

Perceived Challenges of IFRS Acceptance among Iraqi Firms: Do Benefit of IFRS matter

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Abstract

This study investigates some challenges confronting IFRS acceptance with the mediating effect of IFRS among Iraqi firms. The data was collected from 397 respondents who are senior accountant, CFO, and other accounting officers from selected firms in the Kurdistan region of Iraq, and partial least square structural equation modeling (PLS-SEM) was used for the data analysis. The findings showed that company size, government policy, operational challenges, cultural factors and IFRS benefit has a significant and direct influence on IFRS acceptance. In addition, IFRS benefit was found to mediate the relationship between government policy, company size, operational challenges and cultural factors and IFRS acceptance. Finally, both theoretical and practical implications were provided in the study for the scholars, preparer and users of financial standard regulations in Kurdistan firms.

Keywords: Accounting practices; IFRS; Financial statement; PLS-SEM; Iraq

To cite this article: Hamawandy,N,M,Omer,A,J,Kakil,R,M and Qader,A,N.(2021) Perceived Challenges of IFRS Acceptance among Iraqi Firms: Do Benefit of IFRS matter. *Review of International Geographical Education (RIGEO)*, 11(10), XXXX-XXXX. doi: 10.48047/rigeo.11.10.XXXX

Submitted: 09-10-2020 • **Revised:** 11-12-2020 • **Accepted:** 13-02-2021

Introduction

More than a decade ago, a new financial reporting standard – “International Financial Reporting Standards (IFRS)” was developed by the “International Accounting Standard Board (IASB)” which in addition facilitates the global use of the new accounting reporting standard (Ahmad, 2019; Ionas, cu, Ionas, cu, Olimid, & Artemisa Calu, 2007; Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). There have been huge supports by the development of multinational enterprises, as well as the increasing globalization of capital markets towards the promotion of IFRS adoption convergence (Maradona & Chand, 2018; Phan, 2014; Rodrigues, Schmidt, & dos Santos, 2012). It has been indicated in several studies that multinational firms stands the chance of benefiting from the IFRS adoption. Specifically, the studies of (Chand, 2005), (Irvine; Miao, 2017; Phan, 2014) opined that the multinational firms’ cost of preparing multiple set of financial statement under different accounting standards will be lowered with the use of IFRS. Especially owing to the required knowledge and skills possessed by the international firms to apply IFRS, which could enable them to gain comparative advantage over local firms in accepting IFRS (Maradona & Chand, 2018; Miao, 2017; Odugbesan & Aghazadeh, 2021) suggests that a uniform set of global financial standards is required for globalization of capital markets, so as to ameliorate the financial reporting costs, as well as enhancing the comparability of financial information. Given these, the utilization of IFRS has been on increase. For instance, according to (Miao, 2017), the IASB survey revealed that almost 130 countries have mandated mostly all domestic firms and financial institutions listed in their capital market to adopt IFRS in preparing their financial statements (Chand, 2005; Maradona & Chand, 2018; Miao, 2017). Meanwhile, regardless of the global adoption of IFRS, literature suggests that developing countries especially are facing challenges in some aspect like absence of essential infrastructure for the IFRS application consistency. Therefore, there is possibility of accounting standards convergence on “de jure” level not necessarily results to “de facto” convergence. For example, the adoption of IFRS in Nepal does not tantamount to enhancing the comparability and transparency of financial reporting from the firms in the country (Ahmad, 2019; Poudel, Hellmann, & Perera, 2014). This according to (Poudel et al., 2014) was attributed to contextual factors like corruption, underdeveloped capital marker, and the absence of qualified accounting professionals are capable of hindering the application and interpretation of IFRS in Nepal. Similarly, the non-consistence of Turkish listed firms with the application of IFRS in spite of the mandatory adoption of IFRS since 2005 was reported in the study of (Misirlioğlu, Tucker, & Yükseltürk, 2013). The authors stressed that some distinct factors of the country like “taxation-oriented financial reporting tradition”, absence of sufficient enforcement mechanisms, as well as inadequate “management information systems” could possibly constitute a clog in wheel for the consistent IFRS implementation.

Moreover, some “country-specific factors”, “firm-specific factors” and “industry factors” are important elements that determine the effective IFRS implementation. In the literature, firm size for instance was identified as one of the important factors that determine the preparedness of firms in IFRS application, as well indicate that big firms possessed the incentives to enhance the quality of financial reporting (Ahmad, 2019; Guerreiro, Rodrigues, & Craig; Pricope, 2016). Moreover, it was opined in the study of (Stadler & Nobes, 2014) that industry factors have potential of affecting the choice of IFRS policy, partly because firms tends to keep choice of policy alignment with industry peers. In addition, “fair value measurement” for instance could likely be a challenge in certain industries. An example was demonstrated in the study of (Mande, 2014) that the IAS 40 adoption and the requirement which mandated all firms invested in properties to display “fair values” of these assets, whether through “recognition” or “disclosure” have not removed differences in “information asymmetry” among the real estate industry listed companies in the European Union (EU). In reference to Iraq, it was evident in the study some studies that these challenges are prevalent towards the acceptance of IFRSs in Iraq (Al-Shammari, Brown, & Tarca, 2008; Alaraji, Alazzawi, & Yaseen, 2017; M. A.-A. Ibrahim, Stanton, & Rodrigs, 2014). Meanwhile, the incompatibility between existing national institutional structure and IFRS, as well as the challenges linked to a particular industries or firms’ size could lead to unintended consequences, like reduction in the reliability of financial reporting. This is capable of constituting a clog in the wheel of achieving the intended objectives of adopting IFRS, such as enhancing the comparability and transparency of financial information.

Though, some studies have investigated the challenges associated with global adoption of IFRS, studies on Iraq that revealed the obstacles to the acceptance and implementation among the

firms are scant. This constitutes the motivation of this study. Iraq is an Arabic country that operates a legal system which is based on the civil law modeled after Egyptian Civil Code. But, the country Civil Code in addition incorporates certain properties of Sharia law. (Keister, 1963) posited that accounting practices in Iraq is dates back to the Mesopotamians (4500 B.C), in addition, "Unified Accounting Standard" has been in use which was implemented in 1969 by the Ministry of Trade, and both trade and industry sectors have been applying it. Among the requirement of the UAS is the "double-entry recording" which is aim at standardizing the format for the preparation of financial statement (Al-Najjar, 1986; Sharma, Joshi, & Kansal, 2017). According to (Khdir & Biatek-Jaworska, 2020), the UAS has been "a rule-based" rather than "principle-based systems" which makes it to be parallel to the US "Generally Accepted Accounting Principles" (GAAP), and that has made the government to be actively controlling the structure of the accounting system in Iraq. The promotion of the adoption and implementation of IFRS standards is being undertaken by the "Iraq Union of (Al Mutawaa & Hewaidy, 2010; N. Albu & Albu, 2012)" through the education and training support for accountants in those standards with the aim of ensuring that the accountant learn the techniques of these standards implementation. Therefore, all companies whose securities are listed on the stock market and publicly trading are mandated to implement full IFRS, included also the private banks, private shared companies and consultancy companies. Meanwhile, only few studies dealing with the IFRS adoption by the companies in Iraq, they have still remained limited as compared to the studies pertaining to the developed countries. The difficulties in applying IFRS in large companies that use IFRS to implement IFRS in Iraq have not been identified. Different difficulties are reported between the countries that apply IFRS standards and the countries that prepare financial statements (Ahmad, 2019; Khlif & Chalmers, 2015; Outa, 2013). In the case of Iraq, particularly with regard to cultural and practical challenges and industrial accounting information systems, the challenges and outcomes that companies may face have not been clearly identified.

