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Accountants' Perceptions on the Adoption of International Financial Reporting Standards in Yemen

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ABSTRACT

Developments in the global capital market have made the adoption of International Financial Reporting Standard (IFRS) more significant than ever before. The purpose of this study is to examine the accountants' perception of IFRSs adoption in Yemen. We also seek the accountants' view on whether Yemen should adopt the IFRSs or not, and on the expected time taken to adopt the accounting standards. We also examine the difference in opinion between academicians and practitioners regarding the adoption of IFRSs. In this regard, this study carries out a survey of 48 Yemeni accounting postgraduate students in Malaysian public universities. We find that a majority of the respondents acknowledge the benefits of adopting IFRSs in Yemeni companies. Moreover, a majority of the respondents (82.9%) agree that Yemeni companies should adopt IFRSs. About 58.6% of respondents expect the period of IFRSs adoption in Yemen to be within three to 10 years, while 41.5% expect it to be more than 10 years. The results of this study may help policy-makers and the Yemeni Association of Certified Public Accountants make more precise decisions regarding IFRSs adoption in Yemen.

Keywords: International Financial Reporting Standards, Accounting Standard Convergence, Yemen
JEL Classifications: M4, M48

1. INTRODUCTION

The users of financial reporting, such as investors, lenders, regulators, financial analysts, as well as stock exchanges, need more information to help them evaluate a company's activities and predict its future performance. Capital market participants, therefore must play a significant role in shaping the development of accounting practices, disclosure choices and national and international efforts to harmonize accounting standards and auditing practices around the world (Choi and Meek, 2011).

In the same context, Abu-Ghazaleh (1986) states, "with the growth in international trade and the development of international capital markets, there is a need to internationally raise the level of accounting practices and at the same time, to obtain greater harmonization of financial statements." Zeghal and Mhedhbi (2006) stress that harmonization with International Accounting Standards (IASs) can produce better quality of financial reporting and improve the comparability of information within an international setting.

When different accounting standards are used, it can lead to substantially different amounts being reported in the financial statements. These apparent differences can cause problems for financial analysts to analyze a company's financial statement. More than the format used and differences in terminologies, the standards used to value assets and liabilities and calculate income can cause greater problems for them. Moreover, accounting diversity does not help users, especially investors to compare financial statements of companies across different countries (Doupnik and Perera, 2007).

Conversion to a globally uniform set of accounting and reporting rules is a most debated and discussed financial reform for governments and the businesses they regulate. While change is never easy, the level of change is significant in terms of time, money and cooperation. Since this is a global effort, the IASs Board (IASB) has had to work with constituent governments, professional associations and associated businesses of many different political, religious and socioeconomic backgrounds (Zeff and Nobes, 2010).

Most research in this area has been conducted in developed countries; only a few studies have been undertaken in developing countries (Zeghal and Mhedhbi, 2006). Accordingly, researchers have been recommending that further studies on International Financial Reporting Standards (IFRSs) in developing countries be undertaken (Irvine and Lucas, 2006). Richter Quinn (2004, April) cited in Zeghal and Mhedhbi (2006) said that it is very hard to trust accounting and financial information originating from developing countries. Nonetheless, there is an urgent need for developing countries to attract foreign investors and foreign capital, in addition to the great demands from individual and institutional investors, lending institutions, and multinational corporations.

The IFRSs were issued in 2003; at that time, at least 19 countries required their companies to comply with the IFRSs. Following this, nearly 70 countries have required all listed companies to adopt the IFRSs. Another 23 countries have required some listed companies to adopt the IFRSs or allow the listed companies to adopt the IFRSs voluntarily. By 2007, around 40 countries mandated the use of accounting standards developed domestically over IFRSs, including major economies, like Brazil, Canada, China, Japan, India and the US (Ramanna and Sletten, 2009).

The IFRSs Foundation has conducted surveys on the application of IFRSs around the world. On 14 April 2014, the IFRS Foundation prepared a survey which was distributed to Yemeni Association of Certified Public Accountants (YACPA) regarding the application of IFRSs in Yemen. The results show that Yemen has not yet established a stock exchange, and the IFRSs have not been incorporated into Yemen's laws and regulations (IFRS, 2014). Although, on 28 July 2013, the Yemeni President issued Order No. 2952, directing the Prime Minister to adopt IFRSs in Yemen, up to now, Yemeni companies have yet to adopt IFRSs.

