Effect of Fair Value Based on IFRS 13 on the Qualitative Characteristics of Accounting Information:
An Exploratory Study in the Iraqi Environment

Ahmed Jasim Hameed, Tikrit University, Iraq

Anfal S. Shareef, Nineneh Northern Technical University, Iraq

Sameer Imad Shaban, Tikrit University, Iraq

ABSTRACT

The aim of the study to investigate the effect and relationship between accounting of fair value according to the standard of IFRS 13 and the qualitative characteristics of accounting information. The fair value made a good contribution in the field of accounting because it faced the deficiency in the principle of historical cost, which was subjected to many criticisms. The researcher designed a questionnaire where the number of the valid questionnaires was 135. The sample was distributed according to demographic variables (academic achievement, educational qualification, and years of experience). The researcher found through statistical analysis that there is a positive significant relation between the standard of fair value (IFRS 13) and the qualitative characteristics of the accounting information. Also, there is an effect of IFRS 13 on qualitative characteristics.

KEYWORDS

Accounting of Fair Value, IFRS 13, Qualitative Characteristics of Accounting Information

INTRODUCTION

Accounting problem arises from time to time; Accompanying that is the increasing criticism of the accounting profession regarding the inability to reach a standardized and acceptable concept of general acceptance. Perhaps this problem casts a shadow over the information contained in the financial statements and the extent of their reliability, especially in times of crisis, so the accounting measurement problem imposed itself during the global financial crisis, 2008 (Al-Jaarat, Al-Tabari, 2013). Despite the great support that accounting of fair value receives in preparing the financial statements for companies, the fair value faces many difficulties, constraints and scientific and practical problems in how to reach fair value estimates for the elements of financial statements and the implications of these investments for the performance of accountants and to achieve the requirements of qualitative characteristics of accounting information (Musa, Khalaf, 2018). providing appropriate and useful information to the beneficiaries is one of the most important objectives of the financial statements, which rely on these statements to make their decisions (Tkachuk, 2019) The financial statements must be genuinely reflecting the financial position and business results. It is necessary to show the assets and liabilities of the company at fair value because it is more objective and beneficial

to the beneficiaries. The process of preparing financial statements uses several principles and tools for measurement, many of these foundations were recognized in the accounting standards by the IASB and FASB in order to facilitate making the necessary decisions in a timely manner for the users.

The fair value made a good contribution in the field of accounting thought because it has faced the insufficiency of measure the historical cost(Tkachuk, 2019). Fair value contribution by providing appropriate and objective information about the financial position and economic flows of the firm, so that it helps many beneficiaries, including the firm, to make appropriate decisions. Therefore, fair value accounting covered many shortcomings in the process of measurement and disclosure, despite some criticism directed by supporters of the historical cost principle.

BACKGROUND

This research focuses on two aspects, (1) Fair value according to (IFRS13); (2) Qualitative Characteristics of Accounting Information. Researchers tried to found the relation and effect between them.

FAIR VALUE ACCORDING TO (IFRS13)

CONCEPT OF FAIR VALUE

The most important definitions that dealt with the concept of fair value, we find: The Financial Accounting Standards Board definition: (FASB, 2006): "The price that can be obtained as a result of asset's selling or paid to settle a liability in a regular transaction between the participants at the measurement date".

Definition of GAAP, The fair value of any asset is defined: the amount by which that asset can be sold or bought, in a real ongoing process between two parties who are willing, in case no liquidation (Hitchner, 2003).

Definition of International Accounting Standards Board (IASB): The amount that can be exchanged for an asset or settlement of an liabilities between parties who wish to be treated on condition that they are independent." (Kieso & Weygandt, 2011).

