T.C.
ISTANBUL AYDIN UNIVERSITY
INSTITUTE OF GRADUATE STUDIES

VALUE RELEVANCE OF OTHER COMPREHENSIVE INCOME UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS WITH AN EMPIRICAL STUDY IN THE PALESTINE EXCHANGE

MBA THESIS

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Business Administration Department
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Thesis Advisor: Assist. Prof. Dr. HÜLYA BOYDAŞ HAZAR

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T.C.
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DECLARATION

I hereby declare that all information in this thesis document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results, which are not original to this thesis.

Salah AL DIN SARAHNEH

To every person, every situation and everything creates who I am now…

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November, 2019 **Salah Sarahneh**

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LIST OF ABBREVIATIONS

ASC	**:** Accounting Standards Codification
BE	**:** Book Value of Equity
CAPM	**:** Capital Asset Pricing Model
CI	**:** Comprehensive Income
DCF	**:** Discounted Cash Flows
e.g.	**:** For Example
EPS	**:** Earnings per Share
ERN	**:** Earnings
et al.	**:** Et Alii
FASB	**:** Financial Accounting Standards Board
FATCA	**:** Foreign Account Tax Compliance Act
GAAP	**:** Generally Accepted Accounting Principles
GDP	**:** Gross Domestic Product
H	**:** Hypothesis
i.e.	**:** Id Est
IAS	**:** International Accounting Standard
IASB	**:** International Accounting Standards Board
IASC	**:** International Accounting Standards Committee
IFRS	**:** International Financial Reporting Standards
MVE	**:** Market Value of Equity
NI	**:** Net Income
No.	**:** Number
OCF	**:** Operating Cash Flows
OCI	**:** Other Comprehensive Income
P	**:** Share Price
p.	**:** Page
pp.	**:** Pages
PSE	**:** Palestine Stock Exchange
RET	**:** Share Return
REV	**:** Changes in Revaluation Surplus of Tangible and Intangible Assets
RIV	**:** Residual Income Valuation
RQ	**:** Research Question
S&P	**:** Standard & Poor's
SCE	**:** Statement of Changes in Equity
SFAC	**:** Statement of Financial Accounting Concepts
SFAS	**:** Statement of Financial Accounting Standards
UK	**:** United Kingdom
US	**:** United States of America

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VALUE RELEVANCE OF OTHER COMPREHENSIVE INCOME UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS WITH AN EMPIRICAL STUDY IN THE PALESTINE EXCHANGE

ABSTRACT

The value relevance of comprehensive income and other comprehensive income components has been examined in order to demonstrate whether the explicit disclosure of comprehensive income, which came under the IAS 1 (revised 2007) improved the value of accounting information from the point of view of investors for use in decision making and whether this information reflecting the economic conditions and changes of the company's equity compared to the case of net income.
This study was based on solid research models on the relevant value and predictive capacity of the other comprehensive income and was depend on statistical models developed by Fasan et al. (2014), Mechelli and Cimini (2014), He and Lin (2015), Günther (2015), which are based on the theories and concepts provided in this study. Thus, this study provides empirical analysis of the relevant value by looking at the correlation between market values and accounting figures and examining the correlation between comprehensive income and other comprehensive income components with share prices and returns on equity and investigates whether other comprehensive income has the potential to help in predicting of future net income and future cash flows.
A sample of 27 Palestinian public shareholding companies between 2005 and 2018 was used. In collecting this data the manual method was used, through the annual financial statements disclosed by the companies for the mentioned period, in order to examine whether the comprehensive income is more value-relevance than net income.

Keywords: *Comprehensive Income, Other Comprehensive Income, Net Income, Value Relevance, Financial Statements*

ULUSLARARASI FINANSAL RAPORLAMA STANDARTLARINA GÖRE DIĞER KAPSAMLI GELIRIN DEĞER ILIŞKISI ÜZERINE FILISTIN BORSASINDA AMPIRIK BIR ÇALIŞMA

ÖZET

Kapsamlı gelirin ve diğer kapsamlı gelir unsurlarının değer ilişkisi, IAS 1 (gözden geçirilmiş 2007 versiyonu) dahilindeki kapsamlı gelirin açıklanmasının, yatırımcılar açısından karar alma süreçlerinde kullanımında muhasebe bilgisini geliştirip geliştirmediğini incelemek ve iktisadi koşulları ve şirketin öz kaynaklarındaki değişiklikleri, net gelirden daha iyi yansıtıp yansıtmadığını anlamak için incelenmiştir.

Bu çalışma, diğer kapsamlı gelirin ilişkili değeri ve yordayıcı kapasitesi üzerine güvenilir araştırma modellerinden yola çıkmakta ve Fasan ve ark. (2014), Mechelli ve Cimini (2014), He ve Lin (2015) ve Günther (2015) tarafından, bu çalışmada da verilen kuramlar ve kavramlar üzerine inşa edilen istatistiksel modellere dayanmaktadır. Dolayısıyla bu çalışma, bir yandan piyasa değerleri ile muhasebe rakamları arasındaki korelasyonu inceleyerek ve hisse bedellerini ve öz kaynak verimliliğini de göz önünde bulundurarak kapsamlı gelir ile diğer kapsamlı gelir unsurları arasındaki korelasyonu inceleyerek ilişkili değerin ampirik bir analizini sağlamakta, diğer yandan diğer kapsamlı gelirin gelecekteki net geliri ve gelecekteki nakit akışını yordama potansiyeli olup olmadığını araştırmaktadır.

Bu çalışmada, 27 Filistinli kamusal ortaklık şirketinden oluşan bir örneklemin 2005 ila 2018 yılları arasındaki verileri kullanılmıştır. Kapsamlı gelirin net gelirden daha değer fazla değer ilişkisine sahip olup olmadığını anlamak üzere verilerin toplanmasında, söz konusu şirketler tarafından açıklanan yıllık finansal raporlar üzerinden manüel yöntem kullanılmıştır.

Anahtar kelimeler: *Kapsamlı Gelir, Diğer Kapsamlı Gelir, Net Geliri, Değer İlişkisi, Finansal Raporlar*

1. INTRODUCTION

1.1 Background to the Research

These days it is difficult to speak about the independence of the global economies, especially after the global financial crisis, so it became essential to the accounting standards setters to consider a form which provides standards that can be applied in a manner that ensures the harmonization of financial information around the world (Shambaugh et al., 2012). The need to take a position to harmonize finnancial information has strengthened efforts by the setters of accounting standards (Whittington, 2005). The future goal of IASB and IFRS is to reach one accounting standard (IASB, 2005). But the question is how, when, in what form these common standards will be and when will they be applied (Carmona and Trombetta, 2008).Many amendments to IFRS and US GAAP will be resultedfrom The convergence of different accounting. Many of these amendments will be followed by Other existing standards or adopt the IFRS application in full (Günther, 2015).

Many of the projects held in recent decades to try to reach accounting standards around the world, including the project of convergence established by IASB and FASB, which is one of the most important projects in this field (Thinggaard et al., 2006; Whittington, 2008; Bellandi, 2012). In particular, the project's goal was focusing on presenting financial statements and information benefits and given the users of those financial statements a clear informational content (IASB, 2008b).

Starting from January 2009 companies that arrange their financial statements in consonance with IAS 1 are enforced to present their own consolidated financial statements in consonance to IAS 1 (revised 2007). In addition, another modification issued by IASB to the IAS 1 in 2011, thich contained detailes related the the other cmprehensive income presentation and does not modify the acceptance itself. Therefore, the amenedments on IAS 1 (revised 2007) are points of other comprehensive income recognition for the elements that will be convert to income statement and the perpetual which will not be converted (Günther, 2015).

1.2 Purpose of the Study

The purpose of this thesis is to give an evidence empiricaly that the addition of comprehensive income and other comprehensive income components will give investors useful information help to decision-making regarding companies operating in Palestine that apply IFRS. Its expected that the information that included in the other comprehensive income will be used by the investores which will indicate that the ccomprehensive income and its othe items are value relevance in assessment and in decesion making process

This study also examines the extent to which IASB succeeded in enhancing accounting data's relevant value through the IAS 1 implementation and the the modifications to comprehensive income and its other elements disclosure.

The study included the use of robust research models to analyze the data obtained through the manual collection of data from the companies' financial statements and annual financial statements disclosed by the companies. These models are the price model which is based on linking accounting numbers and market information by linking income measures and prices. The return model, which links the income measures and shares return, has been used. The future cash flow that generated from the operation in addition to the future net income will be forecasted also in this study.

1.3 Contribution

This thesis contributes to consider whether the other comprehensive income as presented in consonance with the IAS 1 (revised 2007) has value relevant to the financial statements' users particulary investors and other users of these statement. Accordingly, through this study, based on research models and previous studies conducted by many researchers and their associates in subsequent sections, the relevant value of this information was examined by testing the correlation between the accounting figures and market values of the income measures. The main consentration of this study is the correlation between the market values (share prices and share returns) in line with the examination of future cash flow and net income predictive ability.

By applying an emperical study to examine the value relevamce of the comprehensive income and its other components for the periods before the

implementation of IFRS and the period after the implementation which the study called them pre-IFRS and post-IFRS, trough a sample collected manually from the financial statements of companies listed in the Palestine Exchange.

1.4 Thesis Overview and Structure

- Section 1 presents an overview of this study and its purposes and contributions.
- Section 2 of this study in the first section presents an introduction to the standards of the international financial report, its origin and its development, as well as the Palestinian Stock Exchange adoption of international standards. The second part of this section examines the comprehensive income's theoritical framwork, its objectives and its development, and in the third part, the items of other comprehensive income. At the last part of this chapter presents the comprehensive income value-relevance including the accounting of fair value, market efficiency and the accounting information usefulness in decision making.
- Section 3 presents a literature review of previous studies related to the study and illustrates the shortcomings of research, research questions and hypotheses.
- Section 4 presents the implemented methodology and statistical regression models that used in the study and the regression models implemented in the empirical study.
- Section 5 shows the describtive statistics and the results of the models.
- Section 6 contains discussions about the results and conclusion of the study and results.

2. LITERATURE REVIEW

2.1 Introducting to International Financial Reporting Standards

2.1.1 Emergence of International Financial Reporting Standards

In primitive times, each individual exchanged portion of their production for goods produced by others through haggle, without any intermediary mean in the exchange. However, this system has fallen short of walking with the civilizational advancement that abound in the communities where human needs moving from one place to another. After the advent of money, people attempt to register the financial transactions started with the efforts of the early Egyptians, where they kept records showing the quantities and quality of agricultural crops that were coming into and out of the state coffers, like the Assyrians, where their kings were keen to record what they were paying to their soldiers (Gharib, 2015). Some writers mention that the first accounting carried out by man to record the financial data dates back to the Assyrian era around 3500 BC, after kings keen to record the salaries paid to the soldiers in the form of cattle and precious stones (Mudawikh, 2014).

As a result of the growth of commercial exchange, the neccesity to provide accounting methods based on sound scientific foundations came the theory of double entry (Double Entry) by Luke Bachilio in 1494 from italy, where he put the basis for a obvious set of accounting books consisting of three books: Journal, ledger and balance book (Gharib, 2015). Although some credit the Italian double-entry of Luca Pacioli, history suggests that the double-entry system exists before Luca Pacioli. This is what Luca said in his introduction to his thesis in 1497. Luca was credited with compiling and interpreting accounting methods from an ancient author. It is the first to establish a clear basis for a group of accounting books consisting of three known books to the present day, namely the journal book and ledger and settlement book in addition to the bounty in the call to collect revenues and expenses for the project through the calculation of profits and losses in order to identify the profitability of the company (Mudawikh, 2014). In addition to the invitation of accumulate income

and expenses through an account called income account in order to calculate the profit of the project (Gharib, 2015).

As a result of the growth of trade in the fifteenth century, it was necessary to provide accounting methods based on sound scientific foundations. The first specialized accounting institute was established in Venice, Italy in 1581 (Mudawikh, 2014). The industrial revolution and the neighboring countries at the end of the eighteenth century resulted in the growth of individual projects and the inability to establish individual projects, which necessitated the emergence of the so-called companies, which resulted in laying the foundations governing the relationship of partners with each other and governing the project with the environment and society surrounding it. In the modern era to industrial, commercial and financial establishments, associations and government institutions, which resulted in several branches of accounting science and the emergence of several accounting bodies striving to develop the foundations, rules and theories of accounting (Al-Khadash et al., 2004).

The use of accounting in the modern era has extended to industrial, commercial and financial institutions, associations and government institutions, which has resulted in the emergence of several accounting bodies and institutions striving to develop the foundations, rules and theories of accounting science in its various branches, most notably the International Accounting Standards Board (IASB) in the United Kingdom which set the International Accounting Standards (IAS). Many of European companies committed to use the IAS, and the Financial Accounting Standards Board (FASB) in the United States of America that set the General Accepted Accounting Principles (GAAP) that the United States of America and some other countries were committed to implementing them (Gharib, 2015).

The contemporary changes in the economic reality coupled with the many changes in the tools used by companies to communicate with the surrounding environment, including the changes in the financial statements that become more and more detailed year by year, and the globalization that has affected all areas of the business now requires IFRS to expand the scope of services. Introduction and financial instruments used which require financial statements with more detail. With the advent of globalization and multinational corporations spreading in more than one country, multiple treatments of the same accounting transactions appear in the sam company which summoned the arrangment between IASB and FASB in 2002 to

adopt new standards that standarize the treatment for the financial transacions called after then Interantional Financial Reporting Standards (IFRS) (Gharib, 2015). The contemporary changes in the economic reality coupled with the many changes in the tools used by companies to communicate with the surrounding environment, including the changes in the financial statements that become more and more detailed year by year, and the globalization that has affected all areas of the business now requires IFRS to expand the scope of services. Introduction and financial instruments used which require financial statements with more detail (Graham and Lin, 2018).

Accounting has evolved over the ages in a manner commensurate with the levels of social and economic development in various countries and has tended in its development commensurate with the countries in the light of regulations, legislation and laws prevailing in each country (Hamdan, 2009).

This has been reflected in accounting and is evident in the different bases of measurement and accounting disclosure. The variation in contemporary accounting practices can be divided between different countries according to the following (Hamdan, 2009):

- Variation in revenue recognition
- Variance in loading expenses
- Discrepancy in accounting terminology
- Variation in the bases of evaluation and accounting measurement
- Divergence in the basis of preparation and consolidation of financial statements

But despite all the differences and their justification, and the laws and regulations that support them, we find that the voices calling for the pursuit of rapprochement have increased in view of the urgent need that emerged for several reasons, including (Hamdan, 2009):

- Globalization of the economy, growth and liberalization of international trade and international direct investment
- Evolution of global financial markets
- Privatization in some countries of the world
- Changes in International Monetary Systems

- The growing power of multinationals companies

The importance of accounting and auditing standards has made professional organizations in many countries of the world interested in setting their standards, and perhaps the most important of these organizations in this area (Hamdan, 2009):

- The Association of Certified Public Accountants in the United States of America (AICPA) has initiated auditing standards since 1939
- The FASB was established in the United States of America in 1973 as a development of the GAAP formula that had been in place since 1932.

Which contributed to the deepening of the difference between accounting practices in various countries of the world emerged accounting practices US and other British, French, German and other countries (Hamdan, 2009).

At the same time, this divergence has led some to argue for the need to standardize accounting practices in various countries of the world. The first international accounting conference was held in St. Louis in 1904. The conference discussed the possibility of unifying accounting laws in different countries of the world (Hamdan, 2009).

The Second International Accounting Conference: 1926 in Amsterdam. The Third International Accounting Conference which held in New York in 1929 presented three major papers (Bushyeb, 2013):

- Consumption and investor.
- Consumption and recalibration.
- Commercial or natural year.

The Fourth International Accounting Conference in London 1933 was attended by 49 accounting organizations appointed 90 delegates in addition to the presence of 79 visitors from abroad and the number of countries represented at the conference 22 countries, including Australia, New Zealand and some African countries (Bushyeb, 2013).

In 1992, the fourteenth International Accounting Conference was held. The theme of the conference was the role of accountants in the macroeconomy. It was attended by 106 accounting bodies from the right of a state and attended by some 2600 delegates from different countries of the world (Hamdan, 2009).

The Sixteenth International Accounting Conference in Hong Kong 2002. About ninety (90) titles were discussed, ranging from hot dialogues such as inclusiveness and ethics to the impact of the knowledge economy on the accounting profession (Bushyeb, 2013).

The most important of these conferences is the Seventeenth International Accounting Conference, which was held in Istanbul in 2006 under the slogan of achieving global economic growth and stability, the contribution of accounting to the development of nations and the stability of capital markets around the world, and the role of accountants in the process of project evaluation (Hamdan, 2009).

These conferences, which were the result of increasing pressure from the users of financial statements, including shareholders, investors, creditors, trade unions, trade unions, international organizations, governmental associations and governmental bodies, resulted in the formation and strengthening of the role of several organizations aimed at setting international standards and creating the necessary climate for the application of standards.

The most important of these organizations are (Hamdan, 2009):

- International Federation of Accountants (IFAC)
- International Accounting Standards Committee (IASC)
- International Audit Practice Committee (IAPC)

International Federation of Accountants (IFAC)

It is a global organization of the accounting profession, established in 1977. It has 155 members and organizations in 118 countries, representing more than 2.5 million accountants. The Union aims to enhance the accounting profession in the world and contribute to the development of a strong international economy by establishing high standards of professionalism and encourage the adoption of, and to achieve its tasks, the Union has a strong working relationship with associate bodies and accounting organizations in various countries of the world (Hamdan, 2009).

