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The effect of applying the accounting rule No.(14) on financial investments: An applied study in the Iraqi Date Processing & Marketing Co. (Tomoor)

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Abstract

The research aims to show the impact of the application of accounting rules, including accounting rule No.(14) on the financial statements, including the paragraph on the unexpected decline in the value of long-term financial investments, and this rule was applied to the financial statements (statement of financial position and production, trading, profit, loss and distribution account) for the Iraqi Date Processing & Marketing Co. (Tomoor) of 2019.

The research reached a set of results, the most important of which is the lack of commitment by the company under research to the accounting rules issued by the Iraqi Board of Accounting and Auditing Standards (IBAAS), the lack of a feasibility study for the company when entering the stock market, the inefficiency of the employees in the Control and Internal Audit Department and the Finance Department (accounts) and many of them do not have sufficient academic qualifications to work in the above two sections.

The research concluded with a set of recommendations, the most important of which is that the company's management should rehabilitate and develop the employees in the Control and Internal Audit Department and the Finance Department (Accounts), the company's management should seek the assistance of people with expertise when entering into investment in the future, the company's management should adhere to complete transparency by disclosing the amount of expected losses By entering into financial investments, which helps users of financial statements to analyze and study these statements well in order to make the necessary decisions.

Keywords: financial statements, accounting rules, financial investments

المستخلص

يهدف البحث إلى بيان اثر تطبيق القواعد المحاسبية ومنها القاعدة المحاسبية رقم (14) على القوائم المالية منها الفقرة الخاصة بالانخفاض غير المتوقع في قيمة الاستثمارات المالية طويلة الاجل , وتم تطبيق هذه القاعدة على القوائم المالية (قائمة المركز المالي , حساب الانتاج والمتاجرة والارباح والخسارة والتوزيع) الخاصة بالشركة العراقية لتصنيع وتسويق التمور لعام 2019. وقد توصل البحث إلى مجموعة من النتائج اهمها عدم التزام الشركة محل البحث بالقواعد المحاسبية الصادرة من مجلس المعايير المحاسبية و الرقابية , عدم وجود دراسة جدوى لدى الشركة عند الدخول في سوق الاسهم , عدم كفاءة العاملين في قسم الرقابة والتدقيق الداخلي وقسم المالية (الحسابات) وان العديد منهم لا يمتلكون المؤهل العلمي الكافي من اجل العمل في القسمين اعلاه , وخلص البحث إلى مجموعة من التوصيات اهمها على ادارة الشركة تأهيل وتطوير العاملين في قسم الرقابة والتدقيق الداخلي وقسم المالية (الحسابات) , على ادارة الشركة الاستعانة بذوي الخبرات عند الدخول في الاستثمار في المستقبل , على ادارة الشركة الالتزام بالشفافية التامة من خلال الافصاح عن مقدار الخسائر المتوقعة من خلال الدخول بالاستثمارات المالية مما يساعد مستخدمي القوائم المالية على تحليل ودراسة هذه القوائم بشكل جيد من اجل اتخاذ القرارات اللازمة



Introduction

Under the development that the world is witnessing in various fields of knowledge and science, including the field of accounting, and to keep pace with this development, many organizations and bodies specialized in the field of accounting work have been established, including the International Accounting Standards Board (IASB), which issued (41) standards for the purpose of organizing accounting work worldwide. In Iraq, there is the Board of Accounting and Auditing Standards (IBAAS), which issued (14) accounting rules in order to organize the accounting work in companies operating in the local market. In spite of issuing the international standards and local rules, there are many local companies that still do not apply or apply part of these standards and rules and we will focus in this research on the accounting rule No.(14) for financial investments, as it is responsible for organizing financial investments in terms of determining the type of investments and ways to disclose them, as well as distinguishing between long and short-term investments, and despite the development of this accounting rule There are many risks in financial investments in the local market, but the company under research does not apply this rule, which leads to shading the financial statements issued by the company's management.

First Section: Research Methodology

1.1.Research Problem

The financial investments made by companies are one of the important sources in increasing their profits, so most companies study the financial situation of companies before entering the process of investing in the traded shares of those companies, and therefore the research problem is summarized by the company under research in investing in the shares of losing companies, but it did not disclose in the financial statements to clarify the loss, and this in turn led to the shading of the users of the financial statements. Therefore, the research problem is summarized in the following question: "What is the impact of applying the accounting rule No.(14) on the statements of the company under research".