Standard of fair value (IFRS 13) is the only standard that speaks in detail on fair value measurement. It was issued in May 2011 by the International Accounting Standards Board and it was implemented in 2013, and this standard was the result of a 6-year effort between the International Accounting Standards Board and the Financial Accounting Standards Board. This standard was preceded by long and difficult discussions, and its issuance had two reasons: The first reason: IASB's insistence on issuing a standard that defines fair value, the other reason relates to the coincidence of the dialogue on this standard with the global financial crisis and the attempt of relevant parties to solve it (Andrew Watchman, 2012).

VALUATION APPROACHES USED TO MEASURE FAIR VALUE

There are three approaches to measure fair value according to IFRS 13:(Andrew Watchman, 2012), (IFRS 13 Fair Value Measurement, 2012) (Aziz, 2015)

1- Market approach: It means that the institutions depend on the information and data that are available in the market to assess the fair value. This approach uses prices and related information arising from the market transactions of enterprises with identical and similar assets and liabilities. Likewise, valuation techniques include the pricing matrix that is used as a basis for evaluating

securities that depend not only on the announced prices of securities, but also on the securities 'relationship to the index.

2- Income approach: This approach is followed by shifting the future amounts of cash flows or revenues and expenses into one amount, thus the fair value reflects the expectations of current market about future amounts.

3- Cost approach: According to this approach, it is based on the amount that will be required now to compensate for the ability to provide services for the asset (current replacement cost).

REQUIREMENTS FOR A FAIR VALUE MEASUREMENT

The measurement process for the fair value of the assets and liabilities in the facilities that perform the measurement process requires: (Hailan, 2019)

1- Must determine assets and liabilities that required to measured.

2- Must determine the main market for the assets and liabilities that required to measured, or the market that are most advantageous, in case of missing of a main market for the assets and liabilities.

3- Defining an evaluation hypothesis regarding the non-financial assets that are compatible with the measurement process in accordance with the maximum and optimum use of these assets.

4- Determine the evaluation method that is appropriate for the measurement process, taking into account the available data that represent inputs to the measurement process.

QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

Information at the present time has become a valuable commodity for many parties, as the success or failure of some companies depends on the nature of the information available to them and the reliability of this information. There may be companies have become specialized in providing data and information to beneficiaries because the means of transferring information and communicating it to beneficiaries have evolved greatly. . Where the information is considered good if it is useful in the field of rationalizing decisions. The quality of information means those characteristics that must be characterized by accounting information (Saleem, 2016).

AL-aga, define the qualitative characteristics of information: They are the characteristics that must be included in the accounting information provided in the financial statements so that they become more useful to decision makers, and become high-quality information. (AL-aga, 2013).

Based on (Conceptual Framework for Financial Reporting, 2018) that classified qualitative characteristics of accounting information into two gropes: Firstly, fundamental qualitative that include two characteristics, relevance & Faithful Representation. Information will be relevance if it is able to help users of information to form expectations about the results of future events, or past and present, financial information is considered relevance. Relevance include sub-characteristics (Predictive value, Confirmatory value & Materiality) (Abu Nassar, Hamidat, 2016).

The financial information should show what it is aimed to represent. Meaning, it should present what actually are present and what actually are happened. financial information is deem faithful representation If it is characterized by:(Completeness, Neutrality, Free from error)

Kushan, pointed out that information must be relevance and faithful representation; in order to be beneficial given that an real representation of an inappropriate phenomenon or an incorrect representation of a suitable phenomenon does not help users in making good decisions. Therefore it is usually more practical, efficient and effective to apply the fundamental qualitative by taking into account the effects of the enhanced characteristics and cost constraints (Kushan, 2015).

ENHANCED QUALITATIVE CHARACTERISTICS

There are four enhancements to accounting information based on (Statement of Financial Accounting Concepts No. 8, 2018) (Abu Nassar, Hamidat, 2016).

A. Comparability: Enable to make comparative analysis within the entity and across entities, and year with other years.
B. Verifiability: Helps to confirm users that information can be ensure faithfully.
C. Timeliness: means having information available to decision-makers at the proper time before it loses its capacity to influence decisions.
D. Understandability: understandability requires financial information to be understandable or comprehensible to users with reasonable knowledge of business and economics actives.