The aim of this thesis is to determine the difficulties in adopting IFRS for listed and non-listed companies on the Iraqi stock exchange as well as their impact on corporate decisions to accept IFRS. In particular, the study examines how the size of companies, cultural factors, the nature of the industry, and practical difficulties in applying IFRS affect the decision-making process by final authors to accept IFRS in Iraq. The contribution from this study will makes some valuable contributions to the accounting literature and practices. In addition, the study will make provision to the users of financial statements in relation to the factors that affect the financial reporting of Iraqi companies and how these factors can make an impact on the decision-makers or the investors to accept or not to accept IFRS requirements. The remainder of the paper is structured as follows: Section 2 present literature review and hypotheses development; the research methodology was presented in Section 3; results and discussion were presented in Section4; while, conclusion and policy implications were presented in Section 5.

Review of Literature

The main focus of this study is to investigate some challenges inhibiting the acceptance of IFRS in Iraq. To note, empirical studies in this area within the context of Iraq is rare and the few ones are more of theoretical than empirical. Literature suggests that different theories abound for the explanation on the accounting regulations' compliance (M. A. Ibrahim, 2014). Meanwhile, lots of inconsistencies were observed from the studies that have applied the theories (Deegan; Khlif & Chalmers, 2015; Sharma et al., 2017) Nevertheless, the explanation on some accounting regulations requirements in respect of certain accounting practices and the manner at which some companies respond to the changes were offered with the theories (Samaha, Dahawy, Stapleton, & Conover, 2009; Sharma et al., 2017). In the accounting literature, two schools of thoughts on accounting system were identified. The theories according to (Kabir, 2010) and (Watts & Zimmerman, 1978) are the "positive accounting theory (PAT)" and "normative accounting theory (NAT)". The PAT was said to describe accounting from the present value, while NAT is perceiving accounting from its prospective dimension (Watts & Zimmerman, 1978). The presence of these two schools of thoughts on accounting theories can be found in other theories such as "legitimacy institutional and regulatory" theories of accounting (Deegan). However, these theories attempt to predict the behavior of financial statement preparers on how they respond to accounting regulations differently and their view of what accounting value is and should be. The

behavior is often referred to as cultural factors which consist of common beliefs or perception that can be found among firms (Odugbesan & Aghazadeh, 2021). It indicates that most of these theories are confined to preparers of financial statements' behavior and embedded same in the cultural practices of firms. One of these theories that have been consistently referred to as enhancing or hinder accounting convergence, particularly IFRS adoption is the "cultural theory (Deegan; M. A.-A. Ibrahim et al., 2014; Odugbesan & Aghazadeh, 2021). Cultural theory assumed that cultural and ecological factors make up the accounting system of a country (Borker, 2013a) which has been identified as one of the major obstacles to adoption of international accounting standards (Perumpral, Evans, Agarwal, & Amenkhienan, 2009) Therefore, aside the macroeconomic factors and industry-specific factors, this study will include company's cultural factors in the model which has not been previously investigated in the context of Iraq.

Harkening back to the 2005 when IFRS adoption gained momentum in Europe, there was a clear recognition that as a result of the pace of globalization and integration of International financial market, it becomes necessary for the countries around the world to integrate globally on the same financial reporting standard, so as to enable the countries that adopt the standard to have access to international financial market (Hamawandy et al., 2021).

Company size and IFRS acceptance

The motivational factors of IFRS adoption by the "German and Austrian listed companies" was investigated by Affes and Callimaci (2007). The study employed logistic regression techniques and sampled about 106 listed companies in Germany and Austria, and found that the probability of early adoption of IFRS among those companies in the two countries has a relationship with firm size. It was stressed further that it will take the companies to put together a project team on the IFRS, that will first make an adjustment to the accounting software, and other systems in use, educate the staff, enhance communication with subsidiaries before it can be possible for the companies to prepare the first consolidated financial report in compliance with IFRS standard. The companies will also require the advice of the auditor or an external professional. In addition, the study also emphasized that given the quantum of differences between "German GAAP and IFRS", the cost of transition to the new standard among the companies will be exorbitant. The direct costs that are likely to be bear by the company includes, the fixed components, which implies that larger companies are likely to spend less that small companies. It was then concluded in the study that positive relationship exists between the company size and probability of accepting IFRS. (Aljifri & Khasharmeh, 2006) in the study of the United Arab Emirates accounting practice found that company size (large-medium-small) affect the adoption of IFRS. on the other hand found that company size has significant role towards adoption of IFRS. Similarly, the study of (Karim & Ahmed, 2005) conducted in Bangladesh to investigate the determinants of IFRS compliance in the country using 188 firms found that the degree of compliance is associated with auditor type, but negatively associated with firm size. (Al-Shammari et al., 2008) conducted a cross-country study on the determinant of IFRS compliance in Gulf Co-Operation Council member countries. The found company size significant and positive influence on IFRS compliance. Similar study was found in Egypt (Samaha et al., 2009), Jordan (Al-Akra, Eddie, & Ali, 2010; N. Albu & Albu, 2012), and Sub-Saharan Africa (Borker, 2013b). Therefore, in this regard, hypothesis 1 is formulated to see the relations of company size as a factor for the adoption of IFRS.

H1: Company size positively influence the adoption and implementation of IFRS

Operational challenges in IFRS Application to Financial Statements

It was established in the literature that most of the accounting statement preparer in Libya are confused in respect of inconsistency that were observed between the IFRS requirements and other various governmental and different agency information required after the acceptance of IFRS (Faraj & El-Firjani, 2014). Moreover, insufficient awareness on the IFRS acceptance, and absence of training programs that will prepare the professionals for the future changes to IFRS were also identified as among the challenges confronting firms' acceptance in Libya (Faraj & El-Firjani, 2014). Looking at the identified challenges in developing countries, there is a sharp difference from what some studies identified as challenges inhibiting the acceptance of IFRS in developed countries. For instance, in developing countries, inadequate preparation for the IFRS acceptance and inadequate knowledge in relation to the internal control on the "management accounting systems", as well as what the IFRS requirements were identified among the challenges