International Accounting Standards Committee (IASC)

IASC was established in 1973 following an agreement between leading associations and professional institutes in Germany, Canada, France, Australia, Japan, Ireland, the Netherlands, the United Kingdom, Mexico, and the United States. The aim was to

prepare and disseminate accounting standards, to support their acceptance and compliance, and to strengthen their relationship with IFAC. It is the body with responsibility and capacity in whose name statements are issued in the international accounting assets. It had issued 41 international accounting standards until before 2000 (Hamdan, 2009).

The IASC strives to narrow those differences by seeking to harmonize and harmonize legislation, accounting standards and procedures for the maintaning and preparing of the financial statements. They Believe that greater consistency can be achieved by focusing on financial statements prepared with a view to providing information useful for economic decision-making (Bushyeb, 2013).

In 2000, the IASB was restructured and its statute was renamed the International Accounting Standards Board (IASB) which, as of April 2001, was responsible for issuing International Accounting Standards instead of the Standards Committee, which adopted all IASB accounting standards. In 2002, the Board renamed the existing SIC and replaced it with the IFRIC, which aims to interpret and clarify existing accounting standards, as well as provide guidance on existing IAS and IFRS. International Financial Reports The Board has issued eight new standards (Hamdan, 2009).

The IASB Board of Directors believes that the financial statements prepared to achieve this objective meet the common needs of most users. This is because the majority of users make economic decisions such as (Bushyeb, 2013):

- Deciding on the timing of the purchase, retention or sale of equity investments.
- Evaluate the performance of the management and the extent of fulfilling its responsibilities towards the shareholders.
- Evaluate the ability of the establishment to pay the dues of employees and provide additional benefits to them.
- Assess the degree of safety related to the funds borrowed by the establishment.
- Embodying tax policies.
- Determine the distributable profits and the amount of dividends.
- Preparation and use of statistics on national income.

- Take the necessary procedures for the activities of the establishments.

The Board recognizes, however, that Governments in particular may impose different or additional requirements to achieve their own objectives, but these requirements should not affect published financial statements to meet the needs of other users unless those requirements meet those of other users (Bushyeb, 2013).

Applying international standards globally

Contributions of the countries of the world to the development of international standards vary according to the orientation of the country towards international standards and the size of the basic accounting structure of that country.

There are countries participating in the drafting of international standards and countries that contribute to the issuance of the standard and have the right to vote within the Council and States have seats in the Council and others only present their vision in any standard by commenting on the draft of that standard and the rest of states obligate their companies standards to suit their political and economic conditions without being Have a role in issuing.

- It is noticeable that the reality of the countries that have complied with international standards has produced the following roles for local accounting associations:
- Participate in industry standard
- Comment on the draft standard in terms of the relevance of its texts to national circumstances
- Issuing a national standard that complies with the international standard
- Issuance of a national standard or standards that are not covered by the international standard
- Issuing national standards for companies not registered in the capital markets
- Adoption of international accounting standards

2.1.2 IFRS Adoption by the Palestinian Exchange

Most of developing countries have implemented international accounting standards to be interesting to the international business world for investments and not to make radical changes in their economic or political system that are important to ensure the financial reporting quality in consonance with IAS (Saudagaran and Diga, 2000).

In the Middle East, the international financial reporting standards have been adopted by many of Arab countries. For instance, the Jordan Securities Commission (JSC) issued its guidance in 1998 which asked the listed Jordanian companies to adopt international accounting standards and to present their effects on the company's financial statements (Saaydah, 2012).

Furthermore, in 1993, the Egyptian listed companies required to apply the international accounting standards according to the Egyptian Capital Market Law. This Egyptian Accounting board began announcing Egyptian accounting standards that accommodate the international accounting standards in 1996 (AbdElsalam, 1999).

The profession of accounting plays an active role in the economic development of countries and is closely linked with the social and economic spheres, and its development affects positively on the development of the economies of the countries and the rise of the social level. While Palestine lives under the occupation and its control of the economy and the economy development, which negatively affected the development of the accounting profession in Palestine.

Given the reality of the accounting profession in Palestine, we find it centered on the preparation of tax statements and financial statements to be used for tax matters, which led accountants to become tax brokers. However, in recent years, the accounting situation in Palestine has changed and the accounting profession has followed international standards and large companies have been forced to follow these standards, which raised the profession and accountants alike.

Accounting profession is one of the professions that have organizations and bodies that modernize and develop and work on all aspects of interest and hold seminars and publish specialized magazines, which contribute to the definition and development of the profession.

Previously, the decline in the accounting profession in the Palestinian territories was noticeable due to the absence of legislation and laws that regulate the profession, which reflected on the quality of financial reports submitted that affect the financial situation of these companies and the economy as a whole. The political and economic conditions experienced by Palestine played a major role in the delay in developing the accounting and auditing profession compared to other countries.

However, the historical relationship between them, the relationship between the profession of accounting, economics and capital markets has taken a new turn, especially after the famous collapse of the American capital markets in 1929 and the consequent development of accounting standards. The same happened after the collapse of Enron Energy Company in 2000 after the fraud carried out in partnership with Arthur Anderson, where the importance of the accounting profession and its close relationship with the capital markets and the economy. Despite the negative impact on the profession, especially after the collapse of several companies and the media focus on the role of the accounting profession and professional accounting offices, these collapses have given serious indications of the serious negligence of the role of accounting in the work and the progress of work in order to provide the necessary information to the concerned authorities and investors (Alsahli, 2006).

The economic value of an asset or liability is the expected future benefits of that asset or the future sacrifices to settle that obligation. Therefore, economic value is a key element in the decision-making process and therefore the provision of information about it in a manner that ensures reasonable decisions is due to an efficient accountant capable to provide such information. (Dasouki, 1992).

According to that, the economic changes that have taken place in the Palestinian territories in recent years have had to be mentioned.

Palestine has gone through four major stages in dealing with the financial statements, which can be explained as follows:

Pre-June 1967:

In the period leading up to the June 1967 war, two legal authorities prevailed. The southern areas of Palestine, known as the Gaza Strip, followed the Egyptian administration in its laws and legislations, while the central and northern governorates, or the West Bank, were under the Jordanian administration. As follows (Saba, 2008):

- VAT law
- Law No. 13 of 1947 on income tax applies in the Gaza Strip
- Law No. 10 of 1961 on the Practice of the Auditing Profession
- Law No. 1964 concerning income tax, applicable in the West Bank

The Israeli occupation period 1967-1994

After the 1967 war, the Israeli occupation had a negative impact on the Palestinian economy and attempted to make it a dependent economy through many negative practices and impediments to the advancement of the economy and thus the accounting profession, despite the establishment of the Palestinian Society of Accountants and Auditors in 1979, which aimed to develop the accounting profession It faced many obstacles and challenges and the status quo remained in that period due to the accounting profession as a profession of tax clearance until the issuance of the Intifada Declaration No. 37 of 1989, which provides for boycott of Israeli tax phenomena. (Nashwan, 2004).

Phase of the Palestinian National Authority 1994-2000

At this stage, the Palestinian environmental conditions improved, which reflected positively on the Palestinian economy. The Palestinian Authority has given a clear interest in the accounting profession and it turned out through (Nashwan, 2004):

- Activating the role of the Palestinian Association of Certified Public Accountants and Auditors through holding workshops and training courses in the field of accounting
- The Association of Palestinian Legal Auditors was established in order to increase interest in the role of auditors through the preparation and qualification of auditors.
- The Association issued the auditor magazine which was concerned with holding courses and workshops and issuing specialized magazines in the field of accounting and auditing.
- Issuing laws to encourage investment in Palestine.
- Organize accounting policies through appropriate criteria for the status at that stage and appropriate for practical application.

The period of Al-Aqsa Intifada since 2000 - until now

The outbreak of the Al-Aqsa Intifada marked a decline in the Palestinian economy due to the closures that have been imposed on Palestinian cities, the siege and the war in some cities (Saba. 2008). However after the first years of the intifada the economic situation start healing again and the economy became open to adopt the

international standards which considered as a changing point in the accounting profession in the Palestinian companies.

After the expansion of the accounting and auditing profession in Palestine, several attempts have been made to develop the profession at the level of enacting legislation or through the establishment of specialized professional associations (Mudawikh, 2014). In this section, we will give an overview of the most important professional associations specialized in the accounting and auditing profession that originated in Palestine.

Palestinian Accountants & Auditors Association

It is a professional association founded in 1979 in Gaza City and was officially registered in 1980. The new system of the association was adopted in 1998 by the Palestinian National Authority (Mudawikh, 2014).

One of the conditions for obtaining membership in the association was for the accountant to obtain a license to practice the profession of accounts from the registrar of companies. For political purposes, the committee stopped issuing the practice. The general association was held to expand the field of admission to its membership. Under the new system association belonging to all provinces of the country and became the right of assembly to give licenses to practice the profession in accordance with the criteria set forth became (Mudawikh, 2014).

According to Article 3 of the Palestinian Association of Accountants and Auditors' Statute, and in accordance with the provisions of the Law of Charitable Societies and NGOs, No. 1 of 2000, the Association has the right to dispose of and own property in funds and rights, It shall be headquartered in the city of Jerusalem and shall be based in Gaza City temporarily the association has headquarters in Gaza and Ramallah and may establish branches in any Palestinian city (Al-Bardaweel, 1999).

Article IV of the Statute states that the objectives of the association are (Mudawikh, 2014):

- Setting the rules of practicing the accounting profession according to practical and scientific standards.
- Raising the professional level of accountants and auditors.
- Find appropriate professional solutions to accounting problems and issues

- Raising public awareness of the importance of proper accounting application.

Palestinian Certified Public Auditors Association

The Palestinian Certified Public Auditors Association was established in 1986 in the West Bank as a branch of the Jordanian Association of Auditors, which was established under Regulation No. 42 of 1986.After the decision of the Jordanian government to disengage from Western Bank, the branch became a legal vacuum even after the arrival of the Palestinian Authority in 1994 (Mudawikh, 2014).

A concerted efforts were made to develop a statute for the Palestinian Certified Public Auditors Association until it became a real association in 1998 (Helles and Mikdad, 2000).

The Association was established under the Ottoman Associations Law and registered under No. 5026 in 1997 and its status ceased according to the Law of Associations No. 1 of 2000. The system has been amended in accordance with the Law of Practice of Professions. The scope of work of the Association will be throughout Palestine, with headquarters in Ramallah and Gaza (Mudawikh, 2014).

The Articles of the Association set out the objectives of the Association as follows (Mudawikh, 2014):

- Develop the level of professional competence of members
- Maintaining the ethics and behavior of the profession
- Encourage scientific research in the fields of the profession
- Holding training courses aimed at upgrading the profession
- Developing the spirit of cooperation among the members of the society and taking care of their interests
- Conducting conferences, seminars and workshops on professional topics
- Coordinating with local, Arab and international federations that are related to the profession
- Coordinate with the licensing committee regarding the preparation and holding of exams for applicants to obtain a professional license
- Issuing periodical books, magazines and translations that will develop the profession

- Work of the social security system for members of the Association and work on the establishment of a pension fund
- Coordinate with the founders of the private and public sectors in order to activate the role of the association

Palestine Securities Exchange (PSE) was settled in 1995 as a private shareholding company. The first trading session started on February 18, 1997. In early February 2010, the market was converted into a public joint stock company in response to the good governance and transparency principles. The market launched its new institutional identity to become the "Palestine Exchange" in September 2010, taking its brand from "Palestine Opportunities" as its logo (Abu-Dieh, 2015).

The stock exchange is regulated by the Palestine Capital Market Authority, in consonance with the Securities Law No. (12), 2004. The Exchange seeks to organize trading in securities by setting of a modern laws and regulations that provide the ground for protection and safe trading (Abu-Dieh, 2015).

In 2009, as a stock market investor protection, the stock exchange ranked 33rd globally and second among Arab markets.

As of 31/12/2018 the number of registered companies in the Palestine Stock Exchange were companies, with a market value of about 3.728 million dollars distributed over five main sectors: banks, insurance, financial services, investment, services and industry. While the securities' number of members companies of the stock exchange to 8 companies (Abu-Dieh, 2015).

The core values and principles of PSE are to grant investors with equal opportunities, well governance, integrity, transparency and efficiency.

Table 2.1: Development of Palestine Exchange

1995	**Establishment of Palestine Securities Exchange**
1997	Starting of the trading sessions.
2005	Al Quds Index achieved 306% growth, recording the highest value among the world markets.
2006	Launch of the investment awareness program
2007	Launch of E-trade.
2009	In a global rating, the stock exchange ranks second in the Arab world in providing protection to investors.
2010	Public Shareholding Company.
2011	The largest number of listing companies during the year (7 companies listed).

Source: Palestine exchange website

Table 2.1 (con.): Development of Palestine Exchange (source: Palestine exchange website).

2012	Palestine Securities Exchange - listed company
2013	- Launch of a special index for Palestine in the S & P and Morgan Stanley indices - The highest trading value in one session is $ 48 million. - Implementation of the self-settlement of cash after joining the national payment system "bright"
2014	- Adding Palestine to the "watch list" of The Financial Times Stock Exchange 100 Index FTSE indicators - Listing the first loan bonds in the history of the stock exchange.
2015	- Launch of the disclosure program "Disclosure".
2016	- The World Federation of Exchanges WFE full participation. - Upgrade to emerging markets within The Financial Times Stock Exchange 100 Index FTSE indices. - Launch of the "Subscription" electronic subscription program.
2017	- Agreement with NASDAQ on the purchase of the new generation of trading systems "Extreme". - Restructuring the stock exchange departments and operations.

Source: Palestine exchange website

The main objectives of the stock exchange

- Provide the investors with a secure and reliable trading environment and maintain their benefits.
- Develop the awareness of investments in the local society and strengthen the relationship with other local, regional and international corporations.
- Developing local investments and attracting Diaspora Palestinians and foreign capital.
- Increase the depth of the stock exchange and give new and diversified financing services.
- Creating a professional work atmosphere within the stock exchange through focusing on developing people cadres and keeping pace with the latest developments in financial market technology.

The Palestinian Stock Exchange was regulated by the Palestinian Capital Market Authority PCMA. Early in 2007, PEX issued the disclosure requirements for all the Palestinian companies listed in its report, which issued under the name of the Disclosure Regulations in the Article No. 3, which required all companies that listed on stock exchange to make their financial statements in consonance with International Financial Reporting Standards (Abu-Dieh, 2015).

The Palestinian Capital Market Authority regulations expect all listed companies to maintain the accounts and prepare their financial statements using IFRS, the Banking

Law and PMA regulations require all banks and financial institutions also to make their financial statements in accordance with the IFRS (Abu-Dieh, 2015).

2.2 Overview of Comprehensive Income

2.2.1 Goal and Importance of Financial Information Disclosure

The disclosure principle has been linked to the emergence of joint stock companies and obliges them to publish their financial statements periodically, to submit to their investors, shareholders and lenders a report on the results of their business and financial position in order to disclose the material information that has occurred during the period, so that these investors take their economic decisions accordingly (Hanan, 2003).

Some of the researchers defined the disclosure as “the information that the management publishes to third parties users of the financial statements” in order to meet their various information needs related to the business of the entity. The disclosure includes any historical or future accounting or non-accounting information disclosed by the management and included in the financial reports (Khasharmeh, 2003).

Sabban (1997) defined the disclosure as the intangible measure of the cities' adequacy of explanatory and supplementary data in the financial statements.

Alsayed (1993) believes that the disclosure is the presentation of important information related to the economic unit through a set of financial statements and reports to help the informed reader to make rational decisions and that information is presented either in the financial statements or in the accompanying notes or additional lists, including financial statements such as statement of financial position, income statement, statement of cash flows, retained earnings statement or statement of changes in equity.

It differed on the concept of disclosure of financial information. This difference stems from the different interests of the related parties and the different objectives of the use of financial statements (Helles, 2013).

Thus, it is difficult to arrive at a common and standardized concept of disclosure to ensure the level of disclosure that fulfills each party's wishes and needs in this area. A general framework is needed to ensure that their views are reconciled in a manner

that provides a minimum level of desirable disclosure and how the main interests of those parties are realized (Zayyod et al, 2006).

To conclude the above, the accounting disclosure is the disclosure of all the necessary financial information and data for all the categories that use it, which is published through the financial statements or in the notes attached thereto, as well as disclosure of the accounting policies adopted and any changes in them, in order to benefit from them. To help users and beneficiaries to make appropriate decisions and to achieve the desired goals (Helles, 2013).

Accounting disclosure is of great importance in the financial reports of public shareholding companies. The importance of disclosure in the financial reports of companies that it's an important sources of information for economic decision-makers, where adequate disclosure helps economic decision-makers in assessing the financial position, business and achievements of these companies, and understanding Descriptors and special features associated with the nature of the business of these companies (Al-Khatib, 2002).