The main aim of this research is to examine the accountants' perception of IFRSs adoption and the requirement and expected period for the adoption of IFRSs in Yemeni companies. In addition, we examine the different perspectives of academicians and practitioners regarding IFRSs adoption and the requirement and expected period for the adoption.

We choose Yemen, a developing country of interest to enhance the arguments for or against the adoption of IFRSs. Arguments for or against the adoption of IFRSs by most countries have increased, not only among academicians, but also among accounting practitioners. The result of this study provides an evidence of one developing country "Yemen" to enhance this argument. To the best of our knowledge, this research is the first research in Yemen on this topic. What is more important is that this research attempts to examine the accountants' perceptions of IFRSs adoption in Yemeni companies.

The finding of this study may have several practical implications to the policy-maker and company stakeholders, especially shareholders in Yemen. It may help them to understand the concept of IFRSs and the benefits of IFRSs adoption as well as assist them to either adopt IFRSs or prepare a plan to converge their local accounting standards to IFRSs.

The remainder of the paper is organized as follows. Section 2 discusses the concept of IFRSs, followed by Section 3 which explains the Yemeni's efforts in adopting IFRSs. Section 4 reviews prior literature and Section 5 discusses the research methods. Section 6 discusses the results and finally Section 7 concludes the paper.

2. THE CONCEPT OF IFRSS

IFRSs are accounting standards for the presentation of financial results, including financial statements introduced by the IASB. The IASB, established in 2001, is a self-governing organization located in London, UK. Before this date, the IAS Committee (IASC), a body established in 1973, issued "international standards" for accounting, with agreement from professional accountancy bodies, including in Australia, France, Canada, Germany, Mexico, Japan, the Netherlands, the UK, Ireland, and the US. Up to 2000, these standards were known as the IASs.

In late 1997, the IASC recognized the fact that it is crucial to achieve a convergence between local accounting standards and IASs. In December 1998, the IASC issued a paper containing final recommendations. In November 1999, the IASC established a new standards-setting body known as the IASB, and from April 2001, the IASB has been undertaking the role of issuing international standards, rules and regulations. The IASB enjoys better funding, and is more independent than its predecessor, the IASC. The standards issued by the IASB are known as the "IFRSs," although they still recognize (accept as legitimate) the previous rules (IASs) issued by IASC, the former standard-setter (Bhattacharjee, 2009).

The adoption of IFRSs means that the local accounting rules are set aside in favour of the IFRSs. In 2000 the European Commission (EC) suggested that by 2005, all listed companies in EU countries must fully apply IFRSs and no longer local European or US based standards (Nobes and Parker, 2008).

The acceptance of IFRSs is mixed throughout the world. European countries and Australia converged their standards with IFRSs from 1 January 2005 (Daske and Gebhardt, 2006). On 1 January 2006, Malaysian companies started their IFRSs transition (Carlin et al., 2009). China's accounting system strongly depends on IFRSs. Korea, India, Canada, and Japan decided to adopt IFRSs by 2011, while the US is slow in joining the efforts for global convergence (Thomas, 2009). By 2011, more than 120 countries have implemented IFRSs or converged local standards with IFRSs (IASB, 2011). The IFRS Foundation has conducted surveys on the application of IFRSs around the world. Table 1 shows that the IFRSs are widely used in every region of the world. From 140 jurisdictions, 116 require IFRSs for all or most of their domestic publicly accountable entities.

Table 1: Profiles of the 140 jurisdictions

Region	Number of jurisdictions			
	All the region	Require IFRSs for all or most domestic publicly accountable entities	Permit or require IFRSs for at least some domestic publicly accountable entities	Neither require nor permit IFRSs for any domestic publicly accountable entities
Europe	43	42	1	0
Africa	19	15	1	3
Middle East	9	8	1	0
Asia and Oceania	32	24	3	5
Americas	37	27	8	2
Total	140	116	14	10
As percent of 140	100%	83%	10%	7%

