

**FINANCIAL REPORTING IN QATAR:
AN EMPIRICAL ANALYSIS**

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Abstract

This study is concerned with providing a comprehensive review of financial reporting in Qatar and statistically assessing the quality of such reporting. The methodology adopted is as follows: the relevant accounting literature is reviewed; the accounting environment and the accounting practice in Qatar are examined, and the level of disclosure of information in financial reports is then tested empirically.

In sum, the results obtained suggest that Qatari companies are disclosing more information than strictly required by law. However, the need for improved financial reporting in Qatar has been recognized.

Findings of this study should be of significant interest to the financial accounting legislative authorities in Qatar. Such findings may be considered as a necessary precedent before taking any major accounting policy decisions for establishing any formal requirement to be given in financial reports of companies. Findings should also be of significant interest to the international financial accounting policy-making bodies for the development of international accounting standards.

I Introduction

Accounting is a responsive subject and research into accounting, when seen in this context, is an essential means of ensuring its adaptiveness to developing needs. Current economic and social developments are focusing increasing attention on the study of international accounting which contains various sub-sections. Firstly, the development of international accounting standards, both world-wide and within country groupings can be considered. Secondly, studies of the accounting and reporting problems of multi-national enterprises can be carried out. Thirdly, studies in comparative accounting which describe and compare financial reporting practices in different countries can be made.

The fact that differences exist in the practice of accounting between countries has long been recognized by professional and academic accountants. Professional firms of accountants have collected information about accounting practices in many countries. An example of this is the Price Waterhouse International Survey 1982, 1985, 1989, [1] Academic research has also been carried out describing different countries' accounting practices, see for example Gray, Cambell and Shaw 1984 [2] and the Institute of Chartered Accountants in England and Wales Survey 1989, 1990 [3].

Attemptes have been made to classify different countries' accounting systems into groups. This can be done statistically, see for example Nair and Frank 1980 [4] subjectively, see for example Mueller 1967 [5] A system of classification based on judgement allied with methods used in the natural sciences has been suggested by Nobes 1983 [6].

In recent years descriptive literature which can be used for comparison and classification has been produced. The emphasies appears to have been

on developed countries and more information about less developed countries is needed as it is these countries that are particularly concerned about the activities and financial reporting practices of multi-national enterprises. This study attempts to provide a comprehensive review of Qatari financial reporting¹ and to statistically assess the quality of such reporting.

The approach adopted is as follows.

The relevant accounting literature is reviewed. The accounting environment and the accounting practice in Qatar are described and compared with some other developing and developed countries, particularly the United Kingdom. The level of disclosure of information in financial reports is then tested empirically, and some conclusions are drawn.

Findings of this research (both theoretical and empirical) should be of significant interest to the financial accounting legislative authorities in Qatar. Such findings may be considered as a necessary precedent before taking any major accounting policy decision for establishing any formal requirement to be given in general purpose external financial reports of companies.

Findings regarding the financial reporting in Qatar should also be of significant interest to the international financial accounting policy-making bodies for the development of international accounting standards.

II Methodology

The research methodology used in this study took the following form:

1 - The names of companies surveyed were obtained from the Government

Department of Companies Affairs, Ministry of Finance, Economy and Commerce. Letters were written to these companies requesting a copy of the most recent annual report. Nine companies responded, and five others were obtained by personal contact. These fourteen companies formed the basis of the study. The reports obtained had year ends in 1989 or 1990 and covered a wide variety of companies including banking, insurance, manufacturing, navigation and transport.

- 2 - The Accounting practices in Qatar are described and analysed using one or more of a variety of standard descriptive statistical techniques. This particularly includes measures of central tendency and dispersion.
- 3 - In assessing the quality of financial disclosure in Qatar it was decided to use an index of disclosure suggested by M. Edgar Barrett 1976 [7]. This index contains seventeen categories of information ². The items were chosen by Barrett partly on the basis of earlier studies of disclosure in American annual reports by Singhvi and Desai 1971 [8] and Buzby 1974 [9] and partly on the basis of personal experience in dealing with foreign financial statements and their users.

An index score was calculated for each company surveyed and the score was converted to a percentage of the maximum possible score taking into account the fact some of the disclosure items were not applicable to certain companies.

In two cases some departure from the maximum points for the items of information were possible. Decisions on these items are as follows:

Item 3. Segment reporting: Geographical area - sales. One mark was awarded if a figure for exports was given with no further qualification.

Item 5. Capital expenditure: Planned. One mark was awarded if a figure for the estimated amount of contracts remaining to be executed on capital account and not provided for was given in the notes to the accounts with no further information.