1.2.Research Significance

The significance of the research revolves around defining the company's management with the importance of applying the accounting rules issued by the Iraqi Board of Accounting and Auditing Standards (IBAAS) and showing its impact on the financial statements in order to deliver useful financial information to the users of these statements and the possibility of relying on them in making future financial decisions.

1.3.Research Objectives

This research mainly aims to make the preparers and users of financial statements aware of the role that accounting rules can play at the level of information provided by corporate management to users of issued reports.

1.4.Research Hypothesis

The research is based on a main hypothesis that there is a clear impact on the statements prepared by the management of the company in question in the event of applying the accounting rule No.(14) paragraph on the non-temporary decline in the value of financial investments.



1.5.Temporal and Spatial Limitations of the Research:

The research was applied to the financial statements of the the Iraqi Date Processing & Marketing Co. (Tomoor) for the year ended 31/08/2019, and it was relied only on the statement of financial position (balance sheet) and the production, trading, profits, losses and distribution account.

1.6.Research analysis tools:

For the purpose of proving the research hypothesis, the following steps were applied to the financial statements of the research sample company:

- Determine the level of application of the paragraphs of the accounting rule No. (14) on the statement of financial position.
- Measuring and disclosing the elements of the statement of financial position in accordance with the requirements of Accounting Rule No. (14).
- Comparing the results between the company's information before and after applying the accounting rule, and identifying and analyzing the differences.

Second Section: Theoretical Aspect

2.1. Literature review

Abu Watfa (2009) **“The Role of Internal Audit in Improving the Efficiency and Effectiveness of Financial Investments”**: This study aimed to clarify the role of internal audit in evaluating the internal control system and indicate the extent of the importance of this evaluation on improving and efficiency of financial investments made by companies listed on the Palestine Stock Exchange through the commitment of internal audit units to professional standards. The study concluded that there is a role for those working the internal audit profession in financial investment operations, and its impact on improving the efficiency of these investments, which avoids companies entering or acquiring shares of losing or prone to loss companies.

Zaid (2015) **“The Role of Technical Analysis in Making an Investment Decision by Shares”**: This study aimed to identify the role played by technical analysis in making the decision to invest by shares. This study was applied to a group of banks operating in (Saudi Arabia, Jordan and Palestine). The study concluded that the technical analysis process has an effective impact on the investment decision-making processes by the management of the banks under study, as it had the effect of determining the appropriate time in the investment process, as well as determining the shares in which the banks under study can invest their money.

Nashwan (2017) **“Study of Testing the Relationship between Preparing Financial Statements and Rationalizing Investment Decision-Making”**: This study sought to achieve goals, the most important of which is determining the relationship between the components of financial statements from a balance sheet and income statement, as well as changing shareholders' rights and rationalizing decision-making in a group of companies operating in the field of public services as well as knowing the extent to which there is a conflict or connection between the employees of these companies in the field of preparing the financial statements by identifying (the scientific specialization and the job title) and its relationship to making investment decisions, and the study found the need to pay attention to the accounting information provided by the financial statements that were prepared by the companies to be invested in, so that investment decisions are not made on the basis of the personal desires of



the management, which leads to negative effects that can cause the company to invest in the shares of a losing company.

2.2. Investment

Definition of investment: Investment was defined as “the process of investing surplus funds in order to obtain assets from which the enterprise generates returns that lead to profits” (Nashwan, 2017:32) as it was defined as “purchasing a share in the capital of an enterprise through investment in stock and bonds as this enables its owner to obtain profits and interests” (Al-Radhi, 2018:10) and it is also known as “the process of accumulating money in order to obtain profits or a return in exchange for investing money, i.e. the flow of current funds in order to obtain a return in the future” (Ben Omar, 2017:104). It was also defined as “the process of obtaining a share in the capital through the purchase of stock or bonds and certificates of deposit and obtaining interests and the holder of these stock or bonds has a right in the firm issuing stock and bonds and is entitled to obtain a return as stipulated by law” (Hoshiar, 2003:1320).

