

# [International accounting developments in egypt](https://assignbuster.com/international-accounting-developments-in-egypt/)

Identify the nature of the accounting system used in the country and give supporting evidence to justify the reasons for your decision.

As a country, Egypt has experienced a dramatic change towards democracy and transparency. This has further been exposed within the financial statements produced in the country. Through the development of the Egyptian Accounting Standards, the country has transformed from a centralised economy, branded by secrecy to an economy based around the global market, providing full disclosure for its stakeholders (Dahawy, Merino and Conover, 2002. pp. 203, 204) . The setting of accounting standards in Egypt since January 2016 has been a combined effort of a committee of experts from The Egyptian Society of Accountants & Auditors, the Central Auditing Agency, the General Authority for Investment and the Egyptian Institute of Accountants. The Egyptian Accounting Standards follow a principle based accounting policy, like that of the IFRS. External factors have a direct influence on the financial reports of a firm, based on where it is operating. Whilst Egypt develops into a more democratic nation, the social, economic and political factors will develop the accounting standard. As (Adela, D. 2011) states, many specialists believe this is not possible using a rules-based accounting policy, and instead these rules should reinforce a principle, rather than rending it meaningless.

Explain any differences between the accounting standards/system used in the country under review and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

From 2006, the Egyptian Accounting Standards have released an entire set of Standards, with 35 of those based on the IASs. Only EAS 1, 10, 19 and 20 are the exceptions. EAS 1 focuses on the presentation of the financial statements, like that of IAS 1. The Egyptian Accounting Standard requires the distribution of profits to employees and board of the directors to decrease the retained earnings directly, without effecting the income figure in the income statement. This has an immediate effect on the Earnings per Share calculation. EAS 10, fixed assets and depreciation, shows a distinct difference to IAS 16. EAS 10 prevents the re-evaluation of a fixed asset, unless the situation is one approved by the Egyptian law. Under IAS 16, the asset is carried at a revalued amount, being the fair value at that date less depreciation and impairment, thus providing a fair value that can be measured reliably (Iasplus. com, n. d.). EAS 19 emphases the disclosure in the financial statements. It necessitates that the accumulation of general provisions for loans, is fashioned through a decrease of income in the income statement, rather that the IFRS 7 requirement of decreasing the sum from owner’s equity. Although EAS 10 does not directly affect the owner’s equity, as net income is included in calculating the owner’s equity, a reduction in income would in effect reduce the owner’s equity. One substantial change that does occur for the business through the difference is that of the profit margin. EAS 20 surrounds a company’s use of leasing. The requirement of the Egyptian Accounting Standard is that while the asset is leased, the lessor must keep the asset in their accounting books, and will depreciate it whilst the lessee reports the rental payments as expenses, contradicting the requirements of IAS 17 where leased assets are treated in the balance sheet as a receivable, at an amount equal to the total investment in the lease (Iasplus. com, n. d.).

Critically discuss whether you believe these differences cause major issues from the viewpoint of global stakeholders.

Global stakeholders, such as World Bank and the International Monetary Fund have had a major influence on the Egyptian economy since 1991, when an economic reform was launched by the government (Khlif and Samaha, 2013). Since taking an interest in Egypt, major stakeholders such as WB and IMF have pressured Egypt towards adopting the International Accounting Standards, assuring that the application and implementations of the accounting standards are necessary to the confidence of external investors supplying the economy with funding (reference). To an extent, with the exception of four standards, the EAS has been built on this influence, developing on the International standards and applying the standards suitable to the Egyptian environment. The difference in EAS 1 to that of IAS 1 directly effects the earnings per share of the company. This could cause confusion for foreign investors, expecting that the company is in a significantly healthier position, as the earnings per share is often used as a tool to evaluate a company’s profitability. Revaluation of fixed assets allows investors and the business to accurately view the true market value of a fixed asset. The difference between EAS 10 and IAS 16 could cause a difficulty to foreign investors in evaluating the true value of a company’s assets. Without re-evaluating these assets, a company’s financial reports will show their fixed assets as a much higher amount than their assets are currently worth in the market. This is especially true for technology based fixed assets which have a rapid decrease in value over time. A higher fixed asset amount causes difficulty in calculating a company’s true net assets as well as the company’s fixed asset turnover ratio. The main concern for stakeholders through the differences of EAS 19 and IFRS 7 would be the effect on the profit margins of the company. The profit margin of a company is calculated as net income divided by sales. With EAS 19 reducing income from the accumulation of general provisions for loans the numerator of the equation will reduce, causing the business to appear less profitable, discouraging foreign investors. EAS 20, unlike EAS 1, 10 and 19, can give confidence in the financial reports to stakeholders. Unlike IAS 17, under EAS 20, a leased asset remains in the financial reports of the lessor, allowing a clearer understanding to stakeholders the value of the assets and liabilities of the company. As a developing country, Egypt had a lack of alternative information sources for investors, such as earnings forecasts, since the introduction of the standards in Egypt, this information has become easier to obtain (Ragab and Omran, 2006). These differences in standards hasn’t been the only difficulty for the view of foreign investors, ( Salem. 2001. p. 112 ) has also described the difficulty caused through the existence of multiple descriptions of the accounting standards, provided by the ECM, CAA and Egyptian accounting profession, forcing investors rely on their intuitiveness, rather than the information provided in the financial reports of Egyptian organisations.

Evaluate whether the current position, and any near future changes are likely to lead to issues regarding the country achieving full convergence with IFRS as issued by the IASB

Throughout the development of the EAS, there has always been a connection to the standards of the International Accounting Standard. In 1997, the EAS was characterised of 19 standards, primarily based on that of the International Accounting Standard (Dahawy, Merino and Conover, 2002). The main concern on the standard, although stated by the EIAA that the EAS was essentially an Arabic Version of the International Accounting Standard, ( Hassan. 2008 ) acknowledged that two interviewees stated that the translations of the standards included some mistakes, in addition ( Hassan. 2008 ) continues to pronounce the descriptions as similar, yet do not mirror that of the IASs. An official translation of the standards arrived in 2002, with the introduction of three new standards, by the Arab Society of Certified Accountants, based in Jordan. (Carruthers, 1995) has debated that building the standards through a combined effort, these organisations have contributed further in avoiding the adoption of the IAS in Egypt. This is due to each organisation providing similar, yet slightly different descriptions for the standard allowing business managers the discretion to choose a suitable description for their desires, and not conforming to the framework provided by the IAS. As ( Hassan. 2008 ) presented in a case study on financial reporting in Egypt, harmonisation between the EAS and IFRS would not entirely meet the needs of stakeholders, as the country has developed standards to better suit the environment in which the firms providing the reports are operating in. Although a previously centralised economy, since 1997 the Egyptian Capital Market set laws to ensure to legally enforce that joint stock companies and partnerships limited by shares that their financial statements must be in harmony with the standards set by the IAS. While there is some harmony between the two accounting standards, ( Hassan. 2008 ) clarifies in his findings that the Egyptian Accounting Standards were designed solely to overcome the pre-existing socialist accounting practises, whilst also increasing the adherence to the process of privatisation. Full convergence is a very difficult task due to political, economic, social and cultural factors that differ between each country. One possible route for the country to obtain this convergence would be to follow the FASB in the creation of the Memorandum of Understanding ( Fasb. org, 2014 ) and work together with the IASB to rather than “ trying to eliminate the differences between the standard” develop a new common standard, to improve the quality of the financial reporting.

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