4- The accounting practices and the level of disclosure of information in financial reports in both the United Kingdom and Qatar were compared and contrasted. It was not considered necessary to carry out an independent survey of British companies as the annual surveys carried out by the Institute of Chartered Accountants in England and Wales for 1989/1990 were used to provide the necessary information on levels of disclosure.

III Limitations

As with most empirical studies, the design and implementation of the research are subject to certain constraints which impose limitations on the interpretation and applicability of the findings. In particular, two limitations are worth stressing.

- 1 - There is a degree of arbitrariness inherent in the use of a weighted index, both in the selection of items and the size of the weightings. However, the technique does provide a useful starting point in the assessment of the quality of the disclosure.
- 2 - In assessing the comparability of the United Kingdom and Qatari companies selected in the samples, it should be noted that the United Kingdom companies are generally larger. The United Kingdom 1989/90 survey sample included companies in the top 750 of the Times 1000 with turnovers over fifty - five million pounds. The Qatari companies surveyed had turnovers ranging from one thousand two hundred million pounds to twelve million pounds approximately. Although the

comparison was carried out between companies of different sizes in terms of turnover, this was not considered to invalidate the comparison since the Qatari companies subject of this study are the only ones available in Qatar.

IV General Background

Environmental conditions in a country have a great influence on the accounting practices that develop. This idea has been discussed and investigated by several writers. Zeff 1971 [10] demonstrated that accounting principles development comes from interactions between theory, practice and social, economic and political influences. Abu-Jbarah 1972 [11] grouped countries by dominant economic characteristics using cluster analysis. Eighty countries fell into eight clusters.

Choi and Mueller 1978 [12] provide a list of environmental circumstances likely to affect accounting development. These include type of economy involved, legal system, political system and social climate. Arpan and Radebough 1981 [13] consider that a host of environmental variables affect any nation's accounting system. They consider that similarities in accounting are based on similarities in environmental and economic characteristics.

Some general background information on the economy and social development in Qatar is now presented prior to examination of the above influencing factors.

Qatar, which is located halfway on the Western Coast of the Arabian Gulf, covers an area of approximately 11,437 square kilometers with a population of 369,079 in 1986³. Qatar is a member of the United Nations, the International Monetary Fund, the Arab League the Non-aligned Group,

and the Co-operation Council for the Arab states of the Gulf which was set up on the 4th February 1981 and which includes also Saudi Arabia, Kuwait, Oman, United Arab Emirates and Bahrain. It is also a member of the Organization of the Petroleum Exporting Countries (OPEC) and the Organization of the Arab Petroleum Exporting Countries (OAPEC).

The government of Qatar used the revenues derived from crude oil exports, for the purpose of financing development projects. The economic development of the country was an integral part of an overall effort undertaken to raise the standard of living through improved housing, water, health care, education, transport and communications and electricity as well as to diversify the national output of the economy through the establishment of natural Gas based industries and other industries. The petrochemicals fertilizer, natural gas liquids, and steel industries were developed in the 1970's. The development of these export-oriented industries was designed to reduce the dependence on oil revenue.

Economically active population (15 years and above) in Qatar in March 1986 is 200,238 (see table 1). Qataris are only 20,807 (9.6%). Arabs and foreigners are 90.4% of the economically active population in Qatar. Qatari female represents 16.7% and male 83.3% of Qatari active population.

Qatar's economy has been growing relatively slowly, in common with other developing and developed countries, in recent years (see Table 2). Oil sector's contribution to the Gross Domestic Product during the period 1987 - 1991 is 31.8% and the non-oil sector during the same period contributes with 68.2%. Within the non-oil sector, manufacturing industries presents the highest contribution with 48.6%.

TABLE 1
ECONOMICALLY ACTIVE POPULATION (15 YEARS AND ABOVE)
BY SEX AND ECONOMIC SECTOR
MARCH 1986

| Nationality & Sex Economic Sector | Total | | Foreigners | | Arab | | Qataris | |
|--------------------------------------|-------|--------|------------|--------|------|-------|---------|-------|
| | F | M | F | M | F | M | F | M |
| Government | 6802 | 66757 | 1590 | 28539 | 2305 | 22775 | 2907 | 15443 |
| Mixed | 262 | 4627 | 151 | 3286 | 105 | 1072 | 6 | 269 |
| Private | 12309 | 108219 | 11596 | 95323 | 653 | 10895 | 60 | 2001 |
| Other | 105 | 967 | 60 | 694 | 45 | 257 | - | 16 |
| Not stated | 4 | 186 | 1 | 54 | 2 | 28 | 1 | 104 |
| Total | 19482 | 180756 | 13398 | 127896 | 3110 | 35027 | 2974 | 17833 |

Source: State of Qatar, Central Statistical Organization, Annual Statistical Abstract,
 10 th Issue, July 1990, p. 36.