THE EVOLUTION OF THE QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

In the framework of consonance project between the FASB and the IASB appeared the views of primary to improve the conceptual framework of the financial report in 2006. In May 2008 a draft explanatory appeared. The most important aspects development are:

1-Replacing the concept of reliability with the concept of faithful representation.
2- Eliminating the concept of timeliness as one of the main components of the relevance characteristics, and considering the timeliness as one of the secondary qualities. In addition to some modifications that show in table below:(Kaminski, 2001)

THE OBJECTIVES OF THE FINANCIAL STATEMENTS

The first and primary goal of the financial statements - as mentioned above is to provide relevance information to users in order make appropriate and rational decisions. Because of the changes and developments that have occurred in the social, economic, political and technological areas, requirements of users of the financial statements increase. It also led to the diversification of the information needs of these users, thus multiplying the objectives of the financial statements.

FASB has Identified the objectives of the financial statements in the (SFAC No. 1) issued in 1978 in the light of the True blood report completed in 1973 and was as follows (Al-Shirazi, 1990):

1- The primary objective of the financial statements is to provide useful information to help make decision.
2- Providing useful information for internal and external users in order to make forecasts, comparisons and evaluation of the expected cash flows in terms of quantity, timing and degree of uncertainty.
3- Providing realistic information and explanations about the operations and events that help in predicting and comparing and assessing the ability of economic entity to achieve income.
4- Provide a financial statement and income statement as well as financial estimates that are useful in the field of forecasting, comparison, and evaluation of revenues (ability to achieve income).
5- Providing useful information in the field of evaluating the efficiency of management in using available economic resources and the extent of their effectiveness in achieving the goals of the economic entity.
6- Reporting on those activities carried out by the economic entity, which have an impact on society in general.

RESEARCH HYPOTHESES

To reach the goal of the study and answer the questions raised in previous paragraph, The researcher has developed a two main hypotheses:
- H1: There is a significant correlation between the accounting of fair value based on (IFRS 13) and the qualitative characteristics of the accounting information.
- H2: There is a significant effect between the accounting of fair value based on (IFRS 13) and the qualitative characteristics of the accounting information.

METHODS

SOCIETY AND STUDY SAMPLE

The questionnaire was used by asking Twenty four questions divided into two parts, the first part is questions about fair value and the second part concerns the qualitative characteristics of accounting information. The number of lists is 300, and the sample list is 135.

Table 1. Number of distributed survey lists and received from study sample individuals

Total	Title
300	Number of distributed lists
135	The number of lists received valid for analysis
%45	Percentage of valid lists for analysis

The questionnaire included a set of statements to measure the variables of the study, the first independent (Fair Value based on standard of IFRS 13), the second dependent qualitative characteristics of accounting information. First variable include eight questions. The second variable include sixteen questions.

Table 2. Study variables and phrase numbers in the survey list

Number	Range	Study variables	
8	1-8	IFRS13	Independent
16	9-24	qualitative characteristics	
8	9-16	fundamental qualities	Dependent
8	17-24	Enhancing qualities	
20	1-24	Total	

Table (2) shows the study variables. Research has two variables, firstly IFRS 13, Secondly, qualitative characteristics that classified into two group fundamental qualities And Enhancing qualities

DEMOGRAPHIC ANALYSIS

Demographic analysis of the individuals surveyed

Table 3. Distribution of sample items according to demographic variables

Percentage %	Number		
39.3	53	Master student	Academic achievement
32.6	44	Master	
20.7	28	PhD student	
7.4	10	PhD	
40.7	55	Researcher	Qualification
34.1	46	assistant lecturer	
17.0	23	Lecturer	
8.1	11	Assistant lecturer	
	--	Professor	
14.1	19	Less than 1 year	Year of experience
37.8	51	From 1-5 years	
31.9	43	From 6-10 years	
16.3	22	More than 11 years	

Table (3) include distribution of sample items according to demographic variables. We divided demographic variables based on Academic achievement, qualification and year of experience.