Al-Khatib (2002) pointed out that the increased importance of disclosure in the financial statements of industrial companies is due for the following reasons:

- Issuing legislation to guarantee the rights of investors where there is no justification for the departments of joint stock companies to evade disclosure of information under the pretext of protecting the interests of shareholders.
- The compliance of the joint stock companies in terms of the conditions and rules of disclosure of the regulations issued by the Stock Exchange Committee on the disclosure of information in the published financial statements of other joint stock companies listed there.

In view of the importance of the disclosure, the International Accounting Standards Committee issued the accounting standards related to the disclosure in the financial statements of the companies, and the adoption of the first International Accounting Standard for the accounting disclosure of the financial statements by the Standards Committee in July 1997 and became effective (Helles, 2013).

The users of financial statements are generally composed of stakeholders and according to IAS 1.9, these categories contain shareholders, bondholders, creditors, suppliers, customers, and the general public. Therefore Companies should disclose

its financial information in consonance with accounting standards in line with the stakeholders' needs, as the stakeholders will use this information in decision making whether to invest or lend to this company. Therefore, these lists should satisfy investors as well as the rest of the stakeholders (Holthausen and Watts, 2001).

The IAS 1 aimed to outline the character and extent of the financial statements' presentation. The aim of the financial reporting is to provide the users of the financial statement with the useful information about the company position and cash flows in order to help them in the decision making process (Helles, 2013).

The disclosed information in the financial statements have benefits to both current and potential investors as well as debts holders and creditors in order to help them in making the rational decision to invest, lend or other decisions and help them in assessing the amount, timing and uncertainties in future income and cash flows (IASB, 2010a).

The financial reporting conceptual framework which announced by the IASB 2010 clearly affirm that current and potential investors and creditors considered as the focused groups of the financial reports, excluding regulators and the general public from being within the focused groups of these reports (Murphy et al., 2013).

Khasharmeh (1997) added on the importance of disclosure the availability of an adequate level of disclosure in financial reports contributes to help users of financial statements to make good decisions, as the level of adequate disclosure leads to the following benefits:

- Achieving fairness between investors and other users of financial statements, which reduces the trading opportunities based on internal information, and achieving justice by wasting the opportunity for investors with internal information to make profits at the expense of other investors
- The willingness to buy shares of companies that disclose more than others, because the investor by its nature does not want to risk resulting from lack of information, assuming the equality of all other elements related to the investment decision, and the preference of shares of these companies over others leads to increase their prices.

- Contribute to maintaining the stability of stock prices as the lack of information leads to increased volatility in stock prices as it allows for speculative operations in the financial market

One of the most important general goals of the financial statements from the investors' perspective is to predict future revenues and to assess the company in general. The data provided to investors and creditors should provide a vision to the future position of the company and enhance the ability to predict the future income and cash flows (EFRAG, 2009).

As the main goal of standards setters is to use the financial statement as better as the user can and enhance the value of the information that presented in that statements, comprehensive income also can be a good prediction tool for predicting o the future income and cash flow if it contain an informational content that grant the stakeholders with additional value.

2.2.2 Comprehensive income in financial statements

In the Statement of Financial Accounting Concepts No. 3 which issued by FASB in 1980 the comprehensive income have been defined (SFAC No. 3, 1980). The basis for this implementation came from the reality that the conventional method of income reporting was considered as very strict and the need grow for another way to show results in the financial statements.

FASB introduced in SFAS 130 (1997) the comprehensive income reporting in the late 1990s and the institutions were asked to report of comprehensive income through one of three forms:

- Through a complementary part of the conventional income statement
- Through a complementary part of the statement of financial position or the changes in owner's equity statement.
- Through the "statement of comprehensive income" which is a separate financial statement.

Later on, the first form was chosen by the accounting standards setters in US and the IASB as in many of other countries (Dhaliwal et al., 1999; Pinto, 2005; Cauwenberge and Beelde, 2007; Tarca et al., 2008; Kanagaretnam et al., 2009; IASB, 2009, 2011).

Moreover, the accounting community environment has changed significantly and the reporting about the firm's activities has become more complicated as the financial statements' users need extra details to be presented in these lists (Robinson, 1991).

The definition of the comprehensive income that approved by FASB in the concept statements No. 3 was followed by the concept of "all-included" of income for the reporting purposes (Johnson et al., 1995).

FASB's first conceptions on the comprehensive income concept reflected the general idea behind this concept, which was also adopted by the IASB in its standards. In respecting to IAS 1, the comprehensive income defined as the changing of equity in a specific period according to the transactions except that changes that occur because of the events from the changing in the ownership capacity of owners, on the other hand the comprehensive income contain all the items of profit and loss in addition to the other components. IAS 1.7

The other comprehensive income reporting definition's main objective was to grant the users of financial statement with more inclusive, harmonious and relevant information (Cauwenberge and De Beelde, 2007; Ernstberger, 2008).

For the sake of increasing the financial information's value and consistency various methods of item's recognition were applied for both reporting in the net income statement or in the statement of comprehensive income. The decision where the item will be recognize is depend on many features (IASB, 2013c).

The elements that may distort income reporting and are identified as unrealized or non-recurring or involve uncertainty measurement and long-term or out of management domination are recorded in the statement of other comprehensive income**.** The elements which recorded in the income statement have the opposite characteristics. The crossing between the income statement and the balance sheet ensures that all items will be recognized in the statement of financial position in all cases. Simultaneously, certain elements which recognized directly to the other comprehensive income statement can be reclassified in later periods to the income statement (Günther, 2015).

The different handling of other comprehensive income items reclassification issue into the income statement has formed a significant embarrassment among the financial information users (Bellandi, 2012; Zhang, 2014).

Based on these facts, many investors preferred to continue using the income statement for their valuations and financial analyzes and ignored comprehensive income (Rees and Shane, 2012).

It is critical to take into account the information that provided in the other comprehensive income statement, since reliance on percentages calculated from previous data only may reduce the reporting quality (Rees and Shane, 2012).

By working to develop the financial information's accuracy, comparison ability and reliability, one of the core IASB duties is connection and seduction. The research society can encouraging this seduction by giving good analysis of informational content so that it maintains the value-relevance of the financial statements (Günther, 2015).

Cauwenberge and De Beelde (2007) in their research focused on depending on net income only and discussed the issue of relying on different income measures in releasing of earning per share, and indicated that the using of two different measure of income may be grab awareness to these determinants and reinforce analyzes on the Other comprehensive income components which contain additional details.

To summarization, in order to calculate the comprehensive income the components of other comprehensive income have to be added to the net income. Despite that the net income contains all the transactions that resulted from shareholders and other transactions that represent all the profit and loss of the company in a specific time (Beale and Davey, 2001).

However, the changes in equity that have not been recorded in income statement and are not derived from transactions with the stockholders is recorded under the other comprehensive income (Ferraro and Veltri, 2012).

The success of reporting on Other comprehensive income depends mainly on the adoption and admission from the financial information preparer and users, therefore, the comprehensive income endorsement as an additional measure of income leads to the punctuality of the users of financial information because they will be obliged to take into account each component and its potential impact on the value of the institution (Günther, 2015).

2.2.3 General Concept of Comprehensive Income

As explained in the former section, and according to IAS 1.88 the transaction with non-shareholders is recognized either in the income statement or in the statement of other comprehensive income.

Thus, the comprehensive income consists of a collection of revenues and expenses, regardless of whether it's recognized in the income statement or the statement of financial position, and without distinguishing between the ordinary or extraordinary elements (Pellens et al., 2014).

This recognition is on the basis of accrual accounting system and in consonance with International Accounting Standard No. 1.27 – 1.28, and focuses on the information and its functions in financial accounting (Pellens et al., 2014).

The components of the other comprehensive income presented to the users in the statement of other comprehensive income (Mackenzie et al., 2012).

The purpose for recording of these components in the equity because this information will be realized in other times and they have temporarily nature. However, a relevant to the company's position information provided to the investors. At the same time, they are disclosed in the other comprehensive income without any impact on the company's profit or loss. Once an interim component that classified under other comprehensive income statement has been transferred and realized, it is recorded in the income statement or compensated to retained earnings (Pellens et al., 2014).

The clean surplus accounting concept will be applied if all of the other comprehensive income components reclassified into the income statement (Boemle and Lutz, 2008;Pellens et al., 2014).

The application of income recycling standards averts the double counting and assures that whole profits and losses will eventually appear in the income statement (Mackenzie et al., 2012).

In contrast of this, the dirty surplus accounting concept permit the compensation of specific profits and losses elements that formerly recorded in the other comprehensive income statement in retained earnings when realized, and therefore a

permanent excess of profit and loss (Wang et al., 2006; Isidro et al., 2006; Boemle and Lutz, 2008; Pellens et al., 2014).

From net income perspective, the permanent excess of profit or loss of certain elements of comprehensive income is a violation of the clean surplus concept (Preinreich, 1937).

The presentation of other comprehensive income in one single statement or in a separated statement is allowed by the standards' setters (Blase et al., 2010; Buschhüter and Striegel, 2011). In the case of one single statement the other comprehensive income presented in the bottom of the statement (IASB, 2008a).

In the separated statements view, the net income is consistent with the comprehensive income and there are two options for performance indicators (Cauwenberge and De Beelde, 2007).

The motivation behind the concepts described above is taken into consideration, we will always find ourselves in a trade-off between appropriateness and consistency as will be explained in section 2.4.4.

The linkage to the income statement may enhance in case more elements in the other comprehensive income statement were implied, with the possibility of decreasing the comparison of the financial statements (Kanagaretnam et al., 2009).

Generally, the correlation between the income figures and the market values such as share prices and share returns show the relevance of accounting information (Barth et al., 2001; Thinggaard et al., 2006).

The correlation between market data and particular accounting information shows a correlation with the information used by investors (Francis and Schipper, 1999). However, it is significant to notice that the studied correlation does not directly correlate with causation (Kanagaretnam et al., 2009).

Several studies have examined and analyzed the correlation between various income measures and market data, including shares prices and shares returns in previous decades.

The plurality of available researches conclude that net income comparing to the comprehensive income is more closely related to market values. Moreover, the future cash flow that generated from the operations in addition to the future net income is

better predicted by net income. However, the main debate was that the elements of other comprehensive income is temporary in nature (Ernstberger, 2008; Kanagaretnam et al., 2009).

Consequently, comprehensive income has a limited explanatory capacity to forecast the future operating cash flows and company's values. In these argument the existing of special elements which are non-recurrent and non-continuous at the same time and are classified as temporary in the income statement have been ignored (Burgstahler et al., 2002).

From an accounting viewpoint, it is not convincing that these numbers are processed through a different way (Jones and Smith, 2011).

2.2.4 The Development of Comprehensive Income

The United Kingdom was the first country who applied the concept of comprehensive income after the issuance of UKFRS in 1992 which called after then the aggregated recognized revenue and expense. And then it is recorded in another major statement (O'Hanlon and Pope, 1999; Cahan et al., 2000). The initiative in taking such a move from the UK led to compression on the setters of international standards which led to a responding from the FASB by issuing and applying of SFAS 130 in 1997 which handle the comprehensive income report (Linsmeier et al., 1997; Ernstberger, 2008). After the applying of SFAS 130, standard setters in different countries have linked to international development in expanding other comprehensive income presentation (Günther, 2015).

Ever after 2001, FASB and IASB have collaborated on working on comprehensive income through various business projects (Thinggaard et al., 2006; Whittington, 2005; Bellandi, 2012). While FASB requested US companies to disclose comprehensive income on an independent basis as of 1997, IASB applied the IAS 1 in 2005 (Leibfried and Eisele, 2009; Bellandi, 2012) and introduced the financial statements of companies that applying the IFRS (IASB, 2008b).

IAS 30 and certain aspects of IAS 32 were replaced by the new standard (IASB, 2005). In September 2007 the IAS1 was revised and included some changes in respecting to the other comprehensive income presentation. The revised standard has been applied from the beginning of the financial year 2009. In addition to coordination with the US GAAP, the forces driving the application of the Standard

have increased as the need to recognize other elements in other comprehensive income to avoid recognizing them in the income statement and to become recognized in the comprehensive income statement is becoming more common in companies (Thinggaard et al., 2006).

And as ruled under FASB ASC 220 the SFAS 130 and IAS 1 reporting methods of other comprehensive income begun a new run of long-standing argument about the other comprehensive income reporting method in terms of reporting using “all-included” or more conservative way like the concept of "present operating" performance.

The notion of "all-included" founded on the basis of the previous clean surplus, and all amendments in the economic amounts of the company’s assets and liabilities should be disclosed (Kanagaretnam et al., 2009).

The idea of the concept has been distorted by the publication of many exceptions, as many criteria have departed from this principle, (Kanagaretnam et al., 2009). Despite the advocate of the standards setters to adhere to the "all-inclusive" concept (Epstein and Jermakowicz, 2008).

These exceptions, as with the differences between the application of IFRS and US GAAP even compulsory or voluntary, illustrate the need to achieve agreed standard.

The report should use the same standard to handle the reporting of the various components of other comprehensive income using another standard. The reporting on actuarial gains and losses is different between US GAAP and IFRS, as in the US GAAP: (1) Recognition directly in the income statement. (2) Deferred recognition to apply the approach of the corridor. The two options do not exist under IFRS, but the recognition of actuarial gains and losses is permitted by IAS 19.93 in case of implementation of the direct recognition method. Furthermore, the gains and losses that arise from actuarial activities are recycled to the income statement according to US GAAP on the basis of deferred recognition (PwC, 2013b).

IFRS has created a different interpretation from the US GAAP so that IFRS will allow reporting on the tangible and intangible assets surplus revaluation in the statement of other comprehensive income while the US GAAP does not allow this. In addition, IAS1 and FASB ASC 220 left it open for discussions and interpretations to offer inconsistent choices about recognition and interpretation, then tested the

comparability to the standards and reduced the reporting translucence, for instance, the reclassification concept of other comprehensive income items is not constant regarding to the IAS 1 (Jones and Smith, 2011; Pellens et al., 2014) The premier recognition of other comprehensive income was not based on a homogenous standard under IFRS (Barker, 2004; Kirsch, 2012). Moreover, the report according to US GAAP, did not accept exemptions from the reclassification. It was considered that all components tentatively recorded under comprehensive income are recycled (FASB ASC 220-10-45-16).

The handling of recycling under IFRS has created some kind of uncertainty which was one of the reasons that led to confusion about other comprehensive income and its classifications (Bellandi, 2012). As a result, in 2011 the IASB announced its other modifications to IAS 1 which required companies to report a sub-total of those elements that will be reclassified to those which will not be reclassified (IASB and FASB, 2011). The changes included in this amendment are supposed to be applied in the period from the beginning of July 2012 onwards. The presentation of the comprehensive income items has increased more than the assembling due the agreed. These amendments might have a side impact on the statement of financial position. However, the modifications of financial statements for users should facilitate the definition and assessment the impact on the future income the results from the other comprehensive (Ernst & Young Global Limited, 2011).

In accordance with these changes, the Compliance Project Board presented several initiatives individually and made standalone amendments to IFRS and US GAAP to increase the possibility of practical application (IASB and FASB, 2012). In addition, IAS 1 amendments limitation in the short term has increased the stability and visibility of the other comprehensive presentation income by giving time to the financial statements' users to make adoption of this change familiar (Ernst & Young Global Limited, 2011).

2.2.5 Recycling and Reclassifications of Other Comprehensive Income

Generally, the other comprehensive income components which have a temporarily nature will be recorded in the comprehensive income and reclassified to income statement later on when these items realized (Ernstberger, 2008; Kanagaretnam et al., 2009).

Consequently, these elements recognition will be temporarily in the cumulative other comprehensive income, then it will reclassified in income statement later. From the accounting point of view, the connotation of recycling of items is defined as a fractional or total transfer of items previously recorded in the other comprehensive income to income statement (Hoogervorst, 2012; Bellandi, 2012; Zhang, 2014), therefore as initial step the aggregated other comprehensive income is justify to be reclassified to the income statement (Antonakopoulos, 2007).

The reclassification includes the real amendments in the value of the period in addition to the cumulative amendments from prior periods. Therefore, in the next step, these positions are recorded in the net income statement under the reclassification adjustments (Leibfried and Eisele, 2009; Pellens et al., 2014). And as mentioned in IAS 1.94. The company can present the recycled items and determine the changes in values for the current time as well as the amounts accumulated from former times in the notes to the financial statements or in the other comprehensive income statement.

In the case where all of other comprehensive income components would be recycled to the income statement over time the comprehensive income will equal the net income of the entity, in this case as mentioned before the clean surplus accounting concept is taken a place since all changes in equity other than the stockholders transactions will ultimately be recorded in income statement (Günther, 2015).

International financial reporting standards (IFRS) require recycling for specific elements to the income statement, these elements include the following:

- Adjustments of foreign currency translation and net investment in foreign operations.
- Effective portion of gains and losses on cash flow hedges.
- Financial assets available for sale gains and losses.

Share of other comprehensive income from intercompany.

- Related taxes.

  There are also elements that are not recycled to income statement and which are as following:

- Modifications in revaluation surplus for tangible and intangible assets
- Actuarial gains and losses on defined benefit plans

- Correspondent taxes.

A different view has taken by IASB about the comprehensive income items after the Board discussed how no single or specific attribute to differentiate between recycling operations (IASB, 2013c).