in developing countries (Maradona & Chand, 2018; Miao, 2017). In addition, the study of (Mande, 2014) documented that the absence of "regulatory strategies and unconsolidated accounting standards" indicates the possibility that IFRS will not be accepted. Moreover, a sharp difference between IFRS and a country legal system was observed to play a significant role in the firm adoption of IFRS (Jermakowicz, Reinstein, & Churyk, 2014; Osemeké & Adegbite, 2016). Meanwhile, education and learning was among factors identified that inhibiting IFRS in developed countries. Meanwhile, the study of (Jabbar, 2016) observed that there were no facilitation programs in Iraq to raise awareness of the transition from UAS to IFRS adoption roadmap. Another challenge identified was the language of operation. For instance, the study of (Istrate, 2015) on the transition to IFRS in Romania showed that the translation of the English version of the IFRS into the Romanian language was inconsistent. This position is consistent with the studies of (André, Aylett, Hofstede, & Paiva; Cao, 2016). The use of language as an explanatory variable in this case focused on an oral language and the translation of IFRS, but was not disclosed as a social norm for conservatism, transparency and confidentiality as discussed in (Borker, 2013b) is expected in this study to be a challenge in Iraq. It has been revealed in many literatures that before and after acceptance of IFRS in some countries, there are several challenges like operational challenges, most especially in Iraq. However, the studies on Iraq are more of theoretical than empirical. Even though, the operational challenges were perceived not to be significant in hindering the acceptance of IFRS. Thus, it becomes imperative to empirically investigate the relationship between some operational challenges that could impede the acceptance and implementation of IFRS. Therefore, hypothesis two is formulated:

H2: The Company operational challenges negatively influence IFRS acceptance

Government Policy and IFRS acceptance

The unwillingness of some country's government to give up control over a process which has real economic consequences to an international body, where they will have little or no control could be a hindrance to the acceptance of international standards. The effect of government policy on the acceptance and implementation of "international accounting standards" are directly derivable from the impact of economic factor on accounting regulations. The economic consideration at any firm level reflect on governments' attitude towards international standards, to the extent that the government will be careful so as not to work against the people that could be boomerang. (Enofe, 2013) stressed that governments are made-up of individuals that are "self-interested" and will introduce regulations that will of more beneficial to them. The study observed that often times, power behind standards setting are the special interest groups and lobbyists that could advocates the banks, the investors, companies, stakeholder or other political groups. For instance, when an important accounting issue is at stake, those who are less favored by the outcome of the event turn to lobbyist to seek for redress. Most times, this lobbyist have put so much pressure on politicians to prevent standard setters from finding adequate solution to some significant technical accounting issues. While the acceptance and implementation of international accounting standard like IFRS will enjoy faster pace in the adoption in countries that had closer or similar-political culture with the "Anglo-Saxon/America countries, the same cannot be expected of some communist and socialist as well as European countries. For instance, while the USA preferred the fair value measurement, the German preferred different method because of the negative impact of the fair value measurement on the balance sheet of the major banks in their country. In the Middle East countries, the decision to adopt IFRS was influenced by reform to governance and investors' protection regimes (Hassan, Rankin, & Lu, 2014). The study argued further that without effective implementation, the adoption decision may be perceived as merely symbolic. The government policy plays an important role in IFRS adoption in many developing countries (Clements, Neill, & Stovall, 2010; Jermakowicz, Prather-Kinsey, & Wulf, 2007). According to (Sharma et al., 2017) government policy affect the adoption or non-adoption of IFRS in developing countries. There is evidence that after establishing communistic economies, the government of these countries reviewed and redefined the role of accounting under the political and economic system. The formation of the following hypothesis has become necessary in order to ascertain the possibility of government policy having an influence in the adoption of IFRS in Iraq. Based on the above, hypothesis is formulated as follows:

H3: Government policy positively influences IFRS acceptance and implementation.

Cultural factors and IFRS acceptance

The success or failure of IFRS adoption was discussed in the literature to be influenced by the cultural factors. Meanwhile, some hypotheses on accounting values were developed in line with (Gray, 1988). In line with the position of (Gray, 1988) on the accounting value, which indicate the company's culture influence on the professional judgment on the accounting values, this study hypothesized that the cultural factors of the Iraq companies could either positively or negatively affect the acceptability of the new accounting standard. The study of (Zakari, 2014) that examined the influence of absence of professionals on the challenges of adopting IFRS in Libya found IFRS non-adoption to have a significant relationship with the stage of accounting education in the country, the country economic structure, as well as a the firm cultural value. The relationship between the variables was also found to have a mean value of 3.61. But in the study of, the company's culture was not explicit enough. Though, culture was found to have a significant influence which was in agreement with the study of (Irvine & Lucas) who had earlier established a relationship between culture and the possibility of adopting international accounting standard. But, the main difference observed difference in the two studies was the dimension of culture that was investigated. Thus, the following hypothesis is formulated:

H4: There is a relationship between companies' cultural factors and IFRS acceptance

Benefits of IFRS adoption

Using qualitative analysis, (Uzma, 2016) explored the cost-benefit outcome of adopting IFRS in developed countries East Asian countries and Brazil, Russia, India and China. Based on survey evidence on the costs and benefits of adopting IFRS, they found significant differences between early and late adopters of IFRS. They also concluded that early adopters are perceived as market leaders and express certainty about the manageability of implementing IFRS, while late adopters face adverse consequences and uncertainty. He also argues that the movement towards IFRS adoption may provide assurance on transparency and encourage international investors to look positively at opportunities in Middle East countries.

A related and widely touted potential benefit of IFRS adoption was a reduction in the cost of capital to public companies. The reasoning here was that if more information becomes available to investors, their investments will be perceived to be less risky, and as a consequence investors will require a lower return from investing. IFRS adoption was expected to reduce the cost of cross-border contracting with suppliers, labor, customers, lenders, investors, etc., and hence to expand the quantity of international transacting in all of the markets in which public corporations participates. From a social welfare perspective, the anticipated outcome would be increased wealth, due to increased valuation of existing capital and increased capital creation. IFRS adoption was expected to improve corporate governance via several channels. Providing managers with information that is timelier and more accurate could improve decision-making. Rendering managers' actions and their consequences more transparent could enhance monitoring by boards, investors, analysts, rating agencies, press, etc. Facilitating cross-border mergers, both actual and threatened, could increase the competition to manage the firm. In many adopting jurisdictions' prior domestic rules, there were no impairment standards comparable to IAS 36 and IAS 38, so timelier loss recognition was expected. This could lead managers to face the music and fix bad decisions earlier; furthermore, the prospect of timelier loss recognition could incent them to undertake fewer pet projects, trophy acquisitions and ill-considered investments in the first place. From a social welfare perspective, the anticipated outcome from all these channels would be a more efficient market for corporate control and hence more efficient operating, investment and financing decisions.