Investment Objectives: The investment mainly aims to achieve profits (return) and maximize the wealth of investors, but although this is the main objective behind the investment process, it is not the only objective. There are other objectives for investment, including:

- Preserving what the investor owns of material or financial assets and has the right to dispose of them.
- Obtaining a stable financial return, through which we obtain uninterrupted cash flows, even in the short term and these returns have a current monetary value whose current financial return is higher than the cost in which they were obtained.
- Providing liquidity, although this liquidity is not the main objective, but it is necessary for the purpose of facing emergency conditions that need liquidity (covering current expenses, paying off outstanding debts).
- The goal of investment is to obtain permanent income that is able to meet the investor's commitment and help him achieve his personal desires and raise his standard of living. (Abu Al-Deif, 2011:17)

Importance of investment: Investment is an important factor through which to measure the extent of economic progress and measure the level of growth in the economies of countries. Investment is also important in the field of technology, as it helps to use modern tools at work through the use of global expertise, and also works to get rid of unemployment and raise the standard of living for employees. It also works to raise and support the infrastructure through the establishment of parks, resorts and schools (Shamout, 2008:10).

Investment areas: There are many areas of investment in which money can be invested and financial returns can be obtained, and in this research we will focus on areas of financial investment from which returns can be obtained, and these areas are:

- Debt instruments: Debt instruments represent one of the most important areas of money investment, as bonds or treasury bills are obtained that enable its owner or holder to obtain annual benefits.
- Ownership instruments: Ownership instruments (common stock, preferred stock) are considered as areas of financial investment in which the holder can obtain many privileges in addition to profits, including voting, participation in running the affairs of the firm and monitoring the work of the firm.



- Compound instruments: any portfolio of financial instruments that includes stocks and bonds and is less risky than the above fields as it includes multiple types of stocks and bonds, meaning in the event that one of the stocks and bonds suffers a loss, the rest of the portfolio helps cover the value of the loss. (Al-Radi, ibid:11).

Determinants of Investment Decision

For the investor to make his decision to invest, there are determinants that affect his decision directly, but these determinants differ from one investment to another, where the factor of technological development has an active role in the investment process and the creation of new opportunities, and the establishment of the firm using new production methods helps to increase the quality of the product, which helps to attract new investors. Also, expectations of the degree of risk play a role in knowing or anticipating economic conditions and indicating the extent of contraction or economic recovery, and this in turn helps to decide whether or not to invest and determine its size, and also helps determine areas in which the investor can invest his money, and that the size of the investment market is an important factor In making the investment decision, as the large market size leads to revenues, and helps to create new investment opportunities, and finally, the financial laws and instructions have an impact on the decisions of investors, and the most important of these factors is the issue of taxes, as it has an important role in determining and directing investors to their money. (Al-Subaie, 2012:33).

Investment Risks

The financial investments are exposed to risks and that these risks vary in terms of their degree and strength depending on the type of investment, so the investor must take the risks that may be exposed to the investment that he intends to invest his money in and the investor must be fully convinced about the risks that he may face in the case of investing his money in a field of investment and the risks were classified into regular risks, i.e., they are the risks related to the system as a whole, such as wars or internal events, changes in the political system and irregular risks. These risks are related to a specific sector only and the investor can protect his money from these risks through the diversification of investments. (Al-Radhi, 2018:28).

2.2.3. Accounting Rules

A set of accounting rules that regulate accounting work in Iraq have been developed by the Board of Accounting and Auditing Standards in the Federal Republic of Iraq, and among these rules are Accounting Rule No.(14) for accounting for investments, which was initiated on May 7, 2001. The objective of this rule is:

- Determining the types of investments, accounting for them and ways of disclosing them.
- Stating the difference or distinction between long and short-term investments.
- Distinguishing between investing in investment companies and investing companies.
- Stating the accounting methods for investments and treatments for investment exclusion or reclassification.

The scope of the rule was also determined through the methods of application, as it was shown that the application of this rule in companies that invest in other companies in order to obtain future returns. The rule addressed in paragraph (24) on long-term investments that the investing company should reduce the value of the investment in the event of temporary decrease in the value of the investment for the purpose of recognizing the impairment loss.

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Third Section: Applied Aspect

3.1. Brief profile of the company

The Iraqi Date Processing & Marketing Co. (Tomoor) was established on 29/01/1989 with a capital of (IQD 50,000,000 – Fifty million dinars) according to the certificate of the Ministry of Trade numbered S/3187 on 29/01/1989, and the nature of its work was determined by the operations of receiving, manufacturing, packing and marketing dates to the local and foreign markets. Due to the development witnessed by the company, its capital was expanded through public subscription operations where its capital became (17,250,000,000 – Seventeen billion two hundred and fifty million dinars) according to the decision of the General Assembly on 20/01/2013 and the company contributes to a group of mixed and private joint-stock companies, and the value of its total investments was (IQD 10,52,000,891 – One billion and fifty-two million eight hundred and ninety-one dinars). As a result of these investments, the company suffered losses in some companies, including the Iraqi Company for Oil Derivatives and Goods Transport as well as the importance of investments in the company's financial statements, where long-term financial investments constitute 13% of the assets of an amount of (IQD 84,302,566 – eighty-four million three hundred and two thousand five hundred and sixty-six dinars), according to what was stated in the company's financial statements for the financial year ended August 31, 2019; and information of the abovementioned company was chosen for not recognizing the loss resulting from the depreciation of long-term investments, according to what was stated in the accounting rule No.(14).