1- Academic achievement classifies into Master student, master, PhD student and PhD.
2- Qualification classifies into Researcher, assistant lecturer, lecturer, assistant lecturer and professor.
3- year of experience classifies into Less than 1 year, from 1-5 years, From 6-10 years and more than 11 years.

Table 4. Frequency of Academic achievement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Master student	53	39.3	39.3	39.3
	Master	44	32.6	32.6	71.9
	PhD student	28	20.7	20.7	92.6
	PhD	10	7.4	7.4	100.0
	Total	135	100.0	100.0	

Table (4) include frequency Table about Academic achievement. Table show number of frequency, percentage and valid percentage.

Table 5. Frequency of Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Researcher	55	40.7	40.7	40.7
	Assistant lecturer	46	34.1	34.1	74.8
	Lecturer	23	17.0	17.0	91.9
	Assistant lecturer	11	8.1	8.1	100.0
	Total	135	100.0	100.0	

Table (5) include frequency Table about Qualification. Table show number of frequency, percentage, and valid percentage.

Table 6. Experience

			Percent	Valid Percent	Cumulative Percent
Valid	**Less than 1**	**19**	**14.1**	**14.1**	**14.1**
	From 1-5	51	37.8	37.8	51.9
	From 6-10	43	31.9	31.9	83.7
	More than 11	22	16.3	16.3	100.0
	Total	135	100.0	100.0	

Table (6) include frequency Table about year of experience. Table show number of frequency, percentage and valid percentage.

In addition tables (4,5,6) show the following:

1- The ability to rely on the responses of the research sample, because it includes multiple categories from the study community.
2- The research sample has reasonable experience in practice and practices.
3- The diversity of academic and professional qualifications, that is, the possibility of obtaining objective answers.

RESULT

The Validity and Reliability Test

Cronbach's Alpha is %86.8, and this is a very good percentage. This indicates the high stability of those investigating them, which is reflected in the variables of the study.

Table 7. Reliability Statistics

Cronbach's Alpha	N of Items
.895	24

DESCRIPTIVE ANALYSIS

Descriptive analysis includes mean, standard deviation, and significant

Table 8. Statistics

			Qualitative	Fundamental qualities	Enhance
N	Valid	135	135	135	135
	Missing	0	0	0	0
Mean		4.0222	4.2241	4.2296	4.2185
Std. Deviation		.49481	.43746	.49063	.45114
Minimum		3.00	3.00	3.00	3.00
Maximum		5.00	5.00	5.00	5.00

The table above show the following:

The level of investigative awareness of the fair value according to the IFRS13 standard was high, as the arithmetic mean (4.0222) and the standard deviation (0.4948), that indicate the awareness of the importance of the standard in accounting work and its general impact. in addition, the investigators 'awareness of the qualitative characteristics of accounting information is high, as the mean (4.2296-4.2185) and the standard deviation (0.49063 - 0.45114), respectively.

TEST THE NORMAL DISTRIBUTION OF DATA

In order to verify the assumption of the normal distribution of data, the researcher relied on calculating the value of the skewness coefficient (skewness) for all study variables as the data approaches the normal distribution if the value of the coefficient of torsion is between (1 to -1).

The distribution is normal because it does not exceed -1

Table 9. Skewness

		IFRS13	Qualitative
N	Valid	135	135
	Missing	0	0
Skewness		-.141-	-.858-
Std. Error of Skewness		.209	.209

TEST HYPOTHESES

Test First Hypotheses

Which is:(There is a significant correlation between the accounting of fair value according to (IFRS 13) and the qualitative characteristics of the accounting information)

The relationship is significant if (Sig.) Is less than 5%.