• Not including newly unemployed persons.

TABLE 2

GROSS DOMESTIC PRODUCT BY ECONOMIC SECTORS AT CURRENT PRICES

1987 - 1991

(Value in Millions of Qatar Riyals)

| Economic Sectors | 1987 | | | 1988 | | | 1989 | | | 1990 | | | 1991* | | | 1987-1991 | |
|---|--------|-------------|----------|--------|-------------|----------|--------|-------------|----------|--------|-------------|----------|--------|-------------|----------|-------------|----------|
| | Value | Proprtion % | Change % | Value | Proprtion % | Change % | Value | Proprtion % | Change % | Value | Proprtion % | Change % | Value | Proprtion % | Change % | Proprtion % | Change % |
| 1- Oil Sector | 5,869 | 29.6 | 8.8 | 5,591 | 25.4 | -4.7 | 7,103 | 30.1 | 27.0 | 10,187 | 38.0 | 43.4 | 8,250 | 34.0 | -19.0 | 31.8 | 40.6 |
| 2- Non- Oil Sector | 13,956 | 70.4 | 7.4 | 16,388 | 74.6 | 17.4 | 16,513 | 69.9 | 0.8 | 16,605 | 62.0 | 0.6 | 16,039 | 66.0 | -3.4 | 68.2 | 14.9 |
| - Agriculture & Fishing | 237 | 1.2 | 0.0 | 232 | 1.0 | -2.1 | 210 | 0.9 | -7.8 | 210 | 0.8 | -1.9 | 215 | 0.9 | 2.4 | 0.9 | -9.3 |
| - Manufacturing Industries | 2,100 | 10.6 | 18.2 | 3,138 | 14.3 | 49.4 | 3,451 | 14.1 | 6.2 | 3,451 | 12.9 | 3.5 | 3,120 | 12.8 | -9.6 | 13.0 | 48.6 |
| - Electricity & Water | 362 | 1.8 | -0.3 | 365 | 1.7 | 0.8 | 411 | 1.5 | -4.4 | 411 | 1.5 | 17.8 | 415 | 1.7 | 1.0 | 1.6 | 14.6 |
| - Building & Construction | 993 | 5.0 | -5.8 | 1,030 | 4.7 | 3.7 | 1,130 | 4.1 | -5.6 | 1,130 | 4.2 | 16.3 | 950 | 3.9 | -15.9 | 4.4 | -4.3 |
| - Trade, Restaurants and Hotels | 1,319 | 6.7 | 14.8 | 1,338 | 6.1 | 1.4 | 1,480 | 6.9 | 20.9 | 1,480 | 5.5 | -8.5 | 1,528 | 6.3 | 3.2 | 6.2 | 15.9 |
| - Transport and Communications | 508 | 2.6 | 23.9 | 659 | 3.0 | 29.7 | 683 | 2.8 | 1.5 | 683 | 2.6 | 2.1 | 697 | 2.9 | 2.1 | 2.8 | 37.2 |
| - Finance, Insurance and Real Estate Services | 1,988 | 10.0 | 0.8 | 2,236 | 10.2 | 12.5 | 2,553 | 10.4 | 9.8 | 2,553 | 9.5 | 4.0 | 2,610 | 10.7 | 2.2 | 10.2 | 31.3 |
| - Other Services | 6,449 | 32.5 | 6.8 | 7,390 | 33.6 | 14.6 | 6,687 | 29.2 | -6.6 | 6,687 | 25.0 | -3.1 | 6,504 | 26.8 | -2.7 | 29.1 | 0.9 |
| | 19,825 | 100 | 7.8 | 21,100 | 100 | 10.9 | 23,616 | 100 | 7.4 | 26,792 | 100 | 13.4 | 24,289 | 100 | -9.3 | 100 | 22.5 |

* Preliminary Figures

Source: State of Qatar, Central Statistical Organization, Annual Statistical Abstract, 12th Issue, October, 1992

Legal Environment

The legal basis of accounting and auditing in Qatar is the Companies Act, 1981. According to this Act, board of directors must lay before the shareholders financial statements at every annual general meeting. The auditor's report and the director's report must accompany these statements. It should be noticed, however, that financial statements contains only a balance sheet and profit and loss account. The shareholders must be sent a copy of the accounts by registered post at least fifteen days before the annual general meeting.