Countries and entities adopt IFRS for various reasons, the most common being 'to eliminate barriers to cross border investing, to increase the reliability, transparency and comparability of financial reports, to increase market efficiency, and to decrease the cost of capital'. (N. Abu & Abu, 2012) observed that, the reasons for adopting IAS/IFRS in Romania and the expected benefits are often expressed in more general terms, and usually are related to economic development. (Iyoha & Faboyede, 2011) indicate that the main objectives were to move rapidly to a market economy and to attract foreign investment by developing a credible and transparent accounting system that provides users, including managers, with good accounting information for decision making. It has even been asserted that emerging countries adopt IFRS as a legitimizing

act, in order to be presented 'as modern, organized and well regulated place to do business' (Jermakowicz et al., 2014) investigated the views of chief financial officers of entities listed on the BSE; 78.4% of respondents indicated that IFRS generated a higher degree of comparability at the international level; 86.5% considered information under IFRS to be more relevant for investors; 56.8% indicated that managers received better quality information under IFRS for decision making; 40.5% said IFRS assisted with attracting foreign financing; and 13.5% indicated that IFRS resulted in a lower cost of capital. PwC representatives argued that the possible benefits of IFRS adoption in developing countries included reliable and understandable information for the investors, transparency, and greater access to funding at improved rates, improve management efficiency and reduced costs (PwC, 2014). But these views were based on theoretical considerations and anecdotal evidence, rather than robust research. Therefore, the hypotheses are formulated to empirically examine the relationship between the challenges of IFRS acceptance through the benefit of the adoption of IFRS.

H5: Benefit of IFRS acceptance positively influence IFRS acceptance in Iraq.

H6: Benefit of IFRS mediates the relationship between (a) company size (b) operational challenges (c) government policy (d) cultural factors and IFRS acceptance.

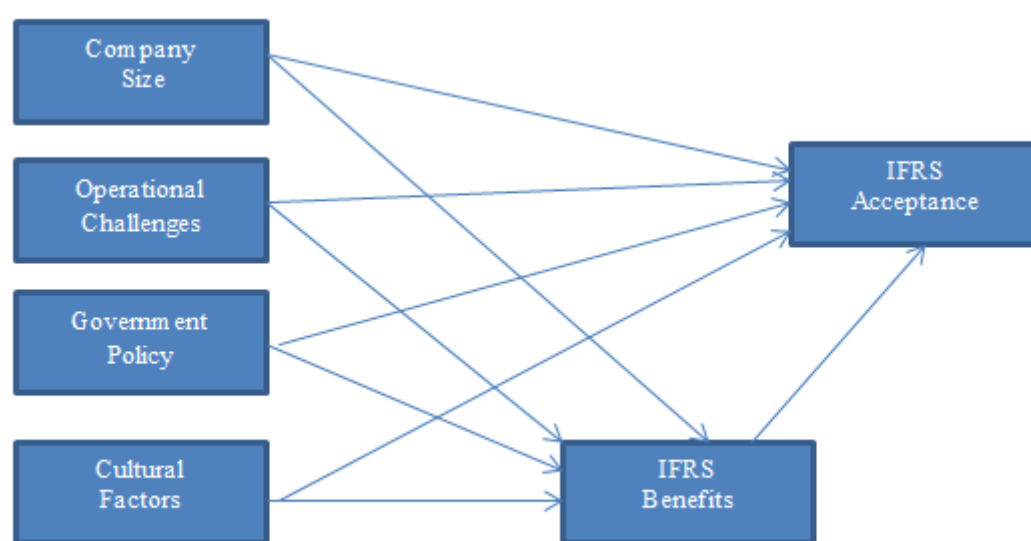


Figure 1. Study Framework

Data and Method

For the purpose of testing the impact of company size, government policy, operational challenges, and cultural factor with the mediating effect of IFRS benefits on IFRS acceptance in Iraq, this study relied on structural questionnaire. The use of survey method in this study is in consistent with the position of (Cooper & Morgan, 2008) who opined that this type of research is useful when the aim of the study is to examine the details of context-dependent, complex and significant events, like the changes in accounting regulation as the case of this study. In view of this, the study focuses on the firms in Kurdistan region of Iraq. Record from the Kurdistan Regional Government shows that 28,602 companies are available in the Kurdistan region of Iraq. Out of the available companies, 24,966 are domestic companies, while the remaining 3636 are foreign companies. In the selection of a sample among the available companies, each company is considered an entity irrespective of the number of branches. In reference to Gill et al. (2010), the sample size was calculated based on the number of companies available in each of the three districts in Kurdistan region of Iraq. Consequently, minimum sample size of 380 was chosen based on the recommendation of (Gill & Johnson, 2002). Meanwhile, 415 questionnaires were administered to The Chief finance officer, Accountant, and other officer in charge of financial records in the selected companies who are on full-time employment, while 397 were retrieved

having 95.7% response rate. The permission and consent of the companies were sought, while the researcher explain in detail the research purpose and assure them of the confidentiality of their responses.

Measurement of items

The questionnaire consist of two sections comprises of the respondents' demographic information and I formation related to the IFRS acceptance, challenges and benefit. The questionnaires utilized for eliciting information on the benefits of IFRS adoption were sourced and modified from previous studies. There are six constructs in the model of this study, the benefits of IFRS acceptance, company size, government policy, operational challenges, and cultural factors. Benefits of IFRS was measured with items which are sourced from previous (Borker, 2013b; Brüggemann, Hitz, & Sellhorn, 2013; Cooper & Morgan, 2008; Gill & Johnson, 2002; Hassan et al., 2014; Ionascu, Ionascu, Sacarin, & Minu, 2014; Irvine). The practical challenges to the IFRS acceptance were sourced and modified from previous studies (Faraj & El-Firjani, 2014; Ionas, cu et al., 2007; Ionaşcu, Ionaşcu, & Munteanu, 2011; Irvine; Istrate, 2015). Furthermore, items for measuring government policy was sourced from previous studies and lastly, items for measuring cultural factors was sourced from (Fornell & Larcker, 1981). In addition, all the items were measured on 5-point likert scale.

The descriptive statistics of the demographic characteristics of the participants and the company information indicate a slight different in the gender of respondents with 36% male and 64% female. The data spanned across different academic levels, diploma (12.1%), bachelors (70%), masters (14.1%), and others (3.8%); including those studied at home (77.6%) and abroad (19.1%); their working experience shows that majority have worked between 6-10 years (33.8%); various cadres of officers participated in the survey which are managerial cadre (71.8%), middle cadre (22.9%), and lower cadre (5.3%); and, officers ranging from CFO (6.3%), senior accountant (71%), and to others (18.6%) participated. In reference to the category of business, the data spread across different sectors of economy, while most of them are listed on both foreign stock exchange and Iraq stock exchange. The description of the ownership of the companies indicates that the data spread between the family and non-family owned businesses, while the company's' year of incorporation spread from before 1960 to after year 2000.

Findings and Discussion

To empirically investigate relationships in the model specified in this study, partial least square-structural equation modeling (PLS-SEM) was employed. PLS-SEM is a family of statistical techniques that have become popular in carrying out a behavioral research (Henseler Jørg, Ringle, & Sarstedt, 2012) A key reason for the attractiveness of SEM is the possibility to model and estimate parameters for relationships between theoretical constructs and to test complete behavioral science theories (Irvine) SEM distinguishes between theoretical constructs and their empirical measurement by multiple observable variables. In doing so, WarpPLS (7.0) was employed (Clements et al., 2010). This software provides an extension set of outputs which we utilized in a comprehensive evaluation of our measurement model to ensure that our main outcomes were not an artificial output of psychometrically biased assessment.