3.2. Loss Recognition

The company invests in the shares of the Iraqi Company for Oil Derivatives and Goods Transport registered in the Iraq Stock Exchange with 39,409,759 shares, and the cost of purchasing these shares was (IQD 71,804,580 – Seventy-one million and eight hundred and four thousand five hundred and eighty dinars), meaning that the cost of one share is (1,822) Dinars, while the price of one share in the Iraq Stock Exchange for the above company is (0,550) dinars, according to what was stated in the market bulletin on 31/08/2019. According to this drop in the share price, the company had to prove the loss as follows:

Share cost	(71,804,580)
Share value on 31/08/2019	(21,675,368)
	50,129,212 dinar

Since the company uses the unified accounting system for companies to record their accounting operations, it was supposed to make a provision for long-term investments, and upon reviewing the company's statements, the researcher found that the company made a provision according to its statements prepared on 31/08/2019:

Manual	Account Name	Amount
232	Provision for doubtful debts	19,005,281
235	Miscellaneous provisions	1,126,703

The value of these provisions does not include the provision for long-term investments, and since the investment in the shares of the Oil and Goods Transport Company, according to what was mentioned above, is a loss, it was the duty of the company to show the amount of the loss within the account of the provision for the decline in financial investments under the manual number (238), where the loss is proven under the following accounting entry:



Other expenses 39	50,129,212
Losses from decline in prices of financial investments 397	
Provisions 23	50,129,212
Provision for decline of financial investments 238	

After preparing this accounting treatment, the researcher will prepare the statement of financial position (balance sheet), production, trading, profits and losses and distribution account in addition to statement of other investments.

Table 1. Statement of Financial Position (Balance Sheet) as on August 31, 2019

Accounting Manual No.	Account Name	Before application	After application
11	Fixed assets	6,482,096,790	6,482,096,790
118	Deferred revenue expenditures	186,420,777	186,420,777
151	Long-term financial investments	84,302,566	84,302,566
	Total fixed assets	6,752,820,133	6,752,820,133
13	Inventory	777,741,632	777,741,632
152	Short-term financial investments	967,698,325	967,698,325
16	Debtors	18,051,241,947	18,051,241,947
18	Cash	189,100,742	189,100,742
	Total current assets	19,985,782,646	19,985,782,646
	Total assets	26,738,602,779	26,738,602,779
21	Paid capital	17,250,000,000	17,250,000,000
22	Reserves	11,709,604,052	1,165,947,484
232	Provision for doubtful debts	19,005,281	19,005,281
235	Miscellaneous provisions	1,126,703	1,126,703
238	Provision for decline of financial investments	0	50,129,212
225	Accumulated deficit	(7,963,856,388)	(7,963,856,388)
26	Creditors	5,722,723,131	5,722,723,131
		26,738,602,779	26,738,602,779



Table 2. Production, trading, profits, losses and distribution account for the financial year ended 31/08/2019

Accounting Manual No.	Account Name	Before application	After application
41-45	Current activity revenue	3,069,178,663	3,069,178,663
	Less: current activity cost		
5	Production cost	1,541,329,294	1,541,329,294
6	Production services cost	2,167,494,320	2,167,494,320
	Net production cost	3,708,823,614	3,708,823,614
35	Merchandise purchases for sale	6,525,000,000	6,525,000,000
4122	Change in complete production inventory	5,985,624	5,985,624
	Commercial activity cost	4,367,309,238	4,367,309,238
	Total surplus or deficit	(1,298,130,575)	(1,298,130,575)
7	Deduct: Marketing services cost	48,166,540	48,166,540
	Surplus (deficit) of production and trading	(1,346,297,115)	(1,346,297,115)
46	Add: Credit interests of lands' rents	2,539,060	2,539,060
8	Less: Administrative and financing services cost	1,059,663,890	1,059,663,890
	Surplus (deficit) of operating activity (current operations)	(2,403,421,945)	(2,403,421,945)
	Add: Other transfer revenues		
48	Transfer revenues	1,625,100,000	1,625,100,000
49	Other revenues	1,153,188,305	1,153,188,305
	Total other transfer revenues	2,778,288,305	2,778,288,305
	Less: Other transfer expenses		
38	Other transfer expenses except account (384)	37,875,862	37,875,862