When considering existing discussions on recycling under IFRS, we find it important to take into account various positions on this subject. The debate that support the recycling process for all comprehensive income elements emphasizes that

The usefulness of reclassification of gains and losses as an element of other comprehensive income could be enhanced. At the end it will be presented in net income, thus taking changes in economic resources more accurately. Furthermore, it will improve the comparability of financial statements by reducing differences in recognition from several options for the preparation of the report. Proponents point to the value added by recycling on the actual time of the other comprehensive income items recognition and realization. However, the realization time mentioned this raised by some opponents that the inappropriate time of recognition in subsequent periods distort the informational content of the financial performance for that time. The administration affords the risk of settling the outcomes and profits if the management granted the option to determine when certain items will be realized. (Hirst and Hopkins, 1998).

Additionally, the recycling concept increases the complication in recognition of comprehensive income which is essentially criticized, it is generally assumed that the comprehensive income does not enhance the understandability for the financial statements users. These debates are on the basis of current version of IFRS, and is not considering the extreme approach recycling practical approach whether all or any of the other comprehensive income items. Therefore, it makes sense to adopt the idea of more diverse views, for these arguments in favor of or against recycling, in 2013 IASB issued a discussion paper (IASB, 2013b).

The debate on the reclassification and recycled topics reflected the importance of these topics to the standards' setters. IASB presented a research paper in 2013 review the financial reporting conceptual framework (IASB, 2013b).

In order to handling of the recycling of other comprehensive income components three approaches were suggested, one of these approaches was considered as the

most rigid approach and was not supported by IASB, there are also two another approaches which are the narrow approach and the broad approach (IASB, 2013b).

The narrow approach re-measuring all recognized elements in other comprehensive income. While according to the broader approach which pursue rigorous procedures which are relevant so that only those elements that give added value and usefulness to financial information are recognized and recycled. (IASB, 2013b; IASB, 2013d).

It is not clear yet how the conceptual framework will appear in its final form as the issue of recycling is addressed. The important question is how the concourse project between IASB and IFRS will transact with this condition. Specifically, will strict rules be taken to recycle the collection of other comprehensive income components in consonance with US GAAB or will it adopt a more diversified approach according to IFRS. (IASB, 2013b).

The challenge in handling of specific other comprehensive income components in a way to accept the recycle of some elements and not the other. Even a narrow approach can drive to inconsistency by not modifying of the treatment for other components of other income simultaneously with IASB. However, IASB presently does not have the concession to make additional concessions and agree on amendments to IFRS (IASB, 2013b).

To summarize the concept of recycling has a considerable effect on the company's income report, particularly on the net income report. The recycling concept has many disadvantages, for instance, the manipulation risk of the company’s profits, which should not be neglected in the discussions on the recycling of other elements of other income, and in this study was taken net values for reasons of comparison (Günther, 2015).

It has been founded that only a few number of companies reporting in a separate way of other comprehensive income (Jones and Smith, 2011).

However, the analysis of reclassification modifications will be a pleasant and subject to further consideration when more comprehensive information is available on the subject (Günther, 2015).

2.2.6 Presentation Forms of Comprehensive Income

As required by IAS1 all profit and loss elements through a specific period have to be recognized in the income statement unless another standard requires or allows otherwise.

As an example of these exceptions is other comprehensive income components, which may be excluded from income statement. Such a presentation to the other comprehensive income allowed by both IFRS and US GAAP (IAS 1.81 and FASB ASC220-10-55).

The comprehensive income presentation is allowed by the standards' setters either by using of the one single statement or by using of a separate statement (Buschhüter and Striegel, 2011; Blase et al., 2010). So that the information content in both cases is identical because the information has been extracted from the same basic data but in a different view.

Contrary to the one single-statement approach, the approach of the separate statements corresponds to the net income with comprehensive income in such a way as to provide the financial statements users with indicators for performance measurements (Cauwenberge and De Beelde, 2007).

In the paper issued by IASB and FASB in October 2008 they proposed to present the only list of the future (IASB, 2008a). But FASB has reviewed this suggestion and withdrew it after strong objection and criticism from investors and the business society, and as a result IASB pursued this development with a vision to avoid the variances between the two standards (IASB, 2011).

The modifications made to IAS 1 in 2011 have re-elected companies using the single listing or independent listing of comprehensive income reporting (Günther, 2015).

2.2.7 Studies on Other Comprehensive Income Components

Neuromas studies have examined and explicitly concentrated on the other comprehensive income items value-relevance and its forecasting ability.

The value relevance of three components of other comprehensive income namely tradable securities gains and losses, adjustment of foreign currency translation and the pensions liabilities changes were analyzed by Dhaliwal et al. (1999) in their study. The results showed that the tradable securities gains and losses improved the

correlation between income measures and share returns. The examination also added that the results were found and derived from companies operating in the financial sector (Dhaliwal et al., 1999).

In the Cahan et al. (2000) study, a sample of New Zealand firms for the period 1993 to 1997 made a compression between income measures to determine which one has more value relevance. The results indicated that the comprehensive income has more value relevance than the net income.

The value relevance of the adjustments on the foreign currency translation was the concentrated point of Louis (2003) research which examined a sample of the industrial companies that work in United States for the period between 1985 and 2001.the outcomes showed the correlation between the adjustments of the foreign currency translation with the company's value losing among the tested sample. Moreover, currency translations are often counterproductive compared to the economic impacts on the changes of currency exchange rate Louis (2003).

The Pinto (2005) thesis also estimated the value-relevance of the adjustments of foreign currencies through analyzing of a sample from US companies that had investments in Germany and Mexico between years 1991 and 1996. On contrary of the former thesis, the researcher replaces the interest rate by the term interaction in the valuation formula. The results of the study showed that when the adjustment on the foreign currency translation tested on a cross section base then it shows a significant relevance.

The focus of Biddle and Choi (2006) research was on the translations of foreign currency and the least required pension obligations. The results indicate that the income on the basis of the broader definition which included the components of other comprehensive income enhance the decision making ability for the investors and leads to maximizing of the utilization of figures when making a decision Biddle and Choi (2006).

A sample of Dutch companies through the period between 1988 and 1997 was tested by Wang et al. (2006) to examine the relation between the accounting information and the accumulated returns on share. This approach has been used to prevent any possible mismatches of market values and accounting information. As founded results indicate that there is no correlation between the aggregate dirty surplus and

the share returns for the 10-year cumulative periods. However, differences in revaluation of assets and currency translation over time become increasingly relevant with incremental returns on stocks. Moreover the dirty surplus accounting approach is not correlated with the share returns for the cumulative periods as suggested by the study Wang et al. (2006).

The value relevance of gain and loss on the securities available for sale and the translations of foreign currencies have been examined by the study of Chambers et al. (2007). In their study's results they mentioned that both of the components have value relevance for the investors and they assumed that the investors were more aware of the other Comprehensive income information which reported under the change in equity statement than in the income statement Chambers et al. (2007).

The value relevance of translations of foreign currencies, gain and loss on the financial assets which available for sale in addition to the cash flow hedges gain and loss have been analyzed by the study of Ernstberger (2008). The results shows that only gain and loss on the financial assets which available for sale as a components of other comprehensive income shows an increasing in value relevance according to the test Ernstberger (2008).

by analyzing of a sample of the companies that recorded under SP index for the years 2005 and 2006 when SFAS 158 was applied, the value relevance of other comprehensive income components were tested by the study of Hossain and Mitra (2009). The outcomes showed a positive correlation between the adjustment of foreign currency translations with the returns on share as same as adjustments on pensions obligations Hossain and Mitra (2009).

The value relevance of other comprehensive income was the concentrated point by Kanagaretnam et al. (2009) in order to test the correlation with the market values. The analysis indicated the existence of significant association among the other Comprehensive income components based on the US GAAP i.e. the hedging flow fair value and the available for sale investments fair value and the adjustments on the translations of foreign currencies, share prices and share returns. More clearly, a close association located between the share price and returns on share with two components namely the cash flow hedges and gain or loss on the investments available for sale. Furthermore, the predicative ability of predicting the future cash

flow was enhanced by the gain or loss in the investments available for sale as suggested by the researcher Kanagaretnam et al. (2009).

The study of Jones and Smith (2011) combined the manually collected data and corporate numbers in the United States between 1986 and 2005 in order to compare between the profits and losses that recorded in the other Comprehensive income with those which recorded in the net income. A model was used to test the relevant value, predictability and accuracy, and the researcher found that both income measures had a relevant value. Moreover, they also found that profits and losses which reported under the other Comprehensive income had negative results on the subject of accuracy. The results showed that profits and losses reported in the net income outweigh the predictability of future income and future operating cash flows.

In his thesis, Höhn (2011) analyzed the value relevance on the other comprehensive income as well as their predictability. The results showed that there are just two components correlated significantly with the market values namely the adjustments on foreign currency translations and gain or loss from the securities available for sale, and they give a cumulative informational content useful in forecasting future cash flows. However, the researcher has indicated that the results may be tolerated that there was some bias in that the study was suffering from the limited data available Höhn (2011).

In their study, Goncharov and Hodgson (2011) concentrated on the value relevance and the predictive ability for some of other comprehensive income components through testing of a sample of European countries before the mandatory application of IFRS. The value-relevance has been examined through using of share prices and share returns by investors and financial analysts to predict future cash flows. The outcomes showed that gains and losses on securities available-for-sale and adjustments on foreign currencies translations are considered to be relevant components that inform investors of their cash flow projections. The revaluation of the assets was considered to be relevant to the financial analysts from a predictive point of view Goncharov and Hodgson (2011).

In their paper, Devalle and Magarini (2012) used the model of price regression in order to determine which components of other Comprehensive income were considered more value-relevance. The researcher collected required components of other Comprehensive income according to IAS1, and considered them as

independent factors of the model. But the results were not taken into account as all coefficients did not differ significantly from zero, but the only component of the other Comprehensive income which we can consider relevant is the foreign exchange translation adjustments but this result was based on the sample taken from UK companies. This study is subject to further examination.

The advantage of the Comprehensive income reporting in decision-making by investors was examined in Deol (2013) thesis by using a number of Canadian companies for the period 2001-2010 as a sample. This study was based on the outcomes of Kanagaretnam et al. (2009) research paper, which analyzed the other Comprehensive income usefulness in the decision-making process as mentioned above. The forecasting ability of other comprehensive income also examined. The results indicate that there are some components have a negative accuracy unless they were helpful in decision making. Variations in the future cash flows of the hedges have been positively and markedly correlated with market values and future expectations. The results also showed a positive correlation between market value and future expectation with the other comprehensive income components except for the adjustments on foreign currency translations and actuarial gains and losses

2.2.8 Studies Related to the Reporting Location of Other Comprehensive Income Components

The efficient market hypotheses which developed as result of Fama (1965) and Samuelson (1965) efforts assumed that all available information is inverted in the market price and provide information is necessary rather than the form in which it will be presented. Therefore, there have been many studies, articles and theses that examined the impact of the presentation of financial information in a certain way and its results on the ability of investors to make a decision.

Dehning and Ratliff (2004) found that there was no proof that market participants were giving value to the Comprehensive income reporting through a sample of US companies after the SFAS 130 was applied. As the items of other Comprehensive income were presented in the financial statements notes, also the efficient market hypothesis validity has been emphasized. The obvious and detailed report on Comprehensive income and components of other Comprehensive income with SFAS

130 application had a substantial effect on increasing the forecasting ability and decision of share prices by the financial analysts (Hopkins and Hirst, 1998).

After analyzing the same impact for non-professional investors regarding to the application of SFAS 130 Maines and McDaniel (2000) found that the format of the report has a considerable effect on the performance of investors in the performance evaluation and the format of the Comprehensive income report has affected the decision making by the investors.

The Mitra and Hossain (2009) study supported the argument through the proposal that investors would be more able to evaluate financial information more effectively by explicitly disclosing the financial information in the statements rather than disclosing it in the reporting notes.

In his study, Bamber et al. (2010) displayed that managers think the Comprehensive income and other Comprehensive income components place of presentation may make a difference for investors and the financial statements users assess the Comprehensive income differently according to the disclosure position.

In Mechelli and Cimini (2014) study, it is analyzed if the place of the Comprehensive income report is considered an influential factor through a sample of companies from the European Union pre- and post-implementation of the IAS 1 (revised 2007). The researcher summarized that the Comprehensive income place of reporting does not influence the relevant value of the comprehensive income.

2.3 Components of Other Comprehensive Income under IFRS

Providing a general perception of other comprehensive income components in terms of classification, occurrence and different treatments of those components is an important thing. Therfore, In this section, IFRS handeling of other comprehensive income components will be described.

2.3.1 Gains and Losses on Available-for-Sale Financial Assets

The profits or losses caused from available-for-sale financial asset and its relationship with the other comprehensive income will be explained within general terms. The impact on comprehensive income also will be discussed in this section.

It is significant to try to understand the concept of profit and loss recognition relating to financial assets available-for-sale that the classification of financial instruments is reviewed, the financial instruments classification according to the former version of the accounting standards is very comlex (Pickard, 2007). The lack of risk management and the lack of practical application have been reviewed in previuos time. In general the concept of hisorical cost or the concept of fair value could be implemented (Pellens et al., 2014).

The lack of dependable valuations of financial instruments, in addition to the lack of relevance to this concept in practice, have given the appropriate ground for the emergence of different points of view. In this context, due to financial crises, the use of fair value by experts has been proposed as a measure of financial instruments (Gassen and Schwedler, 2010).

However, the concept of fair value has several weaknesses, especially if there is no liquidity market available. Moreover, in accordance with financial crises, the fact that the evaluation gives substantial scope to the interpretations has been debated (Pellens et al., 2014).

These examples illustrate the need for a model for evaluating financial instruments in a manner that excuses the multilateral of IAS 39 structure. The various handlings of financial instruments have been classified according to IAS 39.9, which describes and divides financial assets into four categories, financial asssets held to maturity, financial assets at fair value, loans and receivables, available-for-sale financial assets.

If the company become a part of the financial instruments then the financial assets or liabilities will according to IAS 39.14. when the financial instruments recognized they will be measured at fair value according to IAS 39.43(Kuhn and Scharpf, 2006).

According to IAS 39.9 the differences between the real market values and the primarily recognition depend on the categories of financial assets mentioned above. Nominal interest gains of all financial instruments are treated similarly and flows through income statement, in addtition to profit or loss recognizition which is stated at fair value for following periods in the income statement.

According to IAS 39.46 the financial assets held to maturity are recorded at amortize cost through the methof of effective interest. In the same way, credits and receivables are treated and then measured at amortized cost (Pellens et al., 2014).

The only financial instrument that affects the other comprehensive income is available for sale assets. These assets have been identified as financial assets classified as available-for-sale or unallocated financial assets that are categorized as one of the following categories, Fair value of held for trading, credits and receivables and held to maturity financial assets (Küting and Reuter, 2009; Ernst & Young, 2014).

The logic beyond the different treatment of financial assets is the probability of clarifying the actual market values in the statement of financial position, while simultaneously reducing fluctuations that caused from the unrealized amounts in gain or loss. The treatment also described distinguishes between the treatment of normal operations and the treatment of elements occurring on special occasions, which confirms the objective of the standard setters to give additional information to the the financial statements' users (PwC, 2013a).

The difference in measurement of specific categories has been the reason for criticism in last years as difficult and arbitrary rules (Barth et al, 2013).

In conjunction with the comprehensive financial instruments project, IASB issued IFRS 9 dealing with the restructuring and reform of financial instruments accounting, that IFRS 9 is intended to take the place of IAS 39 fully in the future, with the aim of replacing difficulty by decreasing of the classification into two classes: financial instruments at amortized cost and other at fair value, bring into line standards consonance with the business models of entities, and also emphasizing the importance of risk management (IASB, 2012a).

Although IFRS 9 was issued in November 2009, the standard as yet under implementation. The IASB has lately published a new model for hedge accounting that has caused substantial changes in accounting procedures for companies, Companies also had a significant effect on financial reporting entities, but this standard was postponed until early 2015 (IASB, 2013e).

2.3.2 Gains and Losses Arising from Translating Foreign Operations

In the era of globalization in which we live today and with the emergence of multinational companies, the need to use foreign currencies in trade has grown significantly in the past years, which will also increase in the future. Companies whose doing import and export activities are associated with the operations of

various merchandises and services and companies that may have subsidiaries or branches operating in other countries are treated in different currencies from the currency that used by the parent company's financial statements presentation. Otherwise, companies may face some situations that require the use of foreign currencies for their own business (Muthupandian, 2009). In order to report the company's business in a similar and comprehensive manner, companies must convert all their business activities into a single currency (Günther, 2015).

The rules tht requlate an governing of the presentation of foreign reports and the foreign currency translations have been set through IAS 21 The determination of the functional currency for the company was the main goal for this standard. In addition to to determine the appropiate accounting handling for the transactions that occurred In a different currency of that used in presenting of the parent company's financial statement (Künkele and Zwirner, 2009; Alfieri and Gwerder, 2012; Ernst & Young, 2014).

The translation of foreign currency relied on the parent company's functional currency, and this functional currency which determines which transaction will be classified as a foreign currency transaction (Oechsle et al., 2006).

IAS 21 defines the exchange rate that will used to convert transactions in foreign currencies. The question about whether the gains and losses that resulting from forgin currencies translation would be reported under the net income or the other comprehensive income has been answered by the standard. The application extent of foreign currency translation is generally determined in accordance with IAS 21.3.