The auditor of a company is required to report to the shareholders on every balance sheet and income statement laid before the company in general meeting stating whether:

1. He has obtained all the information and explanations which, to the best of his knowledge and belief, were necessary for the purposes of the audit.
2. In his opinion and according to the explanation given to him, the accounts give the information required by the Act in the manner required and give a true and fair view:
 - a) of the profit or loss for its financial year; and
 - b) of the state of the company's affairs as at the end of its financial year.
3. In his opinion, proper financial records have been kept by the company.
4. Management have physically verified fixed assets and stocks.
5. The financial information included in the report of the Board of Directors are in agreement with the company's accounting records.
6. Any violations of the Commercial Companies Law or the Company's Articles of Association occurred during the financial year which may materially affect the business of the company or its financial position.

An example of a Qatari shareholding company audit report can be seen in Figure 1.

The rules relating to auditor appointment in Qatar are basically the same as in Egypt, the United Kingdom, and the United States. Shareholders appoint the auditors at each annual general meeting by means of a special resolution.

The government Department of Company Affairs at the Ministry of Finance, Economy and Commerce has the power to control the application of the Commercial Companies Law and each company's Articles of Association.

Figure 1

AUDITORS REPORT TO

The Shareholders,

x x x x x

A Qatari Shareholding Company

Doha - Qatar

We have examined the balance sheet of x x x x x - Doha - Qatar as at December 31, 1989 and the related statements of income and appropriation of profits and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of x x x x as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Additionally, in our opinion, such financial statements are in agreement with the accounting records and comply with the requirements of the Commercial Companies Law and the Company's Articles of Association. The financial information included in the report of the Board of Directors are in agreement with the company's accounting records. To the extent of the information available to us no contraventions of the Commercial Company's Articles of Association occurred during the financial year which materially affect the Company's activities or its financial position.

Doha, February 28, 1990

V The Quality of Financial Reporting - Descriptive Analysis

In Qatar, company law forms a basis for financial reporting practice. Accounts are required to show a true and fair view and certain rules are laid down regarding accounting practices to be followed. Company law, however, leaves a large amount of freedom in adoption of accounting policies.

This section considers income measurement, asset valuation practices and disclosure of accounting policies. A survey has been carried out by the author on the published accounts for 1989 and 1990 of 14 Qatari shareholding companies drawn from the private sector as well as the public sector. The aim of the survey was to examine the accounting practices being followed by the various companies in Qatar and the preparation and presentation of financial statements, as well as assessing the level of disclosure of information. The results of the survey will be referred to in this and the following Sections.

Inventories

Qatari Company Law No. 11 of the year 1981 does not require inventory valuation to be disclosed in the annual report.

The Accounting Standards Committee in the U.K. issued SSAP 9, valuation of Inventories in June 1981. The standard states that subject to certain exceptions inventories should be valued at the lower of historical cost and net realisable value. The historical cost of inventories should normally be determined by using the "FIFO", "average cost", or "LIFO" methods. The "specific identification" method which attributes specific costs to identified goods that have been bought or manufactured and are segregated for a specific purpose may be used. The "adjusted selling price" may be used where the inventory comprises items the individual costs of

which are not readily ascertainable. The "standard cost" method may be used if the results approximate consistently the result that would be obtained from FIFO, average cost or LIFO. The accounting policy adopted for valuation of inventories, including the cost formulae used, should be disclosed in the financial statements. Any change in accounting policy should also be disclosed if it has a material effect.

In the present study, only two companies out of fourteen revealed their stock valuation policies as follows.

Stock - Valuation

- 1 - Raw materials, components and spare parts are valued at cost.
- 2 - Work in progress is valued at cost. Cost represents materials, labour and appropriate overhead.
- 3 - Finished stock is valued at actual/estimated cost or realisable value.

Fixed Assets and Depreciation

Fixed assets should be disclosed and segregated under few heads, i.e., land, buildings, plant and machinery, furniture, etc. according to both Egyptian and British company law. Qatari company law neither requires the disclosure of fixed assets in different categories nor determines their valuation methods. It is generally accepted, however, as an international accounting standard that the original cost, additions and deductions during the year and the total depreciation written off or provided up to the end of the year must be clearly stated. Depreciation should be provided on a consistent basis or if not, an appropriate note should be added to the accounts.

All companies surveyed in the present study gave this information, but method of valuation is not standardised, possibly because of the lack of a legal requirement regarding this issue.