39	Other expenses	256,990,601	307,119,813
	Total other transfer expenses	294,866,463	344,995,675
	Net surplus or deficit	79,999,897	29,870,685
	Surplus is distributed as follows		
	25% expansion reserve	19,999,897	29,870,685
	15% income tax share	8,999,988	4,480,603
	5% compulsory reserve	2,549,997	1,493,535
	55% accumulated surplus	48,449,938	16,428,875
		79,999,897	29,970,685

3.3. Proving the hypothesis

Through the application of the accounting rule No.(14) paragraph on the non-temporary decrease in the value of financial investments on the balance sheet (the statement of financial position) and the production, trading, profits, losses and distribution account for the financial year ended 31/08/2019, this led to the presentation of an accounting entry for the purpose of proving the value of loss in the shares of the Iraqi Company for Products and Goods Transport is in the amount of (IQD 50,129,212), where the account of the losses of the decline in the prices of financial investments (397) appeared, and this in turn will show the above amount in the production, trading, profits, losses and distribution account, and this in turn will lead to a decrease in the amount of the distributable accumulated surplus or (deficit) from (IQD 79,999,897) to (29,870,685) dinars, and that this decrease will affect the shares imposed by the law, as it led to a decrease in the value of taxes imposed on the company, which must be paid to the competent authorities (General Commission for Taxes), which is an amount that must be paid and this causes the company to have real cash outflows, while the amount of losses in the price of financial investments is an account used to avoid expected losses and the company does not have a real payment process. The application of the above rule has an impact on the balance sheet (statement of financial position) through the emergence of an allowance account for the decline in financial investments (238), which can be used in subsequent years in order to avoid the company from being exposed to the risk of bankruptcy in the event that the loss continues in the company in which the funds are invested Shareholders, that the failure to apply this accounting rule indicates the management's lack of commitment to the accounting rules, and indifference to the risks that the company may be exposed to as a result of investing in losing companies, which indicates the absence of a special section for risks, and that the company is no longer a feasibility study for the purpose of knowing the companies listed in The Iraqi Stock Exchange, because the Iraqi Company for Oil Derivatives Transport has been a losing company for years, because the company operates in a market that may be exposed to risks, whether they are regular or irregular due to the conditions that Iraq is going through and the presence of competing companies that can operate under these risks, and the company under research works in order to get rid of the company's stock above, and in terms of investment



decisions, it should have been based on a good study through the use of modern tools in analyzing the financial statements of the companies to be invested in.

Fourth Section: Conclusions and Recommendations

4.1. Conclusions

- 1- It was found through the research that the company under research did not adhere to the accounting rules, especially the accounting rule No.(14).
- 2- There is a clear weakness among the workers in the Internal Audit and Control Department and the Accounts Department, as we did not notice that there were notes sent to the company's management in order to apply the accounting rules.
- 3- Many of the employees in the Control and Internal Audit Department and the Accounts Department do not have sufficient academic qualifications, as many of them hold certificates that do not qualify them to work in the above two departments.
- 4- The researcher did not notice any initiative from the company's management to get rid of the shares of the Iraqi Company for Oil Derivatives and Goods Transport.
- 5- When buying shares from the Iraqi Stock Exchange, the company did not rely on feasibility studies.
- 6- The company did not notice the size of the risks that could fall into it when investing in the Iraqi Company for Oil Derivatives and Goods Transport, due to the absence of a risk management department.

4.2.Recommendations

- 1- The company's management should develop the employees in the Control and Internal Audit Department and the Accounts Department and seek the assistance of those who hold specialized accounting certificates.
- 2- The company should reconsider its long-term financial investments and focus on the profitable and most stable companies in the labor market.
- 3- The company's management should be fully committed to transparency by disclosing the losses it incurs as a result of financial investments in order to give information to users of the financial statements, whether internal or external.
- 4- The company should seek the assistance of companies specialized in financial investments in order to avoid making losses and seek the assistance of specialists in this field.
- 5- The companies, including the company under research, should prepare a feasibility study for the financial investments that want to invest their shares in order to avoid entering into losing investments.

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