

Regulatory Reform of Iraqi Accounting on The Basis of IFRS



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Iraq's transition to a modern market economy is due to the urgency of reforming the accounting system in the country in accordance with the requirements of the national economy. Moreover, the reform of the accounting system must proceed in parallel with the process of harmonization, as the defining instrument of convergence of accounting systems of different countries.

In our opinion, it is evident that Iraq can use IFRS as a methodological framework for developing national standards. However, that since 2003 (Iraq's transition to a modern market economy), Iraq is working in close cooperation with international organizations, indicating the growing importance of IFRS and requiring reform the system of accounting in accordance with IFRS, whereas in the past years, the number of accounting standards to and since 2003 it has not changed - 14 standards [1], partly updated, but not enough to cover professional accounting functions.

Thus in this case, would be justified to use the experience of those countries, the economies of which have already passed the reform of the system of national accounts in accordance with IFRS or are nearing completion. Among these countries, in our opinion, Russian experience.

In our opinion, the reform of the Iraqi accounting system should be carried out by a well thought-out program. Think that the reform of the Iraqi accounting in accordance with IFRS should represent a program to improve existing and develop new national accounting standards. We can recommend a rough outline of the program:



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Section 1. «Conceptual Framework. » This section should set out rules of standards that represent the conceptual framework of accounting (Accounting Policies, Estimates and other.).

Section 2. «The main objects of the account. » Are the standards, norms which regulate the accounting treatment of objects that are common to commercial, industrial and service companies (fixed assets, intangible assets, inventories, etc.). We consider that the standards of this section shall govern accounting and at the same time - the order of the transfer of his final data in the financial statements without any additional groups and other accounting work.

Section 3. «Aspects of the disclosure in the financial statements. » Because every standard of the second section will contain recommendations on the establishment of accounting information in the financial statements in this section of the program is necessary to bring the rules governing the reporting procedure as a whole (consolidated financial statements, disclosure of related parties, etc.).

Section 4: «Investment and financial elements. » In this section, it would be logical to provide for standards governing the accounting records less common objects (investment in associates and joint ventures, financial instruments). The provision of such facilities in accounts separate section, we explain the fact that objects such as investments in associates and joint ventures, financial instruments are not available in all organizations.

Section 5. «Special-purpose standards». We outline standards governing the accounting of certain features of economic activities: insurance contracts, contracts for the construction, agriculture, exploration and evaluation of mineral resources. However, if the government deems it necessary to maintain or develop any activity in the short term, such as oil, should be considered as a priority the development of appropriate standards, similar to the Russian standard «Exploration for and Evaluation of Mineral Resources». Offers us the sequence of the development of Iraqi accounting standards is presented in table 1.

Table 1. The program of the development of national accounting standards Iraq

Section development and approval of standards	Recommended Accounting Standards
Section 1. «Conceptual Framework»	The accounting policies; The valuation of assets and liabilities; impairment; Incomes; Expenditure.
Section 2. «The main objects of the account»	Property, Plant and Equipment; Intangible Assets; Inventories; Employee Benefits; Leases; Income Taxes; Accounting for Governments Grants and Disclosure of Government Assistance; The Effects of Changing in Foreign Exchange Rates; Borrowing Costs; Provisions, Contingent Liabilities and Contingent Assets.
Section 3. «Aspects of the disclosure in the financial statements»	Presentation of Financial Statement; Statement of Cash Flows; Consolidated Financial Statements; Related Party Disclosures; Events After the Reporting Period; Financial Reporting in Hyperinflationary Economies.
Section 4: «Investment and financial elements»	Share-Based Payments; Business Combinations; Operating segments; Joint Arrangements; Investments in Associates and Joint Ventures; Financial Instruments: Presentation; Earnings per Share; Investment Property.
Section 5. «Special-purpose standards»	Insurance Contracts; Construction Contracts; Agriculture; Exploration for and Evaluation of Mineral Resources.

We believe that reform is expedient to carry out the following:

- Modernization and completion IAR that already exist;
- The adoption of new of standards on those objects and liabilities, norms on accounting of which are presented in the Iraqi unified accounting system;
- The adoption of new of standards on those objects and liabilities, requirements for accounting for which the are not represented in of normative positions of Iraq.

Then provided is comparable accounting standards to those already in Iraq (Table 2.)