Table 10. Correlation

		IFRS13
Qualitative	Pearson Correlation	.692**
	Sig. (2-tailed)	.000
	N	135
Fundamental	Pearson Correlation	.615**
	Sig. (2-tailed)	.000
	N	135
Enhance	Pearson Correlation	.673**
	Sig. (2-tailed)	.000
	N	135

1- There is a positive moral relationship. The table show there is a positive relation between standard of IFRS13 and qualitative characteristic of accounting information (0.692).
2- There is a positive moral relationship. The table show there is a positive relation between standard of IFRS13 and qualitative characteristic of accounting information (0.615).
3- There is a positive moral relationship. The table show there is a positive relation between standard of IFRS13 and characteristic of accounting information (0.673).
    **: It means that the correlation is significant at (0,01) *: It means that the correlation is significant at (0,05)

TEST SECOND HYPOTHESES

which is (There is a significant effect between the accounting of fair value according to (IFRS 13) and the characteristics of the accounting information.)

Table 11. The effect of IFRS13 on the qualitative characteristics of accounting information as a whole

Adjusted R2	F Value	Significance		R2	R
475	122.350	.000		.479	.692
Regression coefficient (β)	(T) Value	Significance	Level of significance	Variable	
.692	11.061	.000	0.05	IFRS13	

    Source: Table prepared by researchers

1- There is a strong moral relationship between the standard of fair value IFRS13 and the Qualities characteristics of the accounting information, as the value of R is (0.692), that shown in Model Summary.
2- The value of R Square 0.479 that indicates standard of fair value the IFRS13 explains 47.9% of the changes that occur in the qualitative characteristics of the accounting information, as shown in table of Model Summary.
3- The significance of the regression model is characterized by stability, with a value of F 122.350, which is significant at the level of 0.000 that appears in the ANOVA table.

4- The value of the regression coefficient β was 0.692, which appears in the table of Coefficients. The significance effect of standard of the fair value IFRS13 on the enhance qualitative characteristics of the accounting information, at the level of significance 0.000.

5- significance stability of the regression coefficients for IFRS13, the value of T was (11.061) at the level of significance 0.000 that appears in the Coefficients table.

CONCLUSION

To sum up, The fair value played an important role in the field of accounting thought because it works to face insufficiency of measure the historical cost. Users of Accounting information want to obtain more appropriate information that helps them in taking appropriate decisions. Whereas, the fair value helps provide appropriate and objective information that helps different parties, including the unit, in taking appropriate decisions. Therefore, fair value accounting covered many deficiencies in the measurement and disclosure process, despite some criticism directed at the principle of historical cost. The researcher found that there are in significant relation between accounting of the fair value and qualitative characteristics of the accounting information whether fundamental or enhancing characteristics. Furthermore, there are significant effect between accounting of the fair value and qualitative characteristics of the accounting information. So, the researchers found accounting of fair value meet user requirements very much.

REFERENCES

Abu Nassar, H., & Hamidat, H. (2016). International Accounting and Financial Reporting Standards: Theoretical and Practical Aspects. Academic Press.

Al-aga, T. B. J. (2013). *The Importance of Accounting Measurement Based on Fair Value in Maximizing the Specific Characteristics of Accounting Information - A Field Study on Local Banks in Palestine* (Master's thesis). Commerce College, Islamic University of Gaza.

Al-Jaarat, K. & Al-Tabari, M. (2013). Accounting measurement risks and their reflection in the financial statements during the global financial crisis. *Journal of Baghdad College of Economic sciences University, 34*, 233-258.

Al-Shirazi, A. M. (1990). *Accounting Theory*. That Al Salasil Printing and Publishing.

Andrew W. (2012). *International Financial Reporting, Spotlight on IFRS, The IASB publishes New standard on fair value measurement and disclosures*. World Bureau of IFRS Delloite.

Aziz, S. (2015). *An analytical study of fair value in light of IFRS 13 standard in the Algerian environment/field study* (Master thesis). Faculty of Economic and Commercial Sciences and Planning Sciences, Kasadi University.