Model measures assessment

From the model fit and quality indices presented in Table 1, an acceptable "goodness of fit" was displayed by the quality indices presented. The commonly reported fit index which is "standardized root mean squared residual (SRMR)" as reported in the table as a value of 0.064 which is less than the maximum recommended threshold of 0.08. This implies the goodness of this study model and valid for further analysis. Therefore, the evaluation of model measures and hypotheses testing were performed subsequently.

Table 1. Model fit and quality indices

Indices	Value	Interpretation
Average path coefficient (APC)	0.259	P < 0.01
Average R ² (ARS)	0.626	P < 0.01

Average adjusted R ² (AARS)	0.622	P < 0.01
Average block VIF (AVIF)	1.504	Acceptable if ≤ 5, ideally ≤ 3.3
Average full collinearity VIF (AFVIF)	1.680	Acceptable if ≤ 5, ideally ≤ 3.3
Tenenhaus GOF (GOF)	0.635	Small ≥ 0.1, medium ≥ 0.25, large ≥ 0.36
Standardized root mean squared residual (SRMR)	0.064	Acceptable if ≤ 0.1
Standardized chi-squared (SChs)	36.840	P < 0.001

R² = 0.626

Author's analysis

The means for providing validity and reliability of the study constructs according to (Kock, 2020) can be provided by the measurement model. This "measurement model" consists of "reflective" and "formative" indicators. The assessment of these indicators according to (Kock, 2020) involved the model assessment indicators for reliability, "construct reliability", as well as the "internal consistency", "convergent and discriminant validity", "common method bias" (CMB), as well as "multicollinearity". (Hassan et al., 2014) asserted that as long the analysis provides evidence in support of the model measurement, the structural model should be evaluated.

From the result presented in Table 2, the outer loading for all the items ranges from 0.428 – 0.848. In reference to the threshold recommendation on the outer loadings (<0.70 and >0.40) is suggested if it will only increase the "composite reliability" and not decreasing the "average variance extracted" threshold of ≥ 0.50 (Odugbesan & Aghazadeh, 2021), therefore, the outer loadings of this study shows that all the constructs items (IFRS acceptance, government policy, company size, cultural factor, operational challenges, and IFRS benefits) have an outer loadings that is not < 0.40 which is the threshold requirement.

Meanwhile, some loadings that are below the threshold have been removed in reference to the suggestion (Odugbesan & Aghazadeh, 2021). For instance, item 5 was removed from IFRS acceptance, item 2 was removed from cultural factor, while items 1 and 2 were removed from IFRS benefits. Thus, all the remaining items have an acceptable loading and were retained for further analysis. As for the true reliability of the constructs in the model, WarpPLS provides indicator called "composite reliability" which accounts for any error in the measurement (Odugbesan & Aghazadeh, 2021). This true composite reliability according to (Kock, 2020) is not different from the algorithm utilized with "covariance-based SEM". Studies like (Al-Najjar, 1986) who opined that true "composite reliability" and "Cronbach alpha" should not < 0.50, while some studies suggested value of ≥ 0.70 (Fornell & Larcker, 1981; Gîrbină, Minu, Bunea, & Săcărin, 2012). From the results presented in Table 2, the Cronbach alpha and "composite reliability" of the constructs are as follows: IFRS acceptance (0.766 and 0.834), government policy (0.749 and 0.835), company size (0.560 and 0.738), cultural factor (0.812 and 0.856), operational challenges (0.934 and 0.946), and IFRS benefits (0.791 and 0.847). The results indicate that all the constructs has an acceptable reliability which implies the reliability and internal consistency of the study model constructs.

In addition, the evaluation of the "convergent validity" of the constructs was performed through the "average variance extracted" (AVE). The AVE measures the "extent that the latent variables are well measured by measurement indicators" ((Kock, 2020). The author asserted that associated loading can only be retained if the AVE is ≥ 0.50. In addition (Fornell & Larcker, 1981; Gîrbină et al., 2012), and (Kock, 2020) asserted that the associated loadings should have p value that is < 0.05. The AVE of all the constructs in this that has value > 0.50 with an associated I value < 0.05 which indicates that the constructs in the model explain above average of the variance of its indicators (see Table 4.5).

Table 2. Model Measures Assessment

Construct	Items	Loadings	Cronbach alpha	Composite Reliability	Average Variance Extracted	Full collinearity (VIFs)
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IFRS Acceptance	Q16.1	0.748	0.766	0.834	0.523	2.444	
	Q16.2	0.735					
	Q16.3	0.707					
	Q16.4	0.458					
	Q16.6	0.696					
	Q16.7	0.553					
Government Policy	Q16.8	0.604					
	Q17.1	0.758	0.749	0.835	0.513	1.702	
	Q17.2	0.775					
	Q17.3	0.428					
	Q17.4	0.836					
Company Size	Q17.5	0.712					
	Q18.1	0.563	0.560	0.738	0.568	1.329	
	Q18.2	0.565					
	Q18.3	0.722					
	Q18.4	0.704					
Cultural Factor	Q18.5	0.432					
	Q19.1	0.430	0.812	0.856	0.581	2.477	
	Q19.3	0.619					
	Q19.4	0.765					
	Q19.5	0.652					
	Q19.6	0.739					
	Q19.7	0.509					
	Q19.8	0.638					
	Q19.9	0.655					
	Q19.10	0.642					
	Q19.11	0.419					
Operational Challenges	Q20.1	0.796	0.934	0.946	0.686	1.490	
	Q20.2	0.799					
	Q20.3	0.824					
	Q20.4	0.773					
	Q20.5	0.876					
	Q20.6	0.817					
	Q20.7	0.887					
	Q20.8	0.848					
	IFRS Benefits	Q21.3	0.587	0.791	0.847	0.520	1.987
	Q21.4	0.472					
Q21.5	0.593						
Q21.6	0.612						
Q21.7	0.447						
Q21.8	0.775						
Q21.9	0.828						
Q21.10	0.762						

Subsequently, the “discriminant validity” of the constructs was examined. According to (Kock, 2020), the “discriminant validity” of a construct exists when the constructs are different and not related to each other. (Kock, 2020) posited that in testing the “discriminant validity” of a construct, the “outer loadings should be higher than all cross-loadings with the other constructs”. The author stressed that cross load of >0.40 is preferable, while any value below that should be removed. Moreover, (Kock, 2020) posits that “the square root of the AVE for each construct should be higher

than its highest correlation with any of the other constructs in the same column and row". Based on this, the result of the discriminant validity as presented in Table 4.6 shows the consistent of the results with the threshold requirement. This implies the existence of discriminant validity among the constructs.

In summary, the assessment of measures of this study to ensure the reliability and validity, discriminant validity, as well as ensure the measures are devoid of issue of collinearity and CMB were examined through Cronbach alpha, composite reliability, AVE, and Fornel-Larcker ration, and the results revealed that both the items and constructs in this study meet the standard threshold in line with the literature. This implies that the measures are valid for further study with low probability of having spurious estimates.