Table 2. Suggested and practiced IAR

Suggested Iraqi standards	Analogues of acting IAR
Section 1. «Conceptual Framework»	
The accounting policies;	Disclosure of information relating to financial reporting and accounting policies
The valuation of assets and liabilities;	
impairment;	
Incomes;	
Expenditure.	
Section 2. «The main objects of the account»	
Property, Plant and Equipment;	
Intangible Assets;	Intangible Assets
Inventories;	Inventories
Employee Benefits;	
Leases;	
Income Taxes;	Accounting for Income Taxes
Accounting for Governments Grants and Disclosure of Government Assistance;	
The Effects of Changing in Foreign Exchange Rates;	Accounting for the effects of exchange rate changes
Borrowing Costs;	Capitalisation of borrowing costs
Provisions, Contingent Liabilities and Contingent Assets.	Contingencies and Events Occurring After the Balance Sheet Date
Section 3. «Aspects of the disclosure in the financial statements»	
Presentation of Financial Statement;	Disclosure of information relating to financial reporting and accounting policies
Statement of Cash Flows;	Cash Flow Statement
Consolidated Financial Statements;	
Related Party Disclosures;	
Events After the Reporting Period;	Contingencies and Events Occurring After the Balance Sheet Date
Financial Reporting in Hyperinflationary Economies.	Information Reflecting the Effects of Changing Prices
Section 4: «Investment and financial elements»	
Share-Based Payments;	
Business Combinations;	

Operating segments;	
Joint Arrangements;	
Investments in Associates and Joint Ventures;	
Financial Instruments: Presentation;	
Earnings per Share;	Accounting for investment
Investment Property.	Accounting for investment
Section 5. «Special-purpose standards»	
Insurance Contracts;	
Construction Contracts;	Measuring the performance of construction contracts
Agriculture;	Agricultural Accounting
Exploration for and Evaluation of Mineral Resources.	

One of the of standards, whom does not suffice in the Iraqi the accounting system, is a standard of “Accounting policy». The development of this standard is moved to the first section of the program, since it is the provisions of this standard be a guide for the general setting of accounting in an organization of any type. In connection with, that the professional accounting education in does not currently prepares specialists, capable to make full use own judgment in accounting policies, being developed the organization independently, is necessary standard.

In our opinion, as an example of the standard “Accounting Policies” can use the standards of the Russian counterpart. It is important to determine the rules formation and approval of accounting policies. Thus the main objective of the accounting policy - to show how one of the options being tailored to the specific object, and therefore, should be the options (such as different ways to measure assets and liabilities, distribution costs, etc.). However, the current practice of the Iraqi accounting, a large selection does not provide that should also be considered in the appropriate IAR. The next important step will be the adoption of the standard “Evaluation of assets and liabilities” in Iraq is commonly used for evaluation the actual cost of assets and liabilities, which is characterized by more reliable and authentic. However, in our opinion, complete dependence on this type of evaluation without the use of other methods of assessment, does the accounting information contained in the Iraqi account is not complete.

Question valuation of assets and liabilities rose sharply in Iraq since 2003 (finding Iraq under US occupation) began to change dramatically when asset prices. For example, if prior to 2003 the price of the car was roughly equal to the price of a private house, then after 2003 for less than 2 years the prices have changed dramatically - real estate has increased in value tenfold. But despite this, according to the financial statements the value of real estate did not show the real current market value. In this regard, we believe that the evaluation of the objects of fair value accounting provides more complete information on the financial status of the company. At the same time, information about the company’s financial condition will not be reliable if the difference between the fair value and the actual value of assets take into account, profit, and the amount of the profit is in no way confirmed.

This problem is raised and American scientists in research that shows rating of “relevance” and “reliability” fair value, which, in their opinion, is relevant, but reduces the reliability of financial reporting.[2] We believe that a possible compromise could be a combination of two types of evaluation - the actual (original) cost and fair value. For example, for the evaluation of fixed assets, you can use the following calculation: The current value of fixed assets = Actual cost - accumulated depreciation ± accumulated revaluation (+ additional evaluation, devaluation -) In accounting, the change in value recorded in the balance items of fixed assets will be reflected next correspondence accounts:

a) in the case of reducing the value of the property, plant and equipment:

Debit "expense revaluation of assets"

Credit "The accumulation of revaluation"

b) in the case of increase in the value of fixed assets:

Debit "The accumulation of revaluation"

Credit "Reserve changes in prices of assets"

As can be seen, account the "accumulation of revaluation" can have a bilateral balance and therefore the price of the asset will either decrease or increase, which could lead to the fact that the asset's carrying amount is greater than its actual (historical) cost. As can be seen, account the "accumulation of revaluation" can have a bilateral balance in connection with which price of the asset will either decrease or increase, which could lead to the fact that the asset's book value is greater than its actual (historical) cost. Account "Consumption of the revaluation of assets" closed to the financial result, unless there is a reserve changes in asset prices.