Source: (IFRS, June 2015), IFRSs: International financial reporting standards

3. YEMEN'S EFFORT TOWARDS THE ADOPTION OF IFRSS

YACPA was established on 30 January 1993. It was officially licensed by the relevant governmental authority. Since that date, YACPA has been carrying out its activities to achieve the objectives set out in the statute, mainly to regulate the accounting and auditing practices and ensuring mandatory membership in the Society for all Certified Chartered Accountants. Up to mid-2011, YACPA had 1,100 members. It aims to: (i) Contribute to the development of standards, both international and local, in the Republic of Yemen, (ii) enhance the efficiency of the Chartered Accountants in the performance of their professional duties through seminars, courses, conferences, newsletters and various activities in cooperation with relevant agencies, and (iii) develop scientific and training curricula for the purpose of holding examinations for those wishing to get a public accountant's license in cooperation with local and international scientific and professional bodies (YACPA, 2015).

Yemen is considered as a developing country which has still not adopted the IFRSs. Regarding IFRSs adoption, YACPA's leadership requested the President of Yemen to support the adoption of IFRSs. The President issued Order No. 2952 dated 28 July 2013, directing the Prime Minister to pursue the IFRSs' adoption in Yemen. The Order stated that, "You are requested to instruct the quick application of IASs and IFRSs for all companies, private, public and mixed." In addition, the Central Bank of Yemen has issued a circular requiring all banking institutions to also adopt IFRSs when publishing their financial statements (IFRS, 2014).

YACPA held a panel discussion on 31 December 2014. The discussion centred on the issuance of the ministerial decision on IFRSs and their application to commercial and service companies and institutions. Based on Order No. 2952 mentioned above, the participants recommended the need to quickly adopt the IFRSs and follow-up on its implementation. This was to be preceded by an investigation of the usefulness of the application of the IFRSs and the terms and requirements for Yemen to join the International Federation of Accountants (IFAC) (YACPA, 2015).

4. ADVANTAGES AND DISADVANTAGES OF IFRSS

The IFRSs bring about several advantages to both internal and external users, such as shareholders, regulators, finance professionals as well as local and international investors (Thomas, 2009). According to Street et al. (1999), the benefits of IFRSs adoption are: (i) It improves the investors' capacity to make better decisions, (ii) it reduces the costs of consolidating financial reporting, (iii) it improves and enhances international investment, and (iv) it increases the efficiency of capital markets worldwide. Tyrrall et al. (2007) mention other advantages of IFRSs adoption: (i) It increases financial statement quality, (ii) it eliminates costs of developing local standards, and (iii) it improves domestic and international financial markets. Aljifri and Khasharmeh (2006) say that the major benefit of adopting international reporting standards, like the IFRSs, is to enhance the comparability of financial statements and the consensus between preparers and users of financial statements.

According to Ball (2006), the IFRSs bring with them a range of benefits as follows: (i) IFRSs promise more accurate, comprehensive and timely financial statement information, (ii) IFRSs help the investors, especially the small investors, to compete better with professionals and hence reduce their risk, (iii) IFRSs eliminate global accounting diversity, leading to greater interest and reduced costs for investors, (iv) IFRSs encourage investors to invest in stock markets worldwide and remove barriers to cross-border acquisitions, and (v) IFRSs allow greater comparability, which in turn reduces information cost and information risk for investors.

Zeghal and Mhedhbi (2006) stressed that harmonization with international standards enhance the quality of financial information and improves the comparability of the accounting information within an international setting. Jacob and Madu (2009) found that IFRSs represent a single set of high quality standards which can improve financial reporting. Cai and Wong (2010) attempted to examine the effect of IFRSs on global capital market integration and the relationship between IFRSs adoption and the subsequent integration of capital markets among developed countries. They focused on eight countries in two groups: Countries which have adopted IFRSs (France, Germany, Italy and the UK) and countries which have not yet adopted IFRSs (Canada, Japan, Russia, the US). Their results showed that countries adopting IFRSs seem to reduce the diversity of accounting practices, making it easy to move capital across these countries.

On the other hand, many researchers are concerned with the drawbacks of IFRSs adoption, particularly for developing countries. Tyrrall et al. (2007) indicate that there are four main difficulties in the implementation of IFRSs in Kazakhstan: (i) The IFRSs do not cover some of the accounting issues in Kazakhstan, (ii) the lack of understanding of IFRSs and guidelines from the Kazakh regulatory bodies on IFRSs implementation, (iii) the absence of IFRSs translation to Russian and Kazakh language, and (iv) the adoption of IFRSs is expensive due to the costs of staff, accountants, and managers training.