Table 3. Correlations among 1.vs. with sq. rts. of AVEs

	CS	IFRSA	GP	CF	OC	BNF
CS	0.754					
IFRSA	0.297	0.723				
GP	0.266	0.518	0.716			
CF	0.328	0.602	0.561	0.762		
OC	0.079	0.308	0.043	0.077	0.828	
BNF	0.266	0.596	0.522	0.651	0.099	0.721

Note: Square roots of average variances extracted (AVEs) shown on diagonal.

Common method bias (CMB) and multicollinearity

According to (Podsakoff et al., 2003), the issue of CMB occurs when "the variance in responses are due to the measurement scale rather than the actual inclinations of the respondents". Meanwhile, in the WarpPLS, these issues have been accommodated by providing an explanation on the CMB through the full collinearity VIF of "formative" and "reflective" indicators. The studies of (Kock, 2020), explained that CMB do not exist in a construct whose value range for the "full collinearity VIF" is ideally <3.3, and conservatively <5.0. From the results presented in Table 4.5, all indicators has a full VIF that is <3.3 which is an indication that multicollinearity and CMB are not an issue in this study, implying that the constructs are free from multicollinearity and CMB issues.

In summary, the indicators in this study satisfied the threshold requirements and thus retained. Similarly, the constructs have an acceptable threshold value for the construct reliability, convergent reliability, and discriminant reliability, as well as ensuring that the analysis had no issues with multicollinearity and CMB. Hence, the results will be devoid of bias and ensure sound inference.

Model Structural Testing

In reference to (Podsakoff et al., 2003) and (Kock, 2020), the strength of the hypothesized relationships between constructs is represented by the path coefficient. In view of this, the path coefficients of the hypothesized relationships between the constructs are presented in Table 4 and Figure 2. The results as presented in Table 4.7 shows that each of the path coefficients was significant with *p* value that less than 0.01. This is an indication of the significance of the relationship with a confidence level of less than 1%. The hypothesized relationship between company size and IFRS acceptance ($\beta = 0.175, P < 0.01$) shows a positive and significant relationship between the variable, thus we accept H1 and conclude that the company size determined the acceptance of IFRS in Kurdistan region of Iraq. As for H2, operational challenges were hypothesized to influence the acceptance of IFRS. The result as presented in Table 4.7 and Figure 4.1 reveal the significance of the path coefficients ($\beta = -0.338, P < 0.01$) which is negative and significant. Therefore, H2 is accepted and conclude that the operational challenges experienced in operating IFRS by the companies would negatively influence their acceptance of IFRS. Similarly, H3, H4 and H5 were accepted due to the significance of their individual path coefficient. The significance of the path coefficients demonstrates that government and cultural factor are significant factors in

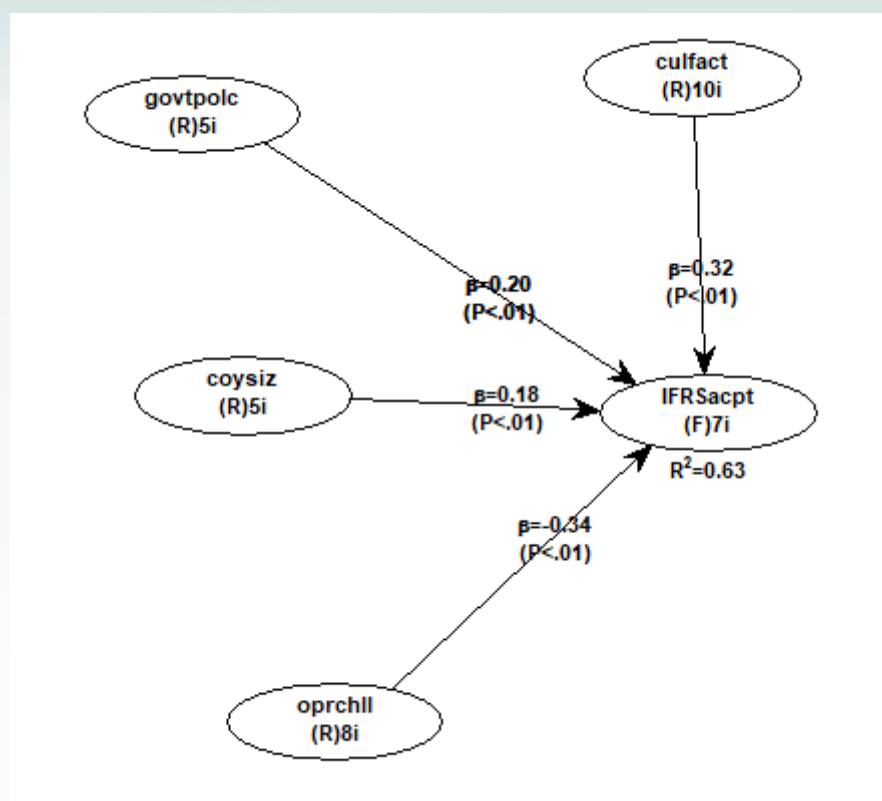
determining the acceptance of IFRS in Kurdistan region of Iraq, while IFRS benefits is also found to be a determinant factor that influence acceptance of IFRS. In addition, the R^2 as depicted in Figure 1 which shows the explanation variations of the reflective indicators on the formative indicator shows that cultural factor, government policy, company size, and operational challenges jointly have about 63% explanation variation in the factors determining the acceptance of IFRS in Kurdistan Region of Iraq.

The significance of the coefficients of the variables employed in the model (company size, operational challenges, government policy, cultural factor, perceived benefit of IFRS) implies that, first the significance influence of company size is positive. This is an indication that the larger the size of the company, the more disposition to the idea of accepting the IFRS. Meanwhile, as revealed in the estimates of the relationship between operational challenges and acceptance of IFRS, the negative sign of the coefficient implies that operational challenges constitutes a significance hindrance to the acceptance of IFRS. Moreover, the significant and positive influence of government policy on the acceptance of IFRS is an indication that government policy plays a crucial role in the acceptance of IFRS in the Kurdistan region of Iraq. The creation an enabling framework backed with laws and regulations will leave no one with a choice other than accepting the IFRS. Similarly, cultural factor has a significant and positive influence on the IFRS acceptance. This implies that, the development of any accounting standard should take into consideration the cultural perspective which this study demonstrates that it is significant. Finally, the direct relationship between perceived benefit of IFRS and IFRS acceptances shows a positive and significant result. This implies that, the perceived benefit from the IFRS acceptance would play a significant role in IFRS acceptance. This requires improving people understanding on the international standard, so that the preparer and users can see the benefit inherent in the acceptance of the international standard. In summary, this study validates all the hypotheses and concludes that company size, operational challenges, government policy, cultural factor and perceived benefit of IFRS has direct and significant influence on IFRS acceptance in Kurdistan region of Iraq.