Segmental Reporting

Segmental reporting needs sales revenues and operating profit to be disclosed separately for each class of goods. There is no legal requirement in Qatar for such reporting as part of the annual report. The author's survey, however, found four companies disclosed statement of income and expenditure of each department separately, all of them are in the insurance sector (see Figure 2). Only one company gave a geographical analysis of sales. Pie - chart gave a summary by region, but information was in tonnes rather than Qatari Riyals.

Accounting for Changes in Financial Position

In many developed and developing countries it is quite common to provide a statement of changes in financial position as part of the annual accounts. In Qatar there is no legal requirement, however there is a growing practice to publish such statements.

In the United Kingdom the SSAP 10 requires that a statement of changes in financial position should be published along with the annual accounts. Funds provided from or used in the operation of an enterprise should be shown separately in the statement of changes in financial position. Each enterprise should adopt the form of presentation which is most informative in the circumstances. The present survey found that five out of 14 companies gave a statement and an example is given from the Report of Alkhaleej Insurance Co. of Qatar (see Figure 3).

Figure 3 (Cont'd)

| <u>CHANGES IN WORKING CAPITAL COMPONENTS</u> | 1990 ----- | 1989 ----- |
|---|----------------------|----------------------|
| Increase (Decrease) In Current Assets: | | |
| Investments in shareholding companies | 144,725 | 676,683 |
| Receivables and due from insurance and reinsurance companies | 468,190 | (516,988) |
| Cash and time deposits | (143,675) | 1,151,406 |
| | <u>469,240</u> | <u>1,311,101</u> |
| Decrease (Increase) In Current Liabilities: | | |
| Provision for outstanding claims | (118,650) | (25,703) |
| Accounts payable and due to insurance and reinsurance companies | 650,316 | 194,091 |
| Other accounts payable and dividends | 234,882 | (152,102) |
| | <u>766,548</u> | <u>16,286</u> |
| Net Increase In Working Capital | 1,235,788 | 1,327,387 |
| | ===== | ===== |

Financial History Reporting

The practice of providing historical financial statistics for a period of years is widespread in both the United States and the United Kingdom. Legal requirements in Qatar dictate that comparative figures for the previous year should be given in the annual report. Companies generally provide in addition information relating to a number of years. This may take the form of a table of figures or be presented graphically.

The present survey which was carried out by the author on the 1989/1990 accounts of fourteen Qatari companies found that all companies included in the survey gave the comparative figures for the previous year. Only three companies out of fourteen gave information for five years. One company provided 28 years' information (1962 - 1989). Historical financial information was presented in a graphical form. An example from the annual report of Qatar Insurance Company can be seen in Figure 4.

Forecast Information

In Qatar there is no legal requirement to give a profit forecast as part of the annual report. Some director's reports, however, include, inter alia, plans for future development in operations or financial structure and forecast of future results. Four companies out of the 14 companies surveyed, director's reports included information, but not quantified, on future plans. No firm profits forecasts were made.

Disclosure of Accounting Policies

In both the United States and the United Kingdom, financial accounting standards require disclosure of accounting policies. In general, the standards

TABLE 3**Disclosure of Accounting Policies**

| Accounting Policy | Number Disclosing (out of 14) |
|---|----------------------------------|
| Valuation of fixed assets | 9 |
| Methods of depreciation | 10 |
| Annual rates of depreciation | 10 |
| Basis of Valuation of inventories | 8 |
| Treatment of employees' terminal benefits | 7 |
| Translation of foreign currency transactions | 11 |

As can be seen from the table, many companies are following the recommended practice of stating accounting policies in their annual reports. Very few, however, report these policies in one place. Only three out of fourteen companies included a separate statement of accounting policies. This is in contrast with the current United Kingdom practice where such statements are almost universally provided. An example from the annual report of Qatar Insurance Company is given below.

Qatar Insurance Company

SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting convention

The financial statements are prepared under the historical cost convention.

(b) Premium income

Premiums are included in income as earned on a pro-rata basis over the terms of the related policies.

(c) Unearned premium

Unearned premium is established for that portion of premiums written which relates to the unexpired portion of policies in force.

(d) Provision for outstanding claims

Provision is made for the company's share of the estimated cost of claims to be paid in respect of incidents reported up to the balance sheet date. Differences between estimated cost and subsequent settlements are taken to income statement in the following years.

(e) Technical reserve

Technical reserve is being established to meet claims incurred but not reported at the balance sheet date based on management estimates.

(f) Investments

Quoted investments held under independently managed portfolios are carried at market value. Other quoted investments are carried at the lower of cost and market value.