In general, this Standard has differentiated between the accounting standards of foreign transactions and the adjustments on the translation of financial statements into the presentation currency. The transformations process applies for companies that have foreign operations and are aware of foreign operations of the companies.

The introduction of functional currency concept has gained special importance in according to IAS 21.8 which explain the functional currency of the company that make its operations mainly with it(Oechsle et al., 2006; Pellens et al., 2014).

According to IAS 21.9, the main indicator of this option is consistent with the currency that is determined principally and which also affects the selling price and

the operational costs for each business unit. The functional currency determined through by the currency that used to finance the company's activities.

Under IAS 21.11, other operators affecting the determination of whether there is a correlation between the functional currency and the currency that used in the Company's reports have been considered. These factors include:

- Independence in the operations of the parent company
- Percentage of transactions with the company to the foreign transactions
- The Impact on the parent company's cash flows from the foreign operating cash flows
- Financial independence in terms of debt commitment from the parent company.

In addition, IAS 21.11-14 provides indicators about when the choosing of functional currency is a problematic, the standard includes whether the functional currency considered as a currency of the economies then its called hyperinflationary economy.

By ensuring that the company's functional currency is determined, it could be changed if the business environment changes mainly. According to IAS 21.35, if an adjustment is made, changes to the functional currency must be booked at a future effect from the date of the change (Alfieri and Gwerder, 2012; Pellens et al., 2014; Ernst & Young, 2014).

2.3.3 Effective Portion of Gains and Losses in Cash Flow Hedges

As the treatment of the financial instruments the measuring of hedging is similar, the concept of hedging could be defined as the compensation of the changing in the fair value or cash flow of the hedged items in an ideal manner. Hedge instruments should be recognized in the Company's statement of financial position. Any modifications in their fair values should be recognized through income statement at all times. If there is no combination between the modifications in the hedging instruments' fair value and the adjustments of the hedging items' fair value, that will cause of a substantial increase in the income statement volatility.(Hughen, 2010).

The concept ensures that hedge instruments are accurately recognized in the financial statements. The inversion position that taken by the hedge in respect of the implied item consider as the base of the hedging relationship. Hedge accounting should be

useful to companies in a way that eludes the volatility in income correlated with accounting for the fair value (Hughen, 2010).

If all the conditions mentioned in IAS 39.88 are met the hedge accounting can be applicable as following:

- An obvious and authenticated hedging instruments which is made for risk
- Hedging should be highly effective in reimbursing of the fair values risk and cash flows
- Cash flow hedges should be with high probability and should show the expected impact on profit and loss
- The hedge effectiveness has to be reliably measured
- Hedging effectiveness should be assessed over the reporting period

These strict rules have been put in place to prohibit wrong using of the standard, for instance to hide speculative sites, and to ensure that sites are only compensated if it is possible to ascertain the effectiveness of the hedge beforehand (Ernst & Young, 2014).

Fair value hedges protect the issuer's equity against the risks and the recognized changes in assets and liabilities fair values in the statement of financial position or against unrecognized contracts and legal obligations that could influence the profit or loss (IAS 39.86).

The fixed rate loans hedges against the fair value changes that result from the fluctuation of interest rate, as well as assets from working capital like equity that can hedge against movements in merchandises prices which considered as good paradigms of fair value hedges (Günther, 2015).

The changes in the fair value of a hedging instrument which causes gains or losses should be recorded in the income statement. Simultaneously, the hedged item book value is modified and recognized immediately through income statement and the outcome of the hedge contract is settled. The hedge is ideal when the profit from a given position is equal to the loss in another position, so the result is zero and there is no impact on profit or loss (Ernst & Young, 2014).

The cash flows allocation should be to specific risks which correlated with an asset or liability in the balance sheet, or to be highly probable and predictive which will

affect the profit or loss. A part of the profit and loss that appear after the measurement of hedging instruments' fair value is determined in order to get results from the effective hedging have to recorded in the statement of other comprehensive income. The ineffective part of hedging instruments profit or loss that raising from are recognized in the income statement. (Ernst & Young, 2014).

The first option treat the gain or loss as a financial assets of liabilities, and those components recycled to the income statement. The second option, the gains or losses could be recognized in the other comprehensive income statement at the acquisition cost of the non-financial asset or liability according to IAS39.98

The hedging on the investments in foreign operations may have an effect on other comprehensive income. On the one hand these centers are due to the hedging instrument and conversely due to the translation of foreign currency. Hedges of net foreign investments, which include hedges of monetary elements, are recorded equally to hedges of cash flow in accordance with IAS 39.102.

Correspondingly, the effective and ineffective fractions of hedging instrument's gains and losses are diverse, while the effective portion is diverse in the position which determine where it will be recognize some of this portions recognized in other comprehensive income and the other in the income statement. Moreover, according to IAS 21 the recycling of components should be treated as total of fractional of the foreign operations. IAS 21.48-49

If the hedging instrument expired, sold, disposed or is no longer match the hedging accounting standard or applicable that the movement drive by it is not expected to happen anymore and the Company shall revoke appointments the hedging account is no more applicable according to IAS 39.91 and IAS 39.101.

Glaum and Klöcker (2011) have condemned the exceptions, limitations and the difficulty of applying hedge accounting. They have also criticized that companies can adjust and may not develop their risk management procedures and their goal of risk management is to have the ability to accounting for hedges, the implementation of hedge accounting have been criticized only by Hughen (2010), on the one hand that it leaves the focus in terms of economic revenues to the stability of accounting profits, which may affect the decision to hedging activities utilization the. For instance, hedging preferred from the viewpoint of accounting. However, hedging can

be considered ideal from an economic point of view unless it can be neglected from the risk management point of view. Another comment was raised in the letters of comments by IASB and FASB issued in 2009 concerning the monopoly aspects as mentioned in paragraph no.17 by IASB and FASB (2009). Although the standards that related the implementing of hedge accounting are rigid, because these standards do not differentiate between real hedging and contemplative hedging (Hughen, 2010).

The transition from IAS 139 to IFRS 9 was intended to echo these critics and the third phase of this shift focused on hedge accounting.

As a follow-up to the discussion, the IASB (2010b) draft exposure to hedge accounting has received many comments that have been taken into account in the termination of the new model proposal for the hedge accounting. The document published by IASB (2013a) in November 2013 introduced the application to the new hedge accounting model and finalized the hedge accounting phase.

The goal of revised model is to increase the ability of companies to deploy risk management activities in their financial statements. Substantial developments have been applied to companies that are exposed to non-financial risks. The mandatory date of application of IFRS 9 will be with the beginning of January 2018 (Günther, 2015).

2.3.4 Changes in Revaluation Surplus of Tangible and Intangible Assets

Generally, IFRS differentiates in the treatment of tangible and intangible assets revaluation, while the tangible assets treated according IAS 16 the intangible assets revaluation treated according to IAS 38, the revaluation of other comprehensive income components will be discussed in this section.

Revaluation Surplus for Tangible Assets

According to IAS 16.7 costs that are supposed to be recorded as property, plant or equipment should have the potential to bring future interest and which will flow to the company. This cost should also be measurable (Ernst & Young, 2014). It mentioned at IAS 16.16 that the recognized tangible assets are measured at cost through as well as other associated costs. To measure them, IFRS allowed employing of the cost model method or the revaluation model (Ernst & Young, 2014). Measurement is carried out using the cost model by subtracting the accumulated

depreciation or any impairment losses from the cost and does not impact on comprehensive income.

If the fair value of PP&E is reliably measured that will allow the revaluation model implementation. Upon the recognition the revalued assets' value equal to the fair value of that assets less any accumulated depreciation or impairment. Revaluation of any asset is to be executed on a continuing basis and the amounts assessed on a regular basis should be updated as required by IAS 16.34, to prevent any material differences in the measurement of fair value reporting in accordance with IAS16.36. Based on IAS16.36, the selected valuation model should be implemented consistently not selectively to different asset classes.

The increase of the asset value that credited from the other comprehensive income under the revaluation surplus excepting for a certain cases, for example if the change in value reflects the impairment of the asset in a prior period. In accordance with impairment, value is recognized immediately in the statement of income in consonance with IAS 16.39.

The company have to recognize the dismounting in the value as an expense through the net income statement for the former periods which surpassed any amounts formerly recorded in the revaluation surplus under the statement of other comprehensive income according to IAS16.40. In order to dispose any revalued asset the revaluation surplus has to be transferred into the retained earnings without any impact on the net income (Günther, 2015).

IAS 16.43-62 regulates the property, plant and equipment depreciation. The depreciation mechanism as well as the volume of depreciation must be consistent with the expected economic benefits of the company through the estimated useful life of the asset. At the end of each financial year certain matters like useful life, salvage value, and method of depreciation should be revised. Amendments are to be calculated prospectively in accordance with IFRS 8.

Depreciation amounts are recorded in the statement of income for each period, except for some cases when another asset's carrying amount is included. Depreciation begins when the asset is ready to use, i.e., when the asset is purchased, recorded in the accounting books and started to be used (Günther, 2015).

Revaluation Surplus of Intangible Assets

The revaluation surplus is not connected only to the tangible assets but also for the intangible assets as regulated by IAS 38. As defined under IAS 38.85 intangible assets are neither monetary nor physical assets. Many of the rules that governing the report of intangible assets are similar to what mentioned before, but when the element is related directly to the other comprehensive income recognition for the completion reasons (Ernst & Young, 2014).

Furthermore, the future benefit of intangible assets have to be possible and the costs involved should be measured reliably in accordance with IAS 38.68, and any expense from the component must be recognized directly in income statement. At the time that the intangible asset is carried to the expense, it is not possible to reassess it subsequently in accordance with IAS-38.71.

As the intangible assets measured at cost in consonance with IAS-38.24 only that the acquisition method is who determine the recognition of the intangible assets. IAS 38.19 distinguishes between five ways of obtaining an intangible asset:

- Through a detached purchase process
- As a portion of an acquired company
- Through a government grant
- Exchange of assets
- Through the inside establishment of that intangible asset

The recognition of the items that acquired separately will be primarily at cost in the form of the purchase price and the costs involved in the purchase. For distinct purchases, the economic benefit associated with this kind of transaction is supposed to give the company ability to decide to acquire a specific and separable element (Ernst & Young, 2014).

For the other sources mentioned before, the economic benefit cannot be assumed in an automatic way. For instance to assess the fair value in business combinations a cautious approach should therefore be taken. The implementation is only possible if the intangible element is effectively separable from other elements of a financial movement and the fair value can be reliably measured (Ernst & Young, 2014).

If the intangible asset obtained from a Government grant and may be paid by the company, then the option to the company is whether the government grant and the intangible asset are primarily recognized at fair value or are primarily recognized in titular terms in addition to any expenses directly related to the performance (Ernst & Young, 2014).

Instead, the company can obtain intangible assets by exchanging assets with financial or non-financial assets in accordance with IAS 38.45. The measurement of fair value lead the initial recognition as described for separate purchase in the case of documented measurement of intangible assets. (Pellens et al., 2014).

If such measurement is not applicable or if the economic benefit is lost by the exchange of the intangible asset, the cost of the asset acquisition is measured at the book value by the company (Ernst & Young, 2014).

The regulators in IAS 38.48 have a distinguished view which concerns intangible assets generated internally, while measuring such transactions is difficult in the current market situation.

Goodwill, which is considered as the first intangible asset and generated internally, is not recognized because there is no independent and reliable method that can be used as a basis for valuation as clarified in IAS 38.48. However, it has applied a distinguish approach to evaluate other intangible assets like the innovations and patents. The preliminary recognition of the expenses associated with such elements relied on the stage that occurred in, and the variation is happen in the stages of development and research. While the expenses associated with the development stage may be largely related to a particular element, it cannot be the same in the research stage. Accordingly, expenses that generated from the research stage are recognized directly under the income statement.

If the regulations which have been set by IAS-38.45 were met, the expenses that related the development will be capitalized in there a certain feasibility of the asset and the opportunity to complete the development is known. Furthermore, according to IAS-38.57 interest and benefit must be demonstrated either in utilize during the establishment or by selling (Günther, 2015).

For subsequent measurements, IFRS distinguishes between intangible assets that are undefined useful life and that with defines useful life (Ernst & Young, 2014).

According to IAS 38.107 the intangible assets should not be amortized if they don't have an expected limit on future cash flows, but the useful life of each reporting year should be reviewed according to IAS 38.107. However, as it's governed under IAS 39.109, if the undefined usefulness is changed, because of the change in the useful life assessment the change must be taken into account in the accounting estimates in accordance with IFRS 8.

The defined useful life intangible assets affected the cash flow of the company but the impact is limited. If useful life is determined, the company have to decide either using of the revaluation model or the cost model which is identical to the PP&E mentioned previously. If the cost model was applied, IAS 38.74 require that intangible assets are to be recorded at cost subtract any accumulated impairment and depreciation. The revaluation method used if there is an availability for the intangible assets, and the items which recorded at fair value less any impairment or depreciation.

Finally, we can summarize the former by saying in comparing of intangible assets with the intangible assets from the recognition point of view we find that the intangible assets recognition is more restricted, because of its intangible nature and the difficulty of valuing it. However, if all recognition conditions are met, they can be valued at fair value because of their effect on other comprehensive income.

The major difference between the tangible and intangible assets revaluation surplus is the neediness for an available active market for the intangible assets. On the other hand, in accordance to the standard it does not require an active market for tangible assets. And that the revaluation model for intangible assets can be applied with an indefinite use in accordance with the standard. The reality that the recognizing of these revaluation surpluses in the financial statements will be as a net accrual.

2.3.5 Share of Other Comprehensive Income of Investments in Associates

Generally, IFRS classifying the investments according to the degree of control over the investee company, so regulators focus on the impact of the investor through the implementation of voting privileges (Ernst & Young, 2014). The degree of effective control is above 50% of the voting shares while the voting shares below 20% have no effect**.** Accordingly, the investments controlled are consolidated in the financial statements of the investor with a distinct list of third parties and minority interests.

Non-performing investments, it’s also called non-controlling interests, are assessed by amortized cost less amortization and depreciation.

In accordance with IAS 28.11 the investments with an effect in the range of 20% - 50% of the voting shares are mentioned as an investments in associates and the equity method is using to recognize it. The amount of change in the investee’s other comprehensive income is recognized as a separate item in the investor’s other comprehensive income on the basis of the equity method. Therefore the investment in a joint venture has substantial impact and considered as special form of investment. Thus, the investor share of the venture’s assets and liabilities is considered in the venture’s statement of financial position in accordance with IAS 31.33.

IAS 28 governs the handling of investments in associates. An associate is defined as a company in which a significant influence is owned by investor. The investor has substantial effect on the associate company if the acquisition rate is greater than 20% of the company’s voting rights either directly investment or indirectly investment which occur through subsidiaries (Pellens et al., 2014). As mentioned in IAS 28.7 unless you own 20% or less of the voting shares it is supposed to have no noticeable effect. However, there are general principles for the classification of the control held by the investor and it’s essential to estimate the real and legal impact of the investor on a continuously basis Morris (2004).

It is of particular importance to take into account the relative share on the basis of the voting rights of the investor in comparison to the entire company, but it should also be compared to the rest of the major shareholders (Günther, 2015).

In the case that the investment considered as investment in associate the equity method will be implemented (Pellens et al., 2014). The equity method will be implemented if the effect is significant, therefore the investment will be recognized at cost. And in order to present the investor's share in comprehensive income the carrying amount increases and decreases sequentially for the effective periods (Küting and Reuter, 2009).

The recognition of shares of the investee company’s financial statements in the investor’s financial statement is considered a complex process. The investor's share of net income from the associate is recognized directly in the investor’s income

statement. Moreover, the same procedure is applied in the case of dividends from an associate, which in turn reduces the investment's carrying amount. The comprehensive income statement of the investor company impacted by the recognition and is correlated with the measurements of associate's other comprehensive income.

Amendments to the investment's carrying amount can also consider as changes in equity. These changes may stem from any adjustment or modification to any other comprehensive income that we mentioned in former sections.

The portion of these changes is recognized in other comprehensive income under the share in associates section (Pellens et al., 2014).

IASB issued an update of IAS 28 in May 2011 and set the date for the effectiveness of this standard by the January of 2013. The amendment was aimed at clarifying the accounting principles for investments in associates. It was also intended to establish standards for the implementation of the equity method to be applied in the investments and joint ventures, as well as procedures related to associates (Günther, 2015).

2.3.6 Other Components Classified Under Other Comprehensive Income

Besides the components that have been mentioned previously, there are also many items that may classified under other comprehensive income. Furthermore, there are some items that classified in other comprehensive income despite they don't match the IFRS definition. Other comprehensive income presentation and reporting have been the ground of many important discussions since the initial submission under IFRS. (Günther, 2015).

The need for a new income measure raised from the financial statement's users and preparer. Some of other comprehensive centers recognition illogical and the enforcement toward recycle some specific elements was difficult. Moreover, instead of presenting a well thought out connotation, the current developments and their link with other comprehensive income have been counted as a process of legitimizing the amendments that have consistently occurred in the previous years (Günther, 2015).

On the other hand this criticism surfaced the impeded value which provided by other comprehensive income and indicated to the careful and special treatment that the components of other comprehensive income required (Günther, 2015).

