circular, the Ministry of Commerce and Agriculture advised the corporate sector companies to adopt the standards set by the International Accounting Standards Committee.

The big 4 international auditing firms have a very influential role in the adoption of accounting and auditing rules in Bahrain. Transparency in the financial statements has been given a top priority by the institutions engaged in accounting development in Bahrain. The Commercial Companies Act (CCA) (amended 2001) made it compulsory for all the limited liability companies to apply IASs/IFRS in the preparation of their financial statements and to get their books audited. Bahrain is a member of International Federation of Accountants (IFAC) and, it also follows the International Auditing Standards. The accounting and auditing profession in Bahrain is comprised of both locals and expatriates. Expatriates form a big proportion of qualified professionals in accounting and auditing profession in Bahrain. For example, there are more than 500 Indian chartered accountants working in various organizations. The audit firms are primarily staffed by foreign accountants. Therefore, the corporate accountants and auditors in Bahrain have experience with IFRS.

3.1. Survey instrument and sample

The survey research instrument was developed after identifying issues from the recent literature review, e.g. Nobes (1992), Schipper (2005), Pacter (2005), Tokar (2005). The survey instrument was pretested with academic colleagues, two accountants and two auditors. After their feedback, the questionnaire was improved. The study questionnaire contained demographic information, such as respondents position, years of experience, and professional qualifications.

Questions related the extent to which respondents agreed with statements relevant to related to developing and implementing a