Table 4. Hypotheses Testing

Hypotheses	Interaction	Coefficient	Std. Error	P value	Decision
H1	CS → IFRSA	0.175	0.049	< 0.01	Accepted
H2	OC → IFRSA	-0.338	0.048	< 0.01	Accepted
H3	GP → IFRSA	0.200	0.049	< 0.01	Accepted
H4	CF → IFRSA	0.323	0.048	< 0.01	Accepted
H5	BNF → IFRSA	0.624	0.046	< 0.01	Accepted

Note: CS = company size, OC = operational challenge, GP = government policy, CF = cultural factors, BNF, benefit, IFRSA = IFRS acceptance



Mediating Analysis

Subsequent to the testing of the direct relationship hypotheses stated in this study, further analysis was performed by adding another construct (IFRS benefit) to the model as a mediating factor (H6a-d). It is interesting to note that the path coefficients of the previous relationships remain unchanged as depicted in Figure 3. As presented in Table 5, the result reveals that that IFRS benefits mediates the relationship between company size, operational challenges, government policy, and cultural factors and IFRS acceptance. Therefore, H6a – H6d were accepted and conclude that while company size, operational challenges, government policy and cultural factor individually has a significant direct relationship with IFRS acceptance, all these factors also has an indirect relationship with IFRS acceptance through benefit of IFRS. In summary, The findings from the mediating analysis indicates that company size, operational challenges, government policy has direct and significant relationship with perceived IFRS benefit, while perceived IFRS benefit mediates the relationship between these variables and IFRS acceptance. This implies that company size, government policy, operational challenges, and cultural factors have both direct and indirect relationship with IFRS acceptance.

Table 5. Mediating Effects of IFRS Benefit

Hypothesis	Interaction	Coefficient	Std. Error	P value
H6a	CS → BNF → IFRSA	0.099	0.035	0.002
H6b	OC → BNF → IFRSA	-0.058	0.035	0.050
H6c	GP → BNF → IFRSA	0.169	0.035	0.001
H6d	CF → BNF → IFRSA	0.266	0.034	0.001

Note: CS = company size, OC = operational challenge, GP = government policy, CF = cultural factors, BNF, benefit, IFRSA = IFRS acceptance

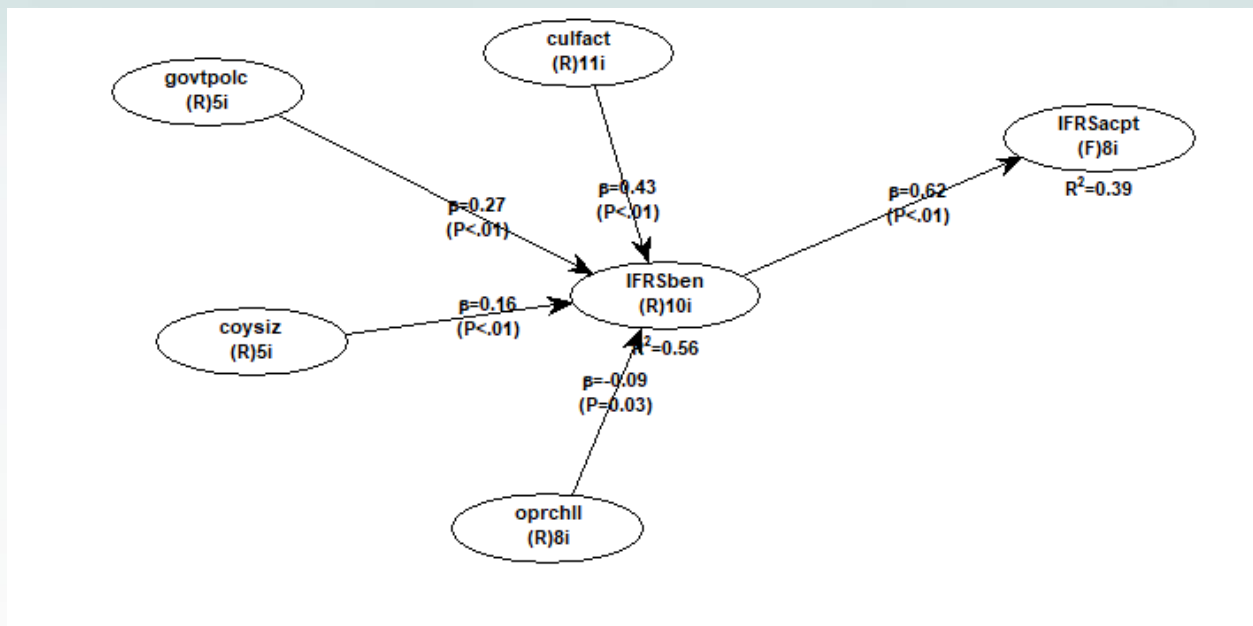


Figure 3. Mediating analysis

Conclusion

This study aimed at investigating the challenges that determines the IFRS acceptance in Iraq, together with the mediating effect of IFRS benefit. The result from PLS-SEM analysis shows that the hypothesized relationship between company size and IFRS acceptance (H1) was found to be statistically significant at less than 1% confidence level. This implies that company size as emphasized in the extant literature as one of the determinant factor affecting acceptances of IFRS is true for companies in Kurdistan Region of Iraq. This finding is congruent with some studies who have demonstrated similar finding in their respective studies (Aljifri & Khasharmeh, 2006; André et al.; Sharma et al., 2017). For instance, (Stadler & Nobes, 2014) opined that large-sized companies would be able to afford the cost in terms of training, transition to new standard, acquisition of new accounting software and others that comes with the acceptance of IFRS than the low and medium sized companies.

As regard the influence of operational challenge hindering the IFRS acceptance as hypothesized in H2, the PLS-SEM result revealed that the factor has a negative and significant effect on IFRS acceptance in Kurdistan Region of Iraq. This finding is consistent with the position of (Alshujairi, 2014; M. A.-A. Ibrahim et al., 2014; Osemeke & Adegbite, 2016) who in their various studies demonstrates similar findings and suggested that some operational challenges like lack of knowledgeable staff, inadequacy of IFRS expert, the cost of adoption, valuation of assets and liabilities, and calculation of accounting values are some operational challenges that could inhibit the acceptance of IFRS. This study is consistent with the findings from previous studies demonstrates that the operational challenges in the Kurdistan companies do negatively influence the acceptance of IFRS within the region and as such require adequate attention from the stakeholders.

Moreover, the hypothesized relationship between government policy and IFRS acceptance (H3) was found to be significant at less than 1% confidence level. The outcome is consistent with some previous studies who demonstrated similar outcome in their studies (Enofe, 2013; Hassan et al., 2014; Jermakowicz et al., 2007; Pricope, 2016). This finding is an indication that Iraq consistency in its policies like legal requirements specific to accounting reporting, economic and political policies will significantly influence the acceptance of IFRS in Iraq. For instance, (Hassan et al., 2014) demonstrated that the decision of adopting IFRS in Middle East countries is largely influenced by the reform to governance and investor protection regimes. Therefore, the policy makers should take note of this finding and ensure consistency in its policy to ensure IFRS acceptance.

The hypothesized relationship between company cultural factors and acceptance of IFRS (H4) from the PLS-SEM analysis result showed that the cultural factors on the IFRS acceptance are significant at less than 1% confidence level. The significance relationship of company cultural factors found in this study is congruent with the position of (Kabir, 2010) who posited that the success and failure of IFRS acceptance by any nation could be influenced by its cultural factor.