Mir and Rahaman (2005) argue that the difficulty in the adoption of international standards is not because of the content of the accounting standards per se, but it has more to do with the adoption process itself. According to researchers, a crucial part in the process of adoption is communication. In Bangladesh, the lack of consultation and effective communication on the part of the government and the SEC has hindered the level of compliance. Chand and White (2007) state that the barrier to the adoption of IFRSs in the Fiji Island is that only 16 companies are listed on the Fiji stock exchange. A small number of companies affects the role Fiji Stock Exchange to go into fair value accounting.

5. RESEARCH METHODS

5.1. Data Collection

This study adopts the questionnaire survey method to seek the viewpoints of accountants on their perception of IFRSs adoption, and the requirement and expected period for the adoption of IFRSs in Yemeni companies. The questionnaire was prepared based on prior studies. Before the questionnaire was distributed, a pilot test using five respondents was conducted. The final questionnaire was distributed electronically to Yemeni postgraduate accounting students in Malaysian public universities. We believe that postgraduate accounting students are appropriate representatives of Yemeni accountants because they possess the accounting undergraduate or master's degree to qualify them to become accountants in Yemen. Several other reasons motivate the choice of this sampling frame. First, the students have prior experience as lecturers, accountants, auditors, managers, government or regulatory agency officers and so on. Second, it was easier to contact them compared to Yemeni accountants in Yemen due to the state of war during the study period. We obtained the support from the Malaysian public universities and the Yemeni Students' Union in Malaysia in distributing and gathering the questionnaire.

The population consists of Yemeni 54 active postgraduate accounting students. According to Krejcie and Morgan (1970), who have prepared generalized scientific guidelines for sample size, our sample size should be 48. Hence, we identified 48 respondents from the more established public universities and sent them the questionnaires. Other reasons of not selecting the population are because of the limited time in conducting this study, and the difficulty in distributing the questionnaire to all, especially to those in the new public universities in Malaysia.

5.2. Measurement of Variables and Data Analysis

Seven statements were used to investigate the respondents' perception of IFRSs adoption in Yemen (Table 2). We used a five-point Likert scale for respondents to express to what extent they agree or disagree with a particular statement. Items 1 to 6 were adopted from Rezaee et al. (2010), while item 7 was adapted from Sharif (2010). Regarding to accountants' opinion on the requirement and expected period for the adoption of IFRSs in Yemeni companies, two questions were posed: (i) "Should IFRSs be adopted in Yemen?" (Winney et al., 2010), and (ii) "How soon do you expect IFRSs to be adopted in Yemen?" (Rezaee et al., 2010). Respondents were also asked to answer why IFRSs are required or why they are not.

In determining the difference in opinion between academicians and practitioners, an independent-samples t-test was used to compare the respondents' mean (Moqbel and Bakay, 2010). We divided the respondents into two - academicians and practitioners, based on their previous occupation. Practitioners are non-academicians who worked as accountants, auditors, managers and government agency officers.

6. RESULTS AND DISCUSSION

Out of the 48 questionnaires distributed, 41 were returned, giving a response rate of 85%. The Cronbach's Alpha test of reliability is 0.94, implying that the instruments are highly reliable.

6.1. Demographic Characteristics

Table 3 shows that a majority of the respondents are male (97.6%), 30-34 years of age (56.1%), currently studying PhD (56%), have at most 10 years' working experience (90.3%) and worked as lecturers prior to pursuing their studies (58.5%).

6.2. The Accountants' Perception of the Adoption of IFRSs in Yemen

Table 2 shows that the majority of respondents strongly agree or agree on all questions. In addition, the mean of IFRSs adoption for each question is more than 3.60 for all the seven items, the minimum mean being 3.61 and the maximum mean being 4.05. This means that the accountants' perception of IFRSs adoption is positive and it is important for Yemeni companies to adopt IFRSs. The most agreeable argument for adopting IFRSs is that IFRSs will produce comparable financial reporting worldwide. This is followed by the feeling that investors would benefit if companies use IFRSs, and that the adoption of IFRSs will improve the quality of financial reporting.