(g) Depreciation

The cost of property and equipment is expensed by equal annual instalments over the estimated useful lives of the assets.

(h) Employees' terminal benefits

Provision is made for amounts payable in respect of employees' accumulated periods of service at the balance sheet date on the basis of contracts of employment.

(i) Accounts receivable

Provision is made against accounts receivables as soon as they are considered doubtful.

(j) Foreign currencies

Foreign currency transactions are recorded in Qatar Riyals at the approximate rates of exchange prevailing at the time of transactions. Assets and liabilities in foreign currency at the balance sheet date are translated at the year end rates of exchange. Exchange defences are reported as part of the results for the year.

Social and non Financial Information Reporting

As the real world changes, so does its definition of values and its prevailing ideologies. Today, business firms are no longer seen by society as the instruments of their Shareholders alone. Rather, they are composed of a coalition of participants, each of whom have their own interest and motives. Under such circumstances, it is commonly recognized that the enterprise is an organization with continuing responsibilities to all participants such as employees, the government and society at large.

In Qatar company law has seemed to stress the importance of reporting to

shareholders on the stewardship of management. No legal requirements to disclose information that can broadly be described to be of a social nature. We expect, however, a certain amount of voluntary disclosure of items such as pollution control, safety, money exchanges with government, education and research, community involvement, expenditure on social overheads and other information of a social nature.

The present survey of 14 companies found only one company with its director's report containing qualitative remarks related to community involvement.

IV The Quality of Financial Reporting - Statistical Analysis

The quality of financial reporting in a country depends on the legal requirements governing information disclosure together with professional recommendations which may have a varying degree of effectiveness depending on the influence of the professional bodies. Stock exchange requirements may add to the content of the financial reports of quoted companies.

In examining the quality of financial reporting in Qatar the legal requirements have been considered. There are neither professional accounting bodies nor stock exchange in Qatar. To supplement this descriptive information, it was decided to carry out some statistical analysis regarding the information disclosed in a number of recent annual financial reports of Qatari companies.

As mentioned in the Methodology Section, the index of disclosure suggested by M. Edgar Barrett was used to assess the quality of financial disclosure in Qatar. After converting the index scores to percentages for the

fourteen Qatari companies subject of the present study, a mean score of 59.50 was calculated. This score can be compared with the disclosure of United Kingdom companies which were surveyed by the Institute of Chartered Accountants in England and Wales in 1989 and 1990. A mean index of disclosure score of 81.60 for United Kingdom companies. The results are displayed in Table (4).

TABLE 4
Level of Disclosure in United Kingdom
and Qatar Annual Report

| | Qatar 1989/0 | U.K. 1989/90 |
|--|-----------------|-----------------|
| Index score | 59.50% | 81.60%** |
| Number of Companies in both samples | 14 | 300 |

** Significant at the 0.01 level

Significance tests were based on the t -test.

It appears from Table 4, that the level of disclosure in the U.K. is substantially higher than that of Qatar. To see whether the high difference between both samples' means is statistically significant, the t - test was used to test the hypothesis that the population means for both groups of

companies are the same, and that the differences reported in Table 4 are solely the result of sampling errors.

An examination of Table 4, however, reveals that, consistent with expectations, the level of disclosure in the U.K. is significantly higher (at the 0.01 level) than the level of disclosure of information in financial reports in Qatar. This is largely because of environmental requirements, taxation, the development of the profession's accounting standards programme, and the accounting academic institutions.

To complete the empirical analysis and to assess the quality of disclosure of information in financial reports in Qatar, it was decided to compare the numbers and percentages of Qatari and United Kingdom companies disclosing the various items of information. Tests were carried out to discover whether or not the differences in observed percentages of companies disclosing certain items of information were statistically significant. The non parametric chi-square test was employed to determine whether or not the difference between the two populations Qatar and United Kingdom is statistically significant. This is done by computing the cell frequencies which would be expected if the difference between the two populations is not statistically significant. The expected cell frequencies are then compared to the actual values found in the table according to the following formula:

$$\chi^2 = \frac{\sum_i (f_o^i - f_e^i)^2}{f_e^i}$$

Where

f_o^i = the observed frequency in each cell.

f_e^i = the expected frequency calculated as:

$$f_e^i = \frac{C_i \cdot r_i}{N}$$

Where C_j is the frequency in a respective column marginal, r_i is the frequency in a respective row marginal, and N stands for the total number of valid cases.