For that reason, the net income has to be taken as a kick point for potential analyzes. The comparison between net income and comprehensive income according to the multiple differences can provide a suggestion if proven determinants of other comprehensive income are considered to be more detailed (Rees and Shane, 2012). Furthermore, the comprehensive income and its components reporting identifying the risk and being helpful to the users in the decision making process. If they are not accurately tested, the use of comprehensive income without taking into consideration the differences that comprehensive income provides can result in diminishing in the information value compared to net income. In addition to the benefits resulting from the comprehensive income report there still ways for development by regulators.

Standards makers need continuous action for developing the comprehensive income reporting, unless they require to avert the concept of the governance standard as it is continuously changing.

Moreover, for the standard setting process it is necessary to complete the model with the financial statements' preparers and users.

Furthermore, the value relevance of the theoretical assertion in the research society will give a hand to convince beneficiary sets of the benefit provided by the dissemination of comprehensive income (Günther, 2015).

2.4 The Value-Relevance of Comprehensive Income

Respecting the mentioned information, the overall objective is to apply more comprehensive accounting standards and comparability, many of the correspondent issues have become exactly the core of accounting research. This section covered these topics in order to broaden the understanding of the accounting standards application generally, and the intentions beyond the application of comprehensive income specifically. Subsequent topics became the concentration point of the accounting research in the last years and have a substantial effects on the recognition, measurements, and reporting of accounting activities (Kanagaretnam et al., 2009).

2.4.1 Fair Value Accounting

Fair value accounting is an important aspect of its relevance to the comprehensive income report. From the 1980s ever after, IASB and IFRS have made big efforts to replace the measures that based on the cost with those on the basis of the market and presented with fair value valuations (Carroll et al., 2003; Fülbier et al., 2009; Pellens et al., 2014). The fair value accounting application represents the transition from the income and expenditure approach to the balance sheet approach (Le Manh, 2010). This approach was mainly derived from the target of standard-setters to improve the information which will be provided to the investors for the objectives of evaluations. The assessment and evaluation of future cash flow generate from operating activities in reliable and timely manners was the goal of the standard-setters (Penman, 2005; Pellens et al., 2014) Initially, the enthusiasm for using a fair value approach is primarily intended to assess financial instruments but over time this approach has been found to be applicable to other assets (Günther, 2015). Since the effective date of IFRS 13, the fair value measurement has been accounted for under this Standard. IASB and IFRS have accomplished their objectives after the application of IFRS-13 by linking accounting standards with fair value measurements (Günther, 2015).

However, the question stick around when fair value standards will be applied. The application is subject to similar standards which leaves room for accommodating standards. Fair value measurements based on the availability of price comparability. However, as there is not at all times a liquidity market for all asset and liability classes, three stages have been established to differentiate between measures, on the basis of market measures, measures of modified market, and theoretical measures (Hitz, 2007). The first stage inputs, which are based on what has been called the market model, is the dominant approach used to link the measures of market-based components if there is an active market (IFRS 13.76–80).

In comparing with the internal estimated the market data considered as reliable and unbiased. The prices of market may not be available in active markets or, if they are available, their reliability cannot be measured. Market prices for asset comparison purposes are utilized in the second stage inputs. It is significant for the comparability of assets to be on the basis of similar assets and liabilities in the active market, corresponding elements in inactive markets, transfer of inputs to assess elements and market-corroborated inputs (IFRS 13.81–84). The third stage inputs include elements

so that the appropriate core markets are unavailable or are infrequently active for assets or liabilities.

In this condition the company can make assessment of inputs from other sources like private data and incorporate them into a model contains all sensible assumptions existing. The using of the valuation inputs model from the market has been noted as an option for the last report and the model input factors, which are originally according to data that is occasionally hardly comprehensive and flexible (IFRS 13.86–89).

Disclosure of the fair value required by IFRS and US GAPP for all financial instruments in accordance with IFRS 7 and FASB ASC 820 (Hitz, 2007). Although, IASB adoption of the fair value concept was as a result, FASB took it with a more conscious approach, particularly with respect to non-financial assets (Hitz, 2007). Some of the criticism that has emerged has taken into account the accounting for fair value and its association with the financial crisis. The decline in share prices was partly because of the use of fair value accounting (Laux and Leuz, 2009a). Moreover, fair value accounting faced many of criticism for having led to the write-off of undue and excessive of banks' assets. The accounting for fair value is unlikely to have a significant addition to the severity of the financial crisis as indicated by Laux and Leuz (2009b), Barth and Landsman (2010), and Badertscher et al. (2012). In their empirical analysis, Magnan (2009) and Kothari and Lester (2012) proposed that the fair value report might have contributed to making the financial crisis worse. Furthermore it is pure that fair value accounting has served to influence the assessment of financial assets through the financial crisis, and exhibited that fair value accounting has exaggerated the value of some assets and also strengthened the decline. However, the concept has always confirming on the reliability and timing of assessments exactly at the date of reporting and it should not be changed. However, the accounting for fair value may provide information that may not fully understandable or there may be no objective to understand the potential consequences, and this information have to be the ground for improvements. The working for improve the financial information consistency and reliability of is the main mission of the standards setters.

IAS-1 generally focuses on providing all relevant information that will help in making decision specially the interpretation of the amendments that related to the fair value measurements in comprehensive income statement.

2.4.2 Market Efficiency

The hypothesis of market efficiency assume that all necessary information are included in the capital markets to be used in the valuation and decision making process and therefore all of these information are reflected in the company's share price.

According to the theories that developed by Fama in the years 1965, 1970 and 1991,

If all available information are reflected in the market then we can consider it as an efficient market and after that the market efficiency have to be determined in which degree it is, clearly, the degree of reflecting of the information in the market will determine the market degree of efficiency which is classified into three categories (Fama, 1965):

- Weak Form
- Semi-Strong Form
- Strong Form

In the weak form and because the information originally available is a factor in past market trends, the share prices for past periods cannot indicate the evolution of share prices.

And the best measure of the future share prices is the current share prices, because previous performance analysis techniques can not improve expectations. In the semi-strong form, all information published to the public and considered relevant is included in share prices. A further analysis of the basics will not cause to better future share prices forecasting as the information is inherently embedded in current share prices. When the current share prices include all the company's information, either it is obtainable by the public or private information within the company then strong form of market efficiency exist (Sewell, 2011).

According to the strict form the share prices is unpredictable and that any expectations based on current or past information will drive to casual predictions. In addition, the benefit of internal information cannot be given since this information is

not published to the public is inherently reversed in share prices. In this thesis it was assumed that market has semi-strong efficiency and that all information published to the public is included in share prices (Günther, 2015).

However, there are legitimate restrictions so obvious that the theory of market efficiency impact has been confirmed in a previous time to be strengthened as is the case with accounting studies and research (Malkiel, 2005; Fama, 1991). However, the theory has many doubts, but there is no other method that has the ability to gather a straightforward information-based economic theory has been developed Ball (2009). The financial crises of the world have renewed the debate on the market efficiency theory**.** The strongest debate has been raised about that the financial economists have a responsibility for financial crises as the market efficiency theory was created in a safe manner and information that related to the deflection position of the global financial industry was not included Brown (2011). However, it is unwarranted that the nation's financial responsibility is borne by financial economists.

This study based on an empirical analysis that assume a reasonable degree of market efficiency.

2.4.3 Decision Usefulness of Accounting Information

The accounting information considered as beneficial for decision making if they relevant and faithfully presented in the financial statement on the basis of the financial reporting conceptual framework that published by IASB (2010a). The basic qualitative characteristics of the financial information usefulness for making decision may be improved if those qualitative characteristics namely comparable, verifiable, timely, and understandable occurred (IASB 2010a).

The decision that made by the users of the financial statement could be effected by the relevant information though helping the users for predict future operating cash flows or by confirming their expectations. The information to be considered as relevant it has to be faithfully represented by the facts it is supposed to represent. Three characteristics that information has to be faithfully represented are ideally: complete, neutral, and error-free (IASB 2010a). Generally, faithfully represented accounting information is accomplished by being committed to transparent presentation of the report which resulting from compliance with specific standards

(for example IFRS, US GAAP) and the independent auditor assure this accounting information.

Moreover, accounting information are more useful to the user in making a decision if this information is comparable to similar parameters from previous years or compared with other companies currently or prior periods and can be compared to the industry as a whole. The standard view follows a specific accounting standard which make the information comparable to specific elements, like other comprehensive income elements, and enables understanding of the distinctions between these elements (IASB 2010a).

The information considered to be verifiable if the auditors with diverse knowledge (for example, internal auditors and external auditors) have direct or indirect access to the same results and verify that the information presented in the financial statements is correct (IASB 2010a).

In this context, direct verification relates to either observation, such as verification of the amount of inventory, or indirectly related to the examination of the input factors that were included in the estimation model. The accounting information is timing if the information provided to the users to make decisions has an impact on the taking of the decision if presented at a specific point in time (IASB 2010a).

The characteristics of understandability assume that the user of financial information has sufficient knowledge such as business knowledge of and knowledge in the economic activities that help him to examine the information with sufficient assiduity. Beside this precondition, users must have the ability to understand the essential elements of the information presented in a clear and concise manner (IASB, 2010a). All of these characteristics have a convincing cost constraint, as the additional information benefit should rationalized the additional costs incurred IASB (2010a).

The foregoing discussions have indicated that the financial information usefulness in decision-making by users of such information is defined primarily because it meets the features of being relevant and faithfully presented. While considering that the information is presented faithfully when the company completes the presentation of this information based on certain standards with the participation of the independent

external auditor, and that the features that the information is relevant needs empirical verification (Deol, 2013).

2.4.4 The Value-Relevance of Accounting Information

The theory of value-relevance is strongly attached to the usefulness of decision-making concept, which is based on accounting information. As mentioned above, the primary purpose of publishing accounting information is to give reliable and faithfully reported financial information to the investors. If there is a relation and correlation between the market-values and accounting- values then we can consider it as value-relevance (Ohlson, 1995; Shevlin, 1996; Barth et al., 2001; Alexander et al., 2012). The concept of value-relevance is a common among the standard setters and researchers around the world, and the American-Accounting-Association (1966) was the premier to refer to relevance as a fundamental standard.

Barth and Beaver (2001) mentioned that the value-relevance study is a study of the association between accounting information and the market values of shares. The foundation for the relevant value studies is a combination of valuation theories and financial reporting discussions that permit for the prediction of the accounting information attitude in relation to market values.

The main idea behind the concept of value-relevance according to IFRS, as referred to the publication of financial reporting conceptual framework by IASB in 2010 which states that

The value relevance of the information has a power to make difference in the decision making by the investors, and the financial information can make this difference by using the value relevance qualitative values such as predictive value and confirmatory value. IASB (2010a)

If additional information provided for instance presenting of other comprehensive income can be enhance the predictive power of the future values on basis of current information and will have an effect on the predictions' accuracy. The confirmatory values relate to the interconnection and sharing of current information with previous outcomes and can give a measure of consistency to the financial statements' users. Furthermore, relevant information provided from prior periods should increase the relevance of predictions for subsequent periods (Günther, 2015).

The studies of value-relevance examined the relations and additional correlations between income measures and market values. It is essential to note that the accounting information provided may be considered as value relevant for other uses but not value relevant to decision-making in the event that existing information is excessively available in the market (Barth et al., 2001).

However, if the accounting information adds additional information to existing information then it is considered to be relevant to decision-making, and the information is intended to be new and unexpected (Barth et al., 2001).

Holthausen and Watts (2001) suppose that the studies related to value-relevance are established on two different accounting theories: the first is direct assessment theory and the second is the assessment of inputs to the equity theory. The theory of direct assessment create a direct connection between the market values of shares and the accounting incomes, on other hand the assessment of inputs to the equity theory suppose a relationship between the variations of market values of share and the accounting incomes. The value-relevance approach is therefore an instrument for determining the accounting information quality, which is essential for good economic performance (Beuselinck, 2005).

A research performed by Barth et al. (2001) summarized that companies with higher accounting quality have the greatest correlation between share price, revenue and book value, as all the higher the quality of the computer numbers presented, the more they reflect the economic situation of the company.

2.4.5 Types of Value-Relevance Studies

In recent decades, many academics have focused their accounting research on the value-relevance research (Holthausen and Watts, 2001; Kothari, 2001). The researchers experimented with the aim of identifying the correlation among the market values and some other figures. Respecting to that, if the investors use the accounting numbers in the company evaluation process then it can be considered as value relevant (Barth, 2000). Therefore if the investor make a decision whether to buy or sell after the analysis of the accounting numbers then it can be considered that those numbers have an effect on the prices of share. Accordingly, the disclosure of accounting information shall be related to the value of the company in case the accounting information is considered relevant information (Ferraro and Veltri, 2012).

To define such correlation, most studies have taken the linear regression model (Cauwenberge and De Beelde, 2010). In previously performed tests on the accounting information value relevance, the reliability has been tested because the relevant and reliable parts cannot be separated from each other (Barth et al., 2001).

The main objectives of these studies were to deliver adequate information and results on the value-relevance to standard setters and the accounting community (Barth et al., 2001). The studies the related to value-relevance suggest that the main users of financial information and financial statements are the investors, and the priority is to give investors this information in order to be able to forecast the future operating cash flows and thus make the decisions set out on this information in conjunction with the values of the company. Providing of superior forecasting which will contributed in the development of market values is not the main goal of value relevance research, on the other hand the goal is to provide an analysis of the extent to which such financial information is used by people to make decisions (Barth et al., 2001). It is important to note that research on relevance values has separated two types of information relevance which are relative association and incremental association of information (Holthausen and Watts,, 2001; Cauwenberge and De-Beelde,, 2010)

Researches that examined the correlation between market data and accounting values look at whether one of the measures for income includes information more than the other and provides an assessment of the content of the information more than the other (Biddle et al., 1995). The discussion of these studies will be interesting in the relative correlation between market data like share prices and various income measures. Researches in this area are analyzed whether a measure of income is more appropriate than other measures and their correlation to market values is explained.

Among these studies (studies of relative correlation), this study tested if the net income is more closely related to the market values i.e. shares prices, share returns than comprehensive income. Furthermore, the relative correlation method is utilized to examine the correlation between the predicted accounting numbers namely the future cash flows generated from the operations and the future net income and the various measures of income. R2 is used in order to measure the correlation between market date and accounting numbers (Günther, 2015). R2 is statistical models of selection criteria. A measure of income that gives the highest R2 is considered the

most value-relevant (Cauwenberge and De Beelde, 2010). Studies on incremental association examine whether there are intensively added elements to income numbers that increase the correlation with market data Cauwenberge and De Beelde (2010). These studies tested if a single measure of income (for example, net income containing adjustments of foreign currency translation) could provide further information to the information that already presented in net income alone (Biddle et al., 1995). The inclusion of an another element of other comprehensive income is considered to be a relevant value if the adjusted R2 improve with the subsequent addition of other comprehensive income components or if the regression coefficient is significantly different from zero (Cauwenberge and De Beelde, 2010).

2.4.6 Value-Relevance Studies on SFAS 130 in the US

Research was on value-relevance even before FASB issuance of SFAS 130 in the United States in 1997. Together with the application of the SFAS 130, the attention was drawn to this subject. Most of the topics concentrated mainly on the comprehensive income value-relevance and particularly on components of other comprehensive income. These researches varied in using terms of the period of time covered and the type of industry that they have dealt with.

Prior to the application of SFAS-130 Cheng et al. (1993) used a sample consisted of US companies among the period 1972-1989 to make a comparison of share returns to assess the benefits behind the reporting on income measures. The outcomes indicated that by comparing of net income with comprehensive income from the informational content point of view the net income is better.

In their research paper, Dhaliwal et al. (1999) examined if the comprehensive income or net income had the ability to summarize performance of the company after the implementation of SFAS 130 based on the share returns by taking samples for the years 1994 and 1995 for their study. There is no evidence indicating that comprehensive income is more linked to the market values comparing to the net income. Moreover, the predictability of future cash flow will not be improved by the comprehensive income as comparing to the net income. Only the adjustments of securities which available-for -sale as an element of other comprehensive income can be considered to have improved that correlation.

Through the study of Dehning and Ratliff (2004) they tried to proof empirically that comprehensive income is beneficial to investors and it was explicitly disclosed and requested by SFAS 130 to provide cumulative information. A sample from US companies for 1998 and 1999 provides data related to SFAS 130 application. The results indicated that there is no proof that the explicit presentation of comprehensive income according to SFAS 130 had changed the nature of consideration for the investors comparing with the publicity in notes to the financial statement for the previous years. And it show that there is no additional information content provided by the obvious disclosure of comprehensive income and its components compared to rest of the financial statement disclosure.

Biddle and Choi (2006) in their analysis made a difference in income definitions in terms of content, predictability and compensation by sampling US companies between 1994 and 1998. It has concluded that explicit presentation of other comprehensive income components helps the investors to make decisions. They suggested that comprehensive income information content could prevail over the net income information content as in the broad definition of universal income. Moreover, the comprehensive income under SFAS 130 may outweigh the net income or the definition of income that is typical in the interpretation of the returns on equity. On the other hand, conventional net income prevails over net income under SFAS 130 with its correlation with administrative reparations interpretations.