In addition, the company cultural factors like statutory control, professionalism, flexibility of accounting practice, following strictly uniform accounting system, transparency, secrecy, and optimism are were identified by (Gray, 1988) as company cultural factors that could determine the success or failure of IFRS acceptance. Meanwhile, the outcome is in contrast with the position of (Clements et al., 2010)who concluded that cultural factors do not have impact on IFRS adoption but the firm traits such as size do have effect of IFRS acceptance. Therefore, this factor shows to be among the significant factors that determine IFRS acceptance in Kurdistan region of Iraq.

In accordance with the study of (Uzma, 2016)who demonstrated a significant difference in the cost-benefit outcome of IFRS adoption between the late and early adopter of IFRS in some East Asian countries, Brazil, Russia, India, and China, thus this study consider the perceived benefit as one of the factor that could influence the IFRS acceptance in Kurdistan, Iraq. The result from the analysis supported the hypothesis (H4) and this implies that the possible reduction in the cost of capital to public companies, reduction in the cost of cross-border contacting with suppliers, labor, customers, lenders, investors and so on showed to be a significant factor that influence the IFRS acceptance. This finding is consistent with some previous studies who shared similar position that the perceived benefit has the potential of influencing the adoption of IFRS (C. N. Albu et al., 2013; N. Albu & Albu, 2012).

Differently from the direct relationship between the benefit of IFRS acceptance and IFRS acceptance, this study further analysis that investigate the mediating effect of perceived IFRS benefit revealed that perceived benefit of IFRS significantly partially mediate the relationship between IFRS acceptance and (a) company size (b) operational challenges (c) government policy, and (d) cultural factor. This outcome is an indication that the perception that the IFRS acceptance will be of benefit to the company, stakeholders, and shareholder partially mediates between the challenges of acceptance and IFRS acceptance.

Theoretical Implications

The understanding of factors that has impact on IFRS acceptance has been improved in this study through the investigation of the relationship between IFRS acceptance and company size, operational challenges, government policy, cultural factors, and perceived benefit of IFRS has identified in the literature with the utilization of PLS-SEM which is suitable for a confirmatory analysis similar to this study. Further, this study examined the mediating effect of perceived benefit of IFRS in the relationship between IFRS acceptance and company size, operational challenges, government policy, and cultural factors. This study put to test the cultural factors identified by (Borker, 2013a)and confirmed its significance through the PLS-SEM.

The mixed outcomes on the cultural factors influence on the IFRS acceptance in the literature could be as a result of the method of research, choice of variable or the analytical techniques. This study however emphasized that the traits of company cultural factors that has impact on the IFRS acceptance differ from previous studies. For instance, the study of (Faraj & El-Firjani, 2014; Zakari, 2014) demonstrated the significance impact of culture on IFRS adoption without any particular reference to the characteristic of culture that influence IFRS adoption. Thus, it was revealed in this study that the company cultural factor measure with multiple dimensions is more likely to influence the IFRS adoption.

Similarly, another theoretical implication of this study is the operational challenges facing the companies have the potential of influencing the IFRS acceptance. For instance, some handful operational challenges were identified in the literature that could inhibit IFRS adoption. The study of (Jones & Higgins, 2006)reported the cost of adoption, knowledge of IFRS and timeliness of IFRS acceptance as some of the operational challenges, while some simple commentaries on the assumed operational challenges were presented in some studies (Brüggemann et al., 2013; M. A.-A. Ibrahim et al., 2014). However, the operational challenges as a construct was measured with different items like internal control system, cost of IFRS acceptance, challenges of accounting valuation, and changes in information technology to examine its influence on IFRS acceptance. This study provides an understanding that measurement of operational challenges with multiple items gives a clear relationship of the operational challenges with IFRS acceptance. Finally, other challenges identified in this study are similar to previous studies. For instance, the company size and government policy, meanwhile, this study has been able to empirically establish these factors

through confirmatory analysis using PLS-SEM in the context of Kurdistan region of Iraq which has not been previously investigated.

Practical Implications

The outcomes of this study provides information to different stakeholders ranging from the financial statement users, the acceptor and non-acceptor of IFRS, as well as the accounting regulatory body in Iraq and similar countries with similar business environment like Kurdistan region in Iraq for them to develop an appropriate strategies for IFRS acceptance. In addition, information on the continuous improvement on the IFRS was provided in this study. In particular, the practical and policy implications are as follows: firstly, the financial users of the financial statement needs to identify the cultural traits of the company because some companies having traits of secrecy for instance are less likely to comply with IFRS requirement, but where professionalism and statutory control are the order of the day, the company are likely to accept IFRS wholeheartedly rather than accepting for reporting the company financial transactions. Thus, the user would require further information from the preparer of financial statement of the companies' financial activities. This implication not only applicable to Kurisdistan region, Iraq but some countries with similar business environment, owing to the position of (Mısırlıoğlu et al., 2013) who reported that companies in Turkey were only complying with statutory requirements instead of given reports of the entire economic situation. This is an indication that, reliance on only the financial statement could lead to investment risk, because the statement might have been prepared based on the regulatory requirement instead of objectivity principle of financial reporting.

Secondly, it is evident in this study that operational challenges posed a significant threat to the IFRS acceptance. This implies that for a successful and sustainable acceptance of IFRS in Kurdistan, Iraq companies, there is need to technical support for the preparers of financial statements in the companies. The transition from the previous accounting reporting standard to the new international reporting standard requires training from experts on IFRS. This position is evident in some studies who suggested that the transition requires relevant training on the new accounting skills (Brüggemann et al., 2013; Ionaşcu et al., 2011; Mısırlıoğlu et al., 2013). Thus, there should be training and re-training for the preparers of financial statements on the new accounting standard, as well as developing the existing internal control system in preparation for the acceptance of IFRS. Meanwhile, Iraq Union of Accountants and Auditors should extend the training programs to publicly accountable companies and make it affordable; this would go a long way in encouraging the professional development for the staff on the knowledge of IFRS and adaptation to new changes.

Finally, the IBAAS should frame their policies in respect of the IFRS acceptance to ensure full compliance by the companies. The evidence from this study showed that some of the companies believe the IFRS is not mandatory for their company, even though majority of them are public limited companies. This is an indication that some are willing to accept IFRS but there is little efforts on the enforcement which could make them complied. This information can be utilized by the accounting regulator in Kurdistan to develop enforcement strategies.

Study Limitations and Direction for future studies

Though, this study make significant contribution to the accounting literature, it is not devoid of limitations. The limitations lies in the area of survey and methodology which are as follows: the scope of the survey area is restricted Kurdistan region in Iraq, therefore the generalization of the findings is limited, and hence future studies should enlarge the scope to cover more regions in Iraq. Secondly, the convenience sampling method used in this study is another limitation. This is owing to the accessibility of the companies visited by the researcher to participate in the survey. The implication of this is that the findings are prone to bias because some restricted companies were excluded from the survey. Therefore, future studies should explore more options to ensure more inclusiveness of the companies in Kurdistan region.

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