The results of the test are given in Table 5. As can be seen from the Table, level of disclosure was almost the same in respect of three of the items of information. This was due to the existence of similar legal requirements in both countries. The United Kingdom companies disclosed significantly more in respect of seven items. On the other hand, the level of disclosure was higher in Qatar in respect of two items. This was due to a Qatari legal requirements in excess of that in the United Kingdom.

The following explanations relate the seven items for which United Kingdom companies give greater disclosure.

Item 1. Financial history. This is explained by the existence of a legal requirement.

Item 2. Segment reporting: Product line - Operating results. This is explained by the stock exchange listing agreement requirements on segmental reporting.

Item 6. Depreciation method. This is explained by the existence of an accounting standard (SSAP 12).

Item 7. Funds flow statement. This is explained by the existence of an accounting standard (SSAP 10).

Item 11. Price level adjusted statements. This is explained by the existence of an accounting standard (SSAP 16)

Table 5
Comparison of % age of Companies Disclosing Items of
Information:
Chi - Square Test

| Item of Information | No. and Percentages of Companies Disclosing | | | |
|--------------------------------------|---|------|------|--------|
| | Qatar | | U.K. | |
| | No. | % | No. | % |
| Financial History | | | | |
| 10 or more years | 1 | 7 | 66 | 22 ** |
| 5 to 9 years | 3 | 21 | 105 | 35 ** |
| 2 to 4 years | 7 | 50 | 123 | 41 ** |
| Segment Reporting: Product Line | | | | |
| Sales | 1 | 7 | 207 | 69 ** |
| Operation Results | 4 | 28.5 | 174 | 58 ** |
| Segment Reporting: Geographical Area | | | | |
| Sales | 1 | 7 | 180 | 60 ** |
| Operation Results | N/A | - | N/A- | |
| Capital Expenditure: Current | | | | |
| At Least Two Categories | 0 | 0 | 300 | 100 ** |
| Capital Expenditure: planned | | | | |
| No details | 3 | 21 | 221 | 74 ** |
| At Least Two Categories | - | - | - | - |
| Depreciation Method | 10 | 71 | 288 | 96 ** |
| Funds Flow Statement | 8 | 57 | 300 | 100 ** |
| Retained Earnings Statement | 4 | 28.5 | 264 | 88 ** |

Table 5 (cont'd)

| Item of Information | No. and Percentages of Companies Disclosing | | | |
|--|---|------|------|---------------------|
| | Qatar | | U.K. | |
| | No. | % | No. | % |
| Fixed Assets Composition | 14 | 100 | 300 | 100 ^{N.S.} |
| Inventory Composition | 2 | 14 | 246 | 82 ** |
| Price - Revel Adjusted Statements | 0 | 0 | 281 | 97 ** |
| Market Value of Marketable Securities | 0 | 0 | 294 | 98 ** |
| Currency Translation Method | 3 | 21 | 261 | 87 ** |
| Depreciation Life | 14 | 100 | 281 | 97 ^{N.S.} |
| Foreign Exchange Gains and Losses Disclosure of if and how foreign exchange gains and losses are reflected in the income statement. | 0 | 0 | 201 | 67 ** |
| Sales and Gross Margin | | | | |
| Sales only | 5 | 35.7 | 300 | 100 ** |
| Both | - | - | - | - |
| Income Tax Disclosure | N/A | - | 300 | 100 |
| Sample size | 14 | - | 300 | 1 |

- The difference between the two populations is statistically significant at the level 0.01.
- The difference between the two populations is statistically significant at the 0.05 level

N.S. denotes not significant

N/A denotes not applicable

Item 13. and 15. Currency translation method and foreign exchange gains and losses. This is explained by the existence of an accounting standard exposure draft (ED 27).

To summarise the above results, it appears that financial reporting in Qatar exceeds that in the United Kingdom when the Qatari Company law requirements are more demanding than those in the United Kingdom. However, United Kingdom disclosure exceeds that in Qatar when the profession's accounting standards introduce requirements in excess of the legal minimum, and because of the stock exchange requirements. These observations relate to the disclosure of seventeen selected items of information. There are many other types of information disclosure that could be compared and thus only tentative conclusions can be drawn from the results.

In conclusion it can be said that disclosure in the United Kingdom was much greater than in Qatar. This is in respect of the particular index of disclosure selected. The construction of an index of disclosure involves a certain amount of subjectivity, hence any conclusions drawn about the overall level of disclosure in both countries can only be tentative.