Conceptual Framework for Financial Reporting. (2018). Hong Kong Institute of Certified Public Accountants.

Durakovic, B., & Cosic, A. (2019). Impact of quality and innovation strategies on business performance of Bosnian B2B and B2C companies. *Sustainable Engineering and Innovation*, *1*(1), 24–42. doi:10.37868/sei.v1i1.96

Fair Value Measurements. (2006). *Financial Accounting Standards Boards, No 157*. Author.

Hailan, A. G. (2019). *The Impact of the IFRS 13 Fair Value Criteria on the Quality of Accounting Profits - An Applied Study in the Iraqi Banking Sector* (Master Thesis). College of Administration and Economics, Tikrit University.

Hamidat, J. (2014). Expert of international standards for financial reporting. Arab International Society of Certified Accountants.

Hitchner, J. R. (2003). *Financial Valuation-Application and Models* (1st ed.). John Wiley& Sons, Inc.

IFRS 13 Fair Value Measurement. (2012). *Illustrative examples to accompany IFRS 13 Fair Value Measurement Unquoted equity instruments within the scope of IFRS 9 Financial Instruments.* IFRS Foundation Education Initiative.

International Financial Reporting Standard. (2013). *IFRS 13 Fair Value Measurement*. International Accounting Standards Board.

Kaminski, K. A. (2011). Accounting Conceptual Frameworks: A Comparison of FASB and IASB approaches, International Journal of Business. *Accounting and Finance*, *5*(1), 1–12.

Kieso, D. E. & Weygandt. (2011). *Intermediate Accounting* (9th ed.). John Wiley & Sons, Inc.

Kushan, H. W. (2015). *The Impact of Applying Continuous Auditing on the Level of the Main Qualitative Characteristics of Financial Information* (Master Thesis). Faculty of Commerce, Mansoura University.

Musa, Th., & Khalaf, A. (2018). the effect of applying fair value accounting on the qualitative characteristics of accounting information and its implications for the accounting profession - an applied study on the Iraq Stock Exchange. *Al-Muthanna Journal of Administrative and Economic Sciences*, *8*(2), 71–82.

Salim, H. H. (2016). *After the application of the fair value standard at the level of the main qualitative characteristics of accounting information -an applied study on commercial banks in the Republic of Iraq* (Master's thesis). College of Commerce, Mansoura University.

Statement of Financial Accounting Concepts No. 8. (2018). *Conceptual Framework for Financial Reporting.* Financial Accounting Standard Board, Financial Accounting Foundation.

Thivagar, L. M., Hamad, A. A., & Ahmed, S. G. (2020). Conforming dynamics in the metric spaces. *Journal of Information Science and Engineering*, *36*(3), 279–292.

Thivagar, M. L., Ahmed, M. A., Ramesh, V., & Hamad, A. A. (2020). Impact of non-linear electronic circuits and switch of chaotic dynamics. *Periodicals of Engineering and Natural Sciences*, *7*(4), 2070–2091. doi:10.21533/pen.v7i4.1062

Tkachuk, N. V. (2019). Historical Cost and Fair Value: Advantages, Disadvantages, Application. *Tarih Kültür ve Sanat Arastirmalari Dergisi*, *8*(1), 173–182. doi:10.7596/taksad.v8i1.2052

Ahmad Jasim Hameed is an Assistant Lecturer of Business Administration at the College of Administration & Economics, Tikrit University. He obtained his Master degree in Accounting from Fairleigh Dickinson University/U.S. in 2014.

Anfal Sabir Shareef is an assistant lecturer of Technical Institute at Nineveh Northern Technical University, Iraq. she obtained her Master degree in Accounting from Mosul University/U.S. in 2009.

Sameer Imad Shaban is an Assistant Lecturer of Business Administration at the College of Administration & Economics, Tikrit University. He obtained his Master degree in Accounting from Tikrit University/Iraq in 2019.