6.3. The Requirement and Time Taken to Adopt IFRSs in Yemen

Table 4 shows that 34 respondents (82.9%) agree that IFRSs should be adopted in Yemeni companies. This may be due to the absence of domestic accounting standards or laws on accounting in the country that could provide them a definitive framework. Thus, IFRSs which are used worldwide are welcome. This result

Table 2: Analysis of answers of IFRSs adoption

Statements	N (%)			Mean
	Strongly disagree and disagree	Neutral	Strongly agree and agree	
IFRSs will produce comparable financial reporting worldwide.	3 (7.3)	4 (9.8)	34 (82.9)	4.05
Investors would benefit if companies use IFRSs.	6 (14.7)	1 (2.4)	34 (82.9)	3.95
Adoption of IFRSs will improve the quality of financial reporting.	6 (14.6)	2 (4.9)	33 (80.5)	3.93
IFRSs will minimize barriers to establishing capital markets and engaging in global competition for capital.	5 (12.2)	7 (17.1)	29 (70.7)	3.78
IFRSs strengthen the efficiency and cost-effectiveness of global capital allocation	6 (14.7)	8 (19.5)	27 (65.9)	3.63
IFRSs establish cost efficiencies and proper processes for multinational companies.	6 (14.6)	11 (26.8)	24 (58.6)	3.63
IFRSs are achieving global acceptance as a reputable set of standards.	6 (14.7)	6 (14.6)	29 (70.8)	3.61

IFRSs: International financial reporting standards

Table 3: Analysis of answers on demographic characteristics

Demographic element	Characteristics	N (%)
Gender	Male	40 (97.6)
	Female	1 (2.4)
Age	<30	8 (19.5)
	30-34 years	23 (56.1)
	35-39 years	9 (22.0)
	More than 40	1 (2.4)
Current degree pursuing	Master's	18 (43.9)
	PhD	23 (56.1)
Working experience	<5 years	20 (48.8)
	6-10 years	17 (41.5)
	11-15 years	4 (9.8)
Previous occupation	Lecturer	24 (58.5)
	Accountant	8 (19.5)
	Auditor	3 (7.3)
	Manager	4 (9.8)
	Government agency officer	2 (4.9)

concurs with El-Firjani and Faraj (2014) where a vast majority (more than 80%) of their interviewees agreed that Libya should adopt IASs. However, in the case of Libya, domestic accounting standards or law on accounting are available in the country.

Table 4 also shows the frequency of respondents who answer the open-ended question on why Yemen should adopt IFRSs. Among the reasons given are that IFRSs will encourage the internal and external investors to invest in Yemen, IFRSs will increase the accuracy, transparency and reliability of financial reporting, IFRSs are necessary for building capital market and entering the global market, and IFRSs can develop the accounting practices in Yemen. It is worthy to mention that some respondents provided one or more than one reasons while no answer has been given by others.

In contrast, seven respondents (17.1%) said that the IFRSs should not be adopted in Yemen. Among the reasons given are that there is no capital market in the country, the government policy is weak, and the Yemen's laws and regulations make it difficult to adopt IFRSs.

Moreover, the majority of respondents (24 or 58.6%) expect that it will take another 3-10 years for the adoption of IFRSs among

Table 4: Analysis of answers on the requirement and expected period of IFRSs adoption

Items	Characteristics	N	Percentage
Q1. Should IFRSs be adopted in Yemen?	Yes	34	82.9
	No	7	17.1
Reasons for Yemen to adopt IFRSs	Increase the accuracy, transparency and reliability of financial reporting	7	Times
	Necessary for building capital market	7	Times
	Develop the accounting practise in Yemen	4	Times
	Increase the comparability of financial reporting	7	Times
	Encourage the internal and external investors to invest in Yemen	8	Times
Reason for Yemen not to adopt IFRSs	Policy of government is weak	2	Times
	Absence of capital market	2	Times
	Special law and regulatory	1	Times
Q2. How soon do you expect IFRSs to be adopted in Yemen	Less than 3 years	0	0
	Within 3 to 6 years	12	29.3
	Within 6 to 10 years	12	29.3
	More than 10 years	13	31.7
	Not at all	4	9.8

IFRSs: International financial reporting standards

Yemeni companies. None of them agree that it will take <3 years. Another 31.7% of them expect a longer time period, that is more than 10 years. Meanwhile, four respondents (9.8%) are very pessimistic, stating that the IFRSs will not be adopted at all. The four respondents are among the seven who said that Yemen should not adopt the IFRSs.