VII Summary and Conclusions

The present study has been concerned with assessing the quality of corporate financial reporting in Qatar. Financial reporting practices in a country are determined by a variety of environmental factors. Prior to examining the financial reporting in Qatar, it was decided to discuss the various economic, social and cultural factors that might affect accounting practices. Qatar Company Law No. 11 of the year 1981 was found to form the basis for financial reporting in Qatar. In many countries the tax laws

have a great influence of financial reporting practices. For example, the published profit figure may have to be calculated according to tax regulations. In Qatar this is not the case, and tax regulations do not have a significant effect on financial reporting practices.

In examining the detailed financial reporting practices in Qatar, the topics of asset valuation, methods and annual rates of depreciation, valuation of inventories, treatment of employees' terminal benefits and translation of foreign currency transactions were considered and analysed. It was noted that the company law leaves a large amount of freedom to companies in determination of accounting policies.

Qatari companies regularly provide financial histories and simplified accounts as part of the annual report. This is an area of voluntary disclosure that is similar to that in the United Kingdom. It was found that segmental reporting was not highly developed in Qatar. In the case of forecast information, neither Qatar nor the United Kingdom requires formal profits forecasts as part of the annual report but qualitative comments about future prospects are fairly common in the chairman's reports in both countries.

Social responsibility accounting is an area that is currently attracting attention from academics and practitioners. It was notable that social and non-financial information disclosure has not progressed very far in Qatar.

The final part of this study consisted of a survey of a sample of fourteen annual reports of Qatari companies. A disclosure index score was calculated for each company and a mean was calculated for the sample. The level of disclosure of information in Qatar was compared with that in the United Kingdom. It was found that United Kingdom companies statistically score significantly more than those of Qatar due to the professional and stock exchange requirements in the United Kingdom.

The disclosure in the United Kingdom and Qatar was compared on an item by item basis using the results of the survey of the Institute of Chartered Accounts in England and Wales (1989/1990) and the writer's survey. Calculation of the "chi-square" statistic was employed to determine whether the observed differences were statistically significant. It was found that financial reporting in Qatar exceeds that in the United Kingdom when the Qatari Company law requirements are more demanding than those in the United Kingdom. However, United Kingdom disclosure exceeds that in Qatar when the profession's accounting standards introduce requirements in excess of the legal minimum, and because of the stock exchange requirements.

Taken together, the results obtained suggest that disclosure in the United Kingdom is much greater than in Qatar, and there is a need for improved financial disclosure in Qatar. It should be noted, however, that these results relate to the disclosure of seventeen selected items of information and thus only tentative conclusions can be drawn from the results.

NOTES

1. It should be noted, however, that financial reporting is a more comprehensive tool of communication than financial statements for it provides information that is included in or reported outside financial statements.
2. This index is reproduced in the Appendix.
3. State of Qatar, Central Statistical Organization, **Annual Statistical Abstract**, 10th Issue, July 1990, p. 161.

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Appendix

INDEX OF DISCLOSURE

| Item of Information | Index Score | |
|---|--------------------|---------------|
| | Subelement Maximum | Total Maximum |
| Financial History | | |
| 10 or more years | (4.00) | |
| 5 to 9 more years | (3.00) | |
| 2 to 4 more years | (2.00) | 4.00 |
| Segment Reporting: Product | | |
| Sales | 2.50 | |
| Operating results | 1.50 | 4.00 |
| Segment Reporting: Geographical area | | |
| Sales | 2.50 | |
| Operating results | 1.50 | 4.00 |
| Capital Expenditure: Current | | |
| No details | (3.00) | |
| At Least two categories | (4.00) | 4.00 |
| Capital Expenditure: Planned | | |
| No details | (3.00) | |
| At Least two categories | (3.50) | 3.50 |
| Depreciation Method | N / A | 3.50 |
| Funds Flow Statement | N / A | |
| Retained Earnings Statement | N / A | 3.50 |
| Fixed Asset Composition | N / A | 3.00 |
| Inventory Composition | N / A | 3.00 |
| Price - level Adjusted Statements | N / A | 3.00 |
| Market Value of Marketable Securities | N / A | 2.50 |
| Currency Translation Method | N / A | 3.50 |
| Depreciation Life | N / A | 3.00 |
| Foreign Exchange Gains and Losses | | |
| Disclosure if and how foreign exchange gains and losses are reflected in income statement | N / A | 3.00 |
| Sales and Gross Margin | | |
| sales or Gross margin only | (1.50) | |
| Both | (3.00) | 3.00 |
| Income Tax Disclosure | | |
| Disclosure of income tax applicable to current period | N / A | <u>2.50</u> |
| | | <u>56.50</u> |

N / A denotes not applicable