Account "Expense of the revaluation of assets" closed to the financial result, unless there is a reserve changes in asset prices. In the case of this reserve, account "Expense of revaluation of assets" reduces the reserve changes in prices assets to zero. In the continuation of the issue of asset valuation standard "Impairment", reflecting the emergence of cases of impairment plant and equipment, intangible assets, financial items, inventory, etc. It should be noted that the Russian analogue of the standard does not exist, and the international equivalent does not apply to financial elements and inventory. However, in our view, an impairment are subject to all of the resources in connection with which, see the opportunity to combine information on the impairment of all assets registered in one standard. Gains and losses arise at almost all companies, in connection with which, the overall appearance of the conceptual foundations and recognizing these facilities should also be reflected in the standards developed in the first section of the reform program. Currently, Iraq there are no similar standards, therefore, as an example can use the Russian ("Incomes of the organization" and "Expenses of the organization" and their international counterparts ("Revenue"), clearly indicating which income is recognized income and disposals costs, conditions for the recognition of income and expenses, methods of accounting.

Reforming the standards of the second section of the program includes standards that affect the accounting treatment of objects that are common to most organizations. Thus, as seen from data in Table 2. Currently, in Iraq are 6 of the 10 proposed standards. The result of the analysis of existing standards in the previous article, the authors showed that the harmonization of accounting standards need to be improved [3], in connection with which they included us in the second section of reform. To some extent, analogues of the ten standards presented in the second section of the IFRS and in eight Russian standards. This allows develop more high-quality accounting standards, using the specified standards of other countries. In our opinion, an example of international standards shows that, in addition to the compulsory indications purpose and scope of the standard, it is necessary also the section "Definitions" in which to represent the values specified in the standard terms. Most Russian standards this section is not, but we believe that the importance of defining the conceptual apparatus in Iraqi standards, there is no doubt. Modern standards are saturated with new terms, the conceptual apparatus which is not always the sign of Iraqi users.

Iraqi National standards for accounting objects must contain completely specific recommendations indicating the conditions under which objects is accounted for in any assessment unit of the accounting object, order follow-up evaluation, the cases of disposal, disclosures in the financial statements. This standard should include the setting of accounting variability: different ways of calculating depreciation of fixed assets and intangible assets, and various ways of assessing inventory, different methods of classifying and distributing overhead costs, etc. Important, in our view, is the use of the experience of the Russian legislation regarding the use of the standards of illustrative examples and methodical calculations. Among the standards dealing with aspects of the financial statements of the information currently in Iraq is no equivalent IFRS "Consolidated Financial Statements" and IAS "Related Party Disclosures". With the expansion of international commercial relations of Iraq need to develop appropriate national standard, using the methodology referred to above IFRS. The rest of the standards of information disclosure in the financial statements need to be fine-tuned to the same requirements as the standards of the second section: Only important information with explanatory examples.

By the standards of the fourth section requires a It requires substantial work, as now in Iraq is only one standard (IAR №14 “Investment Accounting”) describes the accounting for investment and financial activities of the company. As in the Russian legislation and IFRS these activities, in terms of describing the characteristics of their records are divided, we believe IAR number 14 should also be processed by separating investment activities from the financial. As part of the development of standards for the fourth section we recommend using the analogues examples of international standards as they are available.

The special standards, standards that describe features of the account of individual industries, brought to the last section, because they are highly specialized. However, analogue of IFRS 6, “Exploration for and Evaluation of Mineral Resources” or RAS 24/2011 “Accounting of expenses for development of natural resources” should be in Iraq, as a State which is a member of OPEC (Organization of Petroleum Exporting Countries), should forming performance reporting oil companies, harmonizing reporting companies from other countries.

Thus, the comparison of Iraqi accounting standards with Russian and international standards, registration maintenance backlog identified in Iraq the needs of the Iraqi national economy and, therefore, the need for its reform of national accounting.

Reference:

- [1] The official web site of the Federal Board of supreme audit of Iraq. [Electronic resource] / URL: http://www.d-raqaba-m.iq/pages_en/default_en.aspx
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- [3] Mohammad B.A., Zyleva N.V. Comparative analysis of the Iraqi and Russian accounting [Text] / B.A. Mohammad, N.V. Zyleva // Herald of Omsk university Series «Economics», 2015. № 2. C. 37–47.