Compared with the findings of Rezaee et al. (2010), accountants in Yemen are much less optimistic. Rezaee et al. found that almost half of their respondents expected that IFRSs adoption will be completed within 3-5 years, while the other half expected

Table 5: Comparison of responses of IFRSs adoption

Question	Mean±SD		P
	Academicians	Practitioners	
Investors would benefit if companies using IFRSs	3.88±1.227	4.06±1.24	0.642
IFRSs will produce comparable financial reporting worldwide	3.96±1.083	4.18±0.883	0.498
IFRSs are achieving global acceptance as a reputable set of standards	3.54±1.062	3.71±0.849	0.600
IFRSs will minimize barriers to establishing capital markets and engaging in global competition for capital	3.67±1.007	3.94±1.144	0.421
IFRSs strengthen the efficiency and cost-effectiveness of global capital allocation	3.67±0.868	3.59±1.278	0.816
IFRSs establish cost efficiencies and proper processes for multinational companies	3.46±0.977	3.88±1.111	0.204
Adoption of IFRSs will improve the quality of financial reporting	3.96±1.334	3.88±1.269S	0.856

IFRSs: International financial reporting standards

Table 6: Comparison of responses on the requirement and expected period of IFRSs adoption

Question	Minimum	Maximum	Academicians		Practitioners		P
			Mean responses	Standard deviation	Mean responses	Standard deviation	
Should IFRSs be adopted in Yemen?	1	2	1.88	0.338	1.76	1.249	0.368
How soon do you expect IFRSs to be adopted in Yemen?	1	5	3.17	0.917	3.29	1.105	0.689

IFRSs: International financial reporting standards

to achieve convergence with international standards within 6-10 years. In the case of Yemen, the country's environment is different and need more time to be able to adopt IFRSs. There are several factors affecting the adoption of IFRSs, such as political instability and war that happened while this study was conducted. All respondents agree that it is impossible for Yemeni companies to adopt IFRSs within 1-2 years.

6.4. Comparing the Perspectives of Academicians and Practitioners

Table 5 shows that there is no significant difference between academicians and practitioners on their perception of IFRSs adoption (all $P > 0.05$). The reason of this result may be because all of the respondents are matured PhD or master students who have the same level of knowledge and experience.

Similarly, Table 6 shows that there is no significant difference between the opinion of academicians and practitioners on the requirement and expected period of IFRSs adoption in Yemeni companies due ($P > 0.100$). Regardless of their nature of work experience, the accountants appear to have the same opinion.

7. CONCLUSION

This study examines accountants' perception of the adoption of IFRSs in Yemen. In particular, we seek their opinion on the benefits of adopting the IFRSs. We also examine their opinion towards the requirements for IFRSs and the expected time taken to adopt the accounting standards in Yemen. Finally, we examine if academicians and practitioners have different perspectives regarding IFRSs adoption.

We find that a high majority of the respondents agree that IFRSs should be adopted in Yemen, even though none of them foresee that the adoption can take place within 3 years. The accountants believe, among others, that IFRSs would increase the comparability of financial reporting, increase the accuracy, transparency and reliability of financial reporting, and encourage the internal and external investors to invest in Yemen.

Despite the war and political instability in Yemen, most of the accountants are optimistic about adopting the IFRSs. Majority of them expect that the adoption can be realized within three to 10 years and 31.7% foresee that it will take more than 10 years. Only a few of them (9.8%) believe that the adoption will never be realized.

This study has its limitations that can limit the generalization of its findings. One of the limitations is that we consider only Yemeni accounting post-graduate students in Malaysian universities as our subjects. Therefore, future research may embark on examining the same topic by considering the Yemeni post-graduate student in the field of accounting in Yemen universities, or may use organizations as the unit of analysis by considering the Yemeni companies, or may use the group unit analysis by considering the lectures, accountants, auditors, managers, finance, policy-makers located in Yemen. In addition, the number of respondents should be increased. Moreover, it is fruitful for future research to investigate the factors that affect the adoption of IFRSs in Yemen.

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