Choi and Zang (2006) study using a data between 1998 and 2003 in order to test the correlation between comprehensive income and the next period net income to predicting of the future earnings. The analysis outcomes indicated that the comprehensive income is preferable than net income in predict of the future earnings, and the other comprehensive income components and forecast revision are correlate.

Chambers et al. (2007) in their study for the companies from S&P 500 for the period between 1998 and 2003 provides proof that the other comprehensive income was priced on the basis of the dollar to dollar by investors.

The results indicated that the report on the other comprehensive income components according to SFAS 130 was developed more transparently for the purposes of the report. Moreover, the researchers provide explanations about their findings indicates that the reality behind the study has used data as reported and not data from studies previously prepared.

2.4.7 Studies on the Value-Relevance of Comprehensive Income

A new track of researches has focused on the value relevance of other comprehensive income by examining of various sample from a different countries.

O'Hanlon and Pope (1999) research has examined through a sample of British companies for the period 1972 to 1992 the relevant value of cumulative returns on shares and accounting flows by concentrating on ordinary and extraordinary profits. The outcomes show that accounting flows has value relevance excepting for extraordinary items. Moreover, the results prove that the ordinary profits were value-relevant, yet there was no evidence that the extraordinary elements has value relevance more than the ordinary profits. Furthermore, there is little proof to suggest that there is value relevance for other flows beyond the ordinary profits.

Cahan et al. (2000) research paper tested if the separated comprehensive income statement comparing to the aggregated statement has more value relevance by taken of some companies that work in New Zealand as a sample for the years 1992 till 1997, the study also examined if the comprehensive income incremental value increased comparing to the net income. The outcomes show that the one single statement approach of comprehensive income is considered to be more value relevance than net income. Otherwise, the using of separate statement for reporting of other comprehensive income will not add any value.

Through the study of Brimble and Hodgson (2005), which they conducted on data from companies from Australia for the period between 1988 and 1997,

By using of the repeating method the researchers test the value relevance by repeating of comprehensive income according to the modification which came under IAS-1. The outcomes indicated that the net income has more value-relevance comparing to the comprehensive income. However, the components of other comprehensive income give a little amount of information related to the pricing even after the use of non-linear model for valuation.

By testing of a sample taken from the Netherlands companies for the period 1988 and 1997, the study of Wang et al. (2006) tested the value-relevance of dirty surplus accounting flows through using of the return regression model. The results indicated that on the contrary of the income reported and the clean surplus which are both value-relevance and can be relied upon in predicting the returns of shares, the dirty

surplus inflows don't have value relevance to investors. However, revaluation of assets and differences resulting from currency translation can provide relevant information to investors in decision-making.

Lin (2006) study analyzed the cumulative price information for a sample from the United Kingdom for the period 1993-1998. The researcher explained that the other comprehensive income components presentation and whether they provide Price-relevant information to the investor. He also explained the relationship between components of the comprehensive income such as the adjustments of foreign currencies translations and gains and losses that resulted from the amendments in the goodwill value with shares returns which is related in a significant manner.

Lin et al. (2007) used in their study a sample of companies from different European countries such as Spain, Germany, France, United Kingdom and Italy for the period1992-2004. This study examined whether the information that provided to the investors through net income, operational income and comprehensive income have value-relevance. The outcomes indicated that the income measures according to the tested sample are linked to the return on share. In particular, comprehensive income is the least relevant value compared with the operating income and net income. Moreover, the outcomes indicated that other comprehensive income is value-relevance income measure and provides price-relevant information beyond the net income. The researchers summed it up by saying that increasing the transparency requirements under the standards of IFRS 3 and SFAS 130 could lead to increased correlation between total income and returns on shares.

By using a sample of German companies that adopted electively IFRS or USGAAP among the period 2001-2004, Ernstberger (2008) analyze the value-relevance of income masseurs through making a comparison between NI and CI. The outcomes indicated that the NI has more value relevance in relating to the returns on share than CI. The results show that the net income is more value relevance than the comprehensive income in related to the share return. Moreover, the researcher indicate that the reporting of comprehensive income according to IFRS is more value relevant than the reporting under US GAAP (Ernstberger, 2008).

In order to analyzing of value relevance Saeedi (2008) made a comparison between income measures through a sample from the companies that listed in Tehran Stock Exchange for the period 2001-2003, The outcomes indicate that NI is more powerful

in predicting of future performance than CI of the company. There is no prove that the comprehensive income predictive ability of the future operating cash flow has a superiority in comparing with the net income (Saeedi, 2008).

By collecting data from the comprehensive income statements from a sample of American-Canadian companies through the period 1998-2003, Kanagaretnam et al. (2009) research was conducted. The outcomes indicated that the NI is more correlated with market values than CI, but on the other hand NI has superior over CI in predicting of future performance of the company (Kanagaretnam et al., 2009).

In a research paper submitted by Zülch and Pronobis (20**09**) they tested comprehensive income and other comprehensive income items value-relevance through a sample consisted of German companies for the period 1998-2007. The study examined whether the predictability of CI is better and more consistent in measuring future performance than the NI. The outcomes did not prove that comprehensive income is better in predicting of future operational performance than net income. The tests also suggested that other comprehensive income as a separate statement or aggregated list would outperform net income in terms of forecasting the company's operational performance. Moreover, the analysis for more several periods show that there is an incremental predictive potential for other comprehensive income items in the long-run.

In Höhn (2011) thesis analyzed the value relevance of CI and OCI for a sample from companies that listed in Switzerland Stock Exchange for the period 1978-2009

The thesis examined the relationship between income measures namely NI, CI, and OCI with the market values, and analyzed which one of the income measures is better and most suitable for future cash flows forecasting. The precision of the comprehensive income and other income measure was assessed by the researchers. The empirical outcomes showed that the foreign currency translations and gains and losses arising from the selling of securities available-for-sale shares are significant in their correlation with market values. Furthermore, respecting to the ability to predict operating cash flows, the other elements of other comprehensive income have provided remarkable results in their predictability. For other income components, this study could not confirm statistically the results (Höhn, 2011).

Goncharov and Hodgson (2011) presented a research paper that analyzed a sample of European countries for the period between 1991 and 2005. The research experimented the effect of NI and OCI for a sample of 16 European. Through testing how information, assessments, and forecasts can influence on the investor in decision making process, the study analyzed the usefulness of the information that the comprehensive income provided. The results showed that the net income has a stronger predictability of the future operating cash flows than comprehensive income.

In Mechelli and Cimini (2014) paper, a sample of European countries for the period between 2006 and 2001 was analyzed in order to figure out whether the NI has more value relevance than the CI. The researchers found that NI is more value-relevance than CI on a full-term basis. Furthermore, they suggested that IAS 1 (revised in 2007) did not affect the value-relevance of income measures.

3. EMPIRICAL ANALYSIS

The empirical analysis on the basis of the theoretical framework which discussed in previous sections and is based on the presentation of former studies and researches on the reporting of other comprehensive income has been used in this thesis. The empirical analysis was based on the models previously used by (Fasan et,, al. 2014), (Cimini and Mechelli 2014), (He and Lin 2015), (Günther 2015). After that, different methods and models have been used, which will also be detailed in future sections. Both dependent and independent variables that used in this study were discussed. The statistical analysis was the focus on regression equations. Finally, reference was made to the data source and the data selection process which used in the thesis.

3.1 Research Methodology

This research will use empirical quantitative research approach by examining the proportional correlation between accounting numbers and market data. The proposed data collection time frame will be between 2005 and 2018 to completely cover the effect of IAS 1 amendments (revised 2007) and (revised 2011). Data will be collected using hand collected method from published financial statements for selected Palestinian listed companies from population totaled 48 -listed company.

In order to test if the other comprehensive income reporting have enhanced the value-relevance of the Palestinian company's accounting information linear regression model uses cross sectional panel data have been used.

The price model approach has been utilized to assess the correlation between measures of income with share prices. The application of return model came to evaluate the correlation between share returns income measures. Furthermore, the forecasting regression model was applied to test the income measures' predictability of the future net income and future operating cash flows. The model that used to examine the research questions and hypotheses in the previous section has been further explained in subsequent sections**.**

3.1.1 Research Questions and Statement of Hypotheses

According to the topics that discussed in the literature review, the research questions and hypotheses that will answer these questions have been formulated. These hypotheses will be examined in this study.

Research Questions

The first impression is based on the topics discussed before which is the temporarily nature of the comprehensive income and its other components. Therefore, random walk model is expected to be used and returned over time, so it should be expected to find zero values. Chambers et al. (2007)

Consequently, the net income should be more correlated to the market values than the comprehensive income. Furthermore, the comprehensive income considered as a deforming factor of financial information by some investors, so it cannot be included in the decision making process and valuation by investors (Günther, 2015).

Based on these considerations and discussions, the first question of this research was formulated as follows:

[RQ1]: Does reported comprehensive Income, deliver value-relevant information related to net income?

As an answer to the first question, other comprehensive income elements can provide relevant information to the investors.

The second question of the research questions is whether the market values is correlated with other comprehensive income added to the net income than the stand alone net income

Based on these considerations and discussions, the second question of this research was formulated as follows:

[RQ2]: Do comprehensive income and other comprehensive income components provide more value-relevant information compared to net income?

By taking into account the temporary nature of other comprehensive income components it assumed that these components have no predicting ability of the future net income or future operating cash flow. According to that the net income has a higher predictability than the comprehensive income. According to that our third questions have been developed.

[RQ3]: Do the forecasting ability increased by the comprehensive income and the Other Comprehensive Income components compared to the Net Income?

It is significant also to determine if the implementation of IAS-1 in 2007 and with the effective date starting from January 2009 which included a modification to the presentation of the comprehensive income has increase the value relevance of comprehensive income. According to that the fourth question was discussed as follows**:**

[RQ4]: Has the value-relevance of Comprehensive Income increased after applying of IAS-1 (revised 2007)?

Statement of hypotheses

Based on this research objectives, which were formulated in the research questions, the following hypotheses were formulated for studying these questions and to obtain the results in order to provide an appropriate answers for the research questions. The developed hypotheses are defined as following:

[H1]: Comprehensive Income (on a consolidated basis including components of Other Comprehensive Income) is stronger correlated with share prices than Net Income.

[H2]: Comprehensive Income (on a consolidated basis including components of Other Comprehensive Income) is stronger correlated with share returns than Net Income..

[H3]: Current Comprehensive Income (on a consolidated basis including components of Other Comprehensive Income) is a better predictor of future Operating Cash Flows and future Net Income than current net income.

[H4]: The correlation of Comprehensive Income and other comprehensive components with shares price and share returns has increased after the implementation of IAS 1 (revised 2007).

3.1.2 Data Sources and Sample Selection

IFRS application become mandatory to all Palestinian Companies by the article no.3 that issued by Palestine Exchange as mentioned in section 2.1.2. In this study the population were the whole listed in Palestine Exchange companies which are 48 companies between 2005 and 2015. And the study consider that the period from

2005 to 2008 as Pre-IFRS and the period from 2009 to 2015 as Post-IFRS according to the compulsory effective date of the IAS 1 (revised 2007) which is January 1, 2009. The sample of this study selected according to the companies that were operationally working at the period of 2005-2018, therefore the sample of this study was 27 companies from all industries existing during the Pre-IFRS and Post-IFRS periods. Data of this study were collected through the Palestine Capital Market Authority databases and through manually hand collecting from the companies' annual financial Statements.

3.1.3 Model Specification

Linear regression models with a cross sectional and panel data analysis will be applied in order to examine the value relevance of the Income measures. Depending on many prior researches such as, (Fasan et,, al. 2014), (Cimini and Mechelli 2014), (He and Lin 2015), (Günther 2015) both of price model and return model will be used in this study. The price model uses price level as dependent variable and investigate its relation with different income measures to test [H1]. While, return model analyses the correlation between annual return per share and accounting numbers to test [H2]. The research makes the using of adoption of standing well established models in different research areas with some modifications to existing models to be appropriate for our research objectives. And to test [H3] forecasting models used to analyze the predictability of certain accounting numbers. And to test if there is an effect on the correlation between accounting numbers and market values after applying of IAS 1 (revised 2007), Chow tests applied to test [H4].

Price Model – Price Level Regression

Based on the theoretical framework set up by Ohlson, (1995), this model is utilized in this study in order to testify if the correlation between the measures of income and share prices and to determine whether the comprehensive income and other comprehensive income components are more correlated than net income with share prices.

As one of the most substantial models in the field of financial researches during the last decades, the model which developed by Ohlson (1995) and Feltham and Ohlson (1995) focused on the model focused on the remaining income relationship that provides an immediate connection between the company's values and the accounting

data (Bernard, 1995; Lundholm, 1995; Lo and Lys, 2000; Penman, 2005; Cauwenberge and De Beelde, 2007).

Depending to what was published by Preinreich (1938), the Residual Income Valuation (RIV) is the basis of Ohlson (1995) and Feltham and Ohhlson (1995) model. Thereafter, the model was subjected to amendments by Ohhlson (1995) and Feltham and Ohlson (1995) and other researchers in order to make the model in a manner appropriate to their research and hypotheses related to their studies.

Therefore, the final form of the price regression equation to be used in our study, which was taken from Günther (2015) thesis, will be as following:

$$P_{it} = \alpha_{0,1} + \alpha_1 BVE/S_{it} + \alpha_2 NI/S_{it} + \varepsilon_{it} + v_i \quad (1a)$$

$$P_{it} = \alpha_{0,2} + \alpha_3 BVE/S_{it} + \alpha_4 CI/S_{it} + \varepsilon_{it} + v_i \quad (1b)$$

$$P_{it} = \alpha_{0,3} + \alpha_5 BVE/S_{it} + \alpha_6 NI/S_{it} + \alpha_7 OCI/S_{it} + \varepsilon_{it} + v_i \quad (1c)$$

Where subscripts (i) indicate for the entity and (t) denotes the observation year

P_{it}: share price at the reporting date

BVE_{it}: book value of equity at the beginning of the reporting period

ε_{it}: error term

v_i: fixed company effect

The income components divided by number of shares outstanding for each entity and year (S_{it}).

NI_{it}: Net Income as reported

CI_{it}: Comprehensive Income as reported

OCI_{it}: aggregated Other Comprehensive Income as reported

Through using of fixed effects regressions panel, the correlation between share prices and measures of income has been tested. Using of fixed effects panel regressions test the correlation between the income measures and share prices and to determine which one of them is more correlated than the other. The correlation resulting from these models includes the implications of both reliability and relevance to accounting figures (Barth et al., 2001). The statistical significance of the independent variables symbolizes the effect of the value-relevance on the share price. And according to what was noted by (Barth et al., 2001) the greater the relevance of accounting figures

and the greater the association between the measures of income and share prices, the greater the reliance of investors on this information in decision making. The regression coefficient indicates that there is an impact of certain independent variable on the share price.

Return Model – Price Change Model

While the price regression model test the level of correlation between share prices and income measures, the return regression model examines the relationship between variation of share returns and income measures (Cauuwenberge and De Beelde,,, 2010). The returns regression model focuses on unanticipated information that represent by the return, unlike a price model which focuses on all available information in the market both expected and unexpected information. The assumption of the returns model is the result of the aforementioned study by Ball and Brown (1968), in which he explained that the information have value relevance to the investors if and only if the investors use the information for their assessments, which results in a review of the price. Accordingly, income measures are considered to be relevant if they add increasingly and modify to share prices assuming that all information available in the market reflects the share price (Cauuwenberge and De Beelde,,, 2010).

According to these considerations, the regression equation was formulated in the form that indicates the change in prices, which is the return on the share, which equals the change in income components (ERN) (Cauwenberge and De Beelde, 2010):

$RETit= \beta 01+ \beta 1 \Delta ERNit+ \varepsilon it$

This equation was applied to the price model so that net income, comprehensive income and components of other comprehensive income were replaced to an element of the (ERN) in order to test the relationship with the other income measures. And all variables measured on the basis of per stock as applied on the price model.

The regression equation that used in our study is comparable to that which used by Dhaliwal et al. (1999), Chambers et al. (2007) and Günther (2015) and it's as following:

$$RETit= \beta 0,1 + \beta 1(\Delta NI/S)it + \varepsilon it + vi \quad (2a)$$

$$RETit= \beta 0,2 + \beta 2(\Delta CI/S)it + \varepsilon it + vi \quad (2b)$$

$$RETit = \beta 0,3 + \beta 3(\Delta NI/S)it + \beta 4(\Delta OCI/S)it + \varepsilon it + vi \quad (2c)$$

Where subscripts (i) indicate for the entity and (t) denotes the observation year

RETit: cum-dividend raw return per share between two reporting dates of results

Δ: changes in the income component between t and t-1

ε_{it}: error term

v_i: fixed company effect

The income components divided by number of shares outstanding for each entity and year (S_{it}).

NI_{it}: Net Income as reported

CI_{it}: Comprehensive Income as reported

OCI_{it}: aggregated Other Comprehensive Income as reported

The changes in the share prices and its relationship with the income measures have been examined by the return through fixed effects panel regression. The analysis tests whether investors take the sudden information into consideration in the case of evaluation and decision-making and if they consider this information useful, and therefore the benefit is estimated if the coefficient of income is statistically different from zero. the Incremental correlation between changes in return and changes in income measures also examines if the including of other comprehensive income items increases the correlation with the return in order to assist investors in the decision making. The major distinction between the price model and the return model is that the return model examines the change in share prices with various measures of income rather than as in the price model where it examines them at a certain point (Günther, 2015). The statistical significance of the correlation between returns and measures of income shows that the sudden portion of information given in the financial statements has been evaluated and taken by investors.

Forecasting Models

One of the aims of disclosing financial information is to give financial statements users, especially investors, the ability to predict future income and cash flows based on their previous data (Barton et al., 2010). While the emphasis in earlier models was on the interrelationship between accounting numbers and market values, this model would combine the two different types of accounting figures. In this section of the

study the predictability model for both operational cash flows and net income will be presented.

Forecasting Model for Operating Cash Flows

Operating Cash flow (OCF) examination and analysis has been conducted on the basis of net income, comprehensive income and its other components based on previously applied models by Günther (2015) and Dhaliwal et,, al. (1999) and Gonccharov and Hodgsson (2011) and was as following:

$$OCF/Sit = \vartheta_{0,1} + \vartheta_1 NI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad \text{(5a\_ OCF)}$$

$$OCF/Sit = \vartheta_{0,2} + \vartheta_2 CI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad \text{(5b\_ OCF)}$$

$$OCF/Sit = \vartheta_{0,3} + \vartheta_3 NI/S_{i(t-1)} + \vartheta_4 OCI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad \text{(5c\_ OCF)}$$

Where subscripts (i) indicate for the entity and (t-1) denotes the previous year of the observation year.

OCF_{it} Operating Cash Flows as disclosed in the cash flow statement

ε_{it}: error term

v_i: fixed company effect

The income components divided by number of shares outstanding for each entity and year (S_{it}).

NI_{it}: Net Income as reported

CI_{it}: Comprehensive Income as reported

OCI_{it}: aggregated Other Comprehensive Income as reported

Forecasting Model for Net Income

After analyzing of operation cash flows based on income measures namely net income, comprehensive income and its other components and clarifying the importance of these measures to investors, they do not diminish the predictive capacity of net income based on current measures of income.

$$NI/S_{it} = \varphi_{0,1} + \varphi_1 NI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad (5a\_NI)$$

$$NI/S_{it} = \varphi_{0,2} + \varphi_2 CI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad (5b\_NI)$$

$$NI/S_{it} = \varphi_{0,3} + \varphi_3 NI/S_{i(t-1)} + \varphi_4 OCI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad (5c\_NI)$$

Where subscripts (i) indicate for the entity and (t-1) denotes the previous year of the observation year.

ε_{it}: error term

v_i: fixed company effect

The income components divided by number of shares outstanding for each entity and year (S_{it}).

NI_{it}: Net Income as reported

CI_{it}: Comprehensive Income as reported

OCI_{it}: aggregated Other Comprehensive Income as reported

3.1.4 Variables Used in the study

This section will explain the variables which included in this study, in which we will focus on the source and how to calculate some of these variables. As noted by Barth et al. (2001), the aim of including some variables in the estimations is an important factor in the search toward the value relevance of the comprehensive income. At their study, Jones and Smith (2011) explained the disclosed profits and losses have a great predictive capacity for future net income. According to their study, the net income predictive capacity was studied. The predictive capacity of net income was examined through testing of the correlation between income measures through earlier period as follows:

Dependent Variables

In this empirical study the dependent variables were as follow:

- **Share price (P/Sit):** the share price values that included in this study have been taken from the Palestine Capital Market Authority.
- **Share return (RET/Sit):** returns on shares that used in the study have been taken from the Palestine Capital Market Authority.

- **Operating Cash Flows (OCF):** the values of Operating Cash flow have been extracted manually from the companies' Cash flow Statement.
- **Number of shares outstanding (S):** the number of shares outstanding for companies of the whole covered period in this study have been taken from the Palestine Capital Market Authority.

Independent Variables:

The independent variables of the empirical study have been collected manually from the companies' annual financial statement for the covered period from the 2005 to 2018, the independent variables' coefficients expected to be positive except for the OCI because of there are some companies that don't have other comprehensive income components because of their operations there was no components.

- **Book value of equity (BVE):** book value of equity which equal to the shareholder's equity of the companies that covered by the study have been collected from the statement of financial position for the respective companies as reported for the covered period.
- **Net Income (NI):** the values of consolidated net income amounts have been collected from the companies' income statement as aggregated number for the covered period.
- **Other Comprehensive Income (OCI):** sum of all other comprehensive income component like:
    - Adjustments of foreign currency translations,
    - Available-for-sale financial assets gains and losses,
    - Changes in revaluation surplus of tangible and intangible assets,
    - Effective part of gains and losses in cash flow hedges,
    - Share of other comprehensive income of investments in associates.

The amounts of other comprehensive income components have been collected from the companies' financial statement as reported for the covered time series.

- **Comprehensive Income (CI):** the amounts of CI manually collected from the companies' financial statement as reported for the covered time series,

and recalculated through adding the other comprehensive income components to the net income.

3.1.5 Statistics Applied in the Empirical Analysis

Panel data model was applied to examine the correlation between market values and accounting figures in this study. The study's results were based on using of fixed effects panel data. The results were analyzed using computer application like Eviews.10 and SPSS 23.

Panel data are a model than combine the cross section and time series at the same time Felfe, 2000). The advantage of using the data panel is that it allows analysis of observations over a period of time. For example, if we want to examine the impact on a particular company within a period of ten years, a sample of 100 companies will examine each company over ten years, so we cannot obtain the same results as the analysis for cross sectional or analysis of time series separately (Baltagi, 2008).

As we explained earlier, the panel data examine a number of variables and a set of entities for a given period of time in the form that the data form cross sectional and time series. There are three approaches from the panel data that were as follows:

- Pooled OLS Model
- Fixed Effects Model
- Random Effects Model

Which will be explained in further details.

Pooled OLS Model

This model ignores the arrangement and construction of the panel and estimates fixed coefficients for the group as a whole. This model is based on collecting all observations in a single pool and assumes that all transactions are equal for all entities (Mundlak, 1978; Cameron and Trivedi, 2005). In general, the pooled OLS model considered as a very limited model and it has many doubts as to whether it is used to analyze income metrics.

Fixed Effects Model

In this model, it allows use of different coefficients through entities and time, in this model, the potential passivity of the company is controlled by the inclusion of a

particular fixed company in the model (Günther, 2015). And this model used in this empirical study in order to test of the hypotheses and get results of the regressions.

Random Effects Model

However, the fixed effects model contains unobserved elements and their impact on the parameter, the random effects model ensures that the element's impact and assumes existing of the homogeneity of the effect. Generally, if the fixed effects model has no further information on the independent variables the random effects model will excel on the fixed effects model (Günther, 2015). But if the element is associated with the distribution of independent variables the regressions will face bias and the coefficients will be in consist (Greene, 2003).

Model Selection Criteria

Actually, there is no preferred model or model which can be considered the best in order to choose which income measures is best for the other. Although there are many models to distinguish, however, in this study, Adjusted R^2 was chosen. In line with previous studies, Adjusted R^2 is used because it compares the validity and extent Fit the model in general and compare the levels of different models.

3.2 Results

After explaining the method and procedures that will be followed by the study in the experimental analysis and after the definition of independent and dependent variables, and explain the selection of the sample and sample selected for the study in the former section, the results obtained after analyzing the data selected for this study will be explain in this section. This section begins by quantitative overview of net income, comprehensive income and other comprehensive income components, followed by a descriptive statistic that provides an overview of the data including the association figures. Finally, this part shows the results of different regression models used in this study such as the price regression model and the return regression model.

3.2.1 Quantitative Overview of Income Measures

The quantitative overview forms the basis of regression analysis and gives an overview of the distribution and development of income measures and an explanation of the results reached in subsequent sections. Primarily provides an

overview of the distribution of income measures namely NI, CI and OCI for the sample used.

The table 3.1 displays the count of observations of NI, CI and OCI. While the total observations of net income and CI were recorded, the number of OCI varied markedly during the observations. The number of observations for OCI on average amounts to 66%.

Table 3.1: The count of observations of Income Measures

	2005		**2006**		**2007**		**2008**		**2009**		**2010**	
	Obsv.	**inc%**	**Obsv.**	**inc%**	**Obsv.**	**inc%**	**Obsv.**	**inc%**	**Obsv.**	**inc%**	**Obsv.**	**inc%**
NI	27	100%	27	100%	27	100%	27	100%	27	100%	27	100%
CI	27	100%	27	100%	27	100%	27	100%	27	100%	27	100%
OCI	0	0%	0	0%	2	7%	21	78%	21	78%	22	81%

2011		**2012**		**2013**		**2014**		**2015**		**2016**		**2017**	
Obsv.	**inc%**	**Obsv.**	**inc%**	**Obsv.**	**inc%**	**Obsv.**	**inc%**	**Obsv.**	**inc%**	**Obsv.**	**inc%**	**Obsv.**	**inc%**
27	100%	27	100%	27	100%	27	100%	27	100%	27	100%	27	100%
27	100%	27	100%	27	100%	27	100%	27	100%	27	100%	27	100%
22	81%	22	81%	23	85%	23	85%	23	85%	23	85%	23	85%

2018		**Average**	
Obsv.	**inc%**	**Obsv.**	**inc%**
27	100%	378	100%
27	100%	378	100%
24	89%	249	66%

The comparison among NI and CI is one of the most important sides that covered by this thesis. Figure 3.1 shows a comparison between income indices and their development during the period covered by the empirical study. From a primary point of view, NI is more stable than the CI.

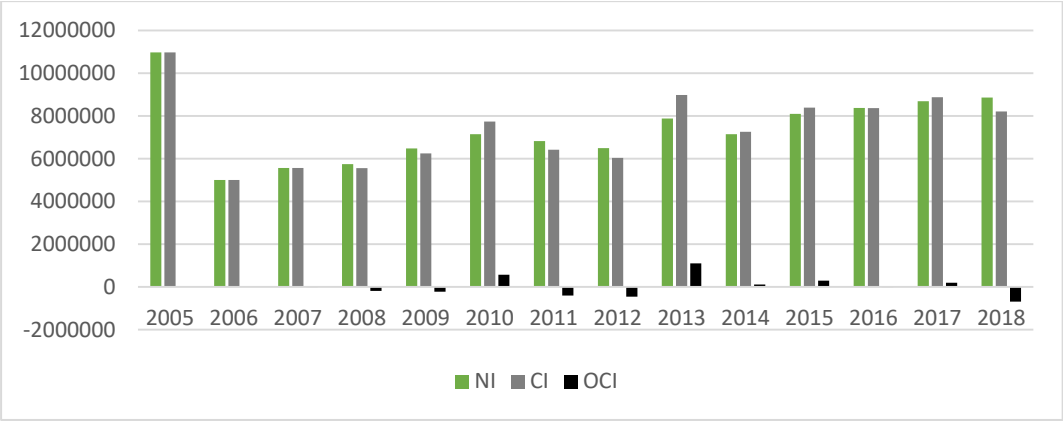

Figure 3.1: Mean of Income Measures

3.2.2 Descriptive Statistic

Descriptive Statistics Price Model

Table 3.2: Descriptive Statistics Price Model

	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
Share Price	378	.14	14.10	2.2742	.10880	2.11527
B.V.E/S	378	-	10	1.87	.075	1.463
NI/S	378	-.3391	3.0862	.1787	.0157	.3057
CI/S	378	-.2991	3.0862	.1883	.0161	.3142
OCI/S	378	-.1927	.6899	.0096	.0039	.0761

A descriptive overview of the variables that used in the price model displayed in Table 3.2, so that the number of observations that included in the measurement of the correlation between share price and income measures is 378 observations. The mean of the share price was 2.27 and standard deviation of 2.11. The mean of the book value of equity (BVE/S) was 1.87 and the standard deviation was 1.46. For the NI and CI the mean and standard deviation were positive and confirm the outcomes, and it was 0.178 and 0.188 as mean respectively and it was 0.30 and 0.31 as standard deviation respectively. The mean of aggregated other comprehensive income is positive and it was 0.0096, and the standard deviation 0.076 because of the small number of observations.

Spearman correlation matrix price model

Table 3.3: Spearman correlation matrix price model

			Share Price	B.V.E/S	NI/S	CI/S	OCI/S
Spearman's rho	Share Price	Correlation Coefficient	1.000	.663**	.729**	.687**	.000
		Sig. (2-tailed)	.	.000	.000	.000	.998
		N	378	378	378	378	378
	B.V.E/S	Correlation Coefficient	.663**	1.000	.743**	.725**	.049
		Sig. (2-tailed)	.000	.	.000	.000	.338
		N	378	378	378	378	378
	NI/S	Correlation Coefficient	.729**	.743**	1.000	.942**	-.010
		Sig. (2-tailed)	.000	.000	.	.000	.852
		N	378	378	378	378	378
	CI/S	Correlation Coefficient	.687**	.725**	.942**	1.000	.204**
		Sig. (2-tailed)	.000	.000	.000	.	.000
		N	378	378	378	378	378
	OCI/S	Correlation Coefficient	.000	.049	-.010	.204**	1.000
		Sig. (2-tailed)	.998	.338	.852	.000	.
		N	378	378	378	378	378

**. Correlation is significant at the 0.01 level (2-tailed).

Table 3.3 display the Spearman's rank correlation matrix related to the price model, and as shown in the table there is a high correlation between the share price and the Book Value of Equity and it's expected according to the model and the mentioned theories, the correlation between share price and BVE was 0.663. the correlation between the income measures and the share price like net income and comprehensive were significant and was about 0.73 and 0.687 respectively, the correlation of NI was higher than the correlation for the CI, the higher correlation was expected where the correlation is significant at $p<0.01$. Moreover there is a negative association between share price and other comprehensive income (OCI) at $p<0.01$ and it was -0.000146.

Descriptive Statistics Return Model

Table 3.4: Descriptive Statistics Return Model

	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
Share Returns	378	-.33909	3.08622	.17888	.01740	.30662
ΔNI/S	378	-2.07548	2.85107	.01784	.01627	.25360
ΔCI/S	378	-2.07548	2.85107	.01670	.01738	.27800
ΔOCI/S	378	-.52449	.75703	.00127	.00577	.10222

A descriptive overview of the variables that used in the return model displayed in table 3.4, so that the number of observations that included in the measurement of the correlation between the income measures and share return is 378 observations. The mean of the share return was 0.179 and standard deviation of 0.307. For the NI and CI the mean and standard deviation were positive and confirm the outcomes, and it was 0.178 and 0.167 as mean respectively and it was 0.253 and 0.278 as standard deviation respectively. The mean of aggregated other comprehensive income is positive and it was 0.00127, and the standard deviation 0.102 because of the small number of observations.

Spearman Correlation Matrix Return Model

Table 3.5: Spearman correlation matrix return model

			EPS Share Returns	ΔNI/S	ΔCI/S	ΔOCI/S
Spearman's rho	EPS Share Returns	Correlation Coefficient	1.000	.369**	.328**	.057
		Sig. (2-tailed)	.	.000	.000	.265
		N	378	378	378	378
	ΔNI/S	Correlation Coefficient	.369**	1.000	.862**	.127*
		Sig. (2-tailed)	.000	.	.000	.013
		N	378	378	378	378
	ΔCI/S	Correlation Coefficient	.328**	.862**	1.000	.469**
		Sig. (2-tailed)	.000	.000	.	.000
		N	378	378	378	378
	ΔOCI/S	Correlation Coefficient	.057	.127*	.469**	1.000
		Sig. (2-tailed)	.265	.013	.000	.
		N	378	378	378	378

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 3.5 display the Spearman's rank correlation matrix of the return model, and as shown in the table there is a correlation between the income measures and the share returns like net income and comprehensive were significant and was about 0.338 and 0.328 respectively, the correlation of NI was higher than the correlation for the CI, the higher correlation was expected where the correlation is significant at $p<0.01$. Moreover there is a positive correlation between OCI and share price at $p<0.01$ and it was 0.057.

3.3.3 Results of Regression Analyses

In this section the result from the regression models which analyzed the correlation between the accounting number and the market value and the results from forecasting models will be presented.

Results of Price Regressions

The price model outcomes show that Net Income is more value-relevance than Comprehensive Income and Other Comprehensive Income, unless the difference is insignificant because the adjusted R-squared for NI, CI and OCI was 0.679, 0.669 and 0.679 respectively.

The results from testing the first Hypotheses [H1] which illustrated at section 3.1.1, this section will show the correlation between NI, CI and OCI and the share prices.

Based on using the fixed effect regression model as panel data model the adjusted R-squared for all model were around 67%, which is predicted because the regression model is based on the BVE (Kanaagaretnam et al., 2009; Höhn, 2011; Deol, 2013). The coefficients for the independent variables BVE, NI and CI were positive and highly significant at $P<0.01$ except OCI which was negative. And based on the criteria that used to compare between the models which is the adjusted R-squared, it's obvious that the models contain NI are preferred over those with CI, and the model that contain OCI is preferred over that depended only on CI.

To test [H4] if the correlation between CI and OCI and share price was affected by IAS 1 (revised 2007) implementation the Chow Test applied (see the table 3.6). The Chow Test shows that the interaction between the two periods Pre-IFRS and Post-IFRS shows that the implementation of IAS 1 (revised 2007) had affected the correlation between the CI and share price.

Table 3.6: Chow Test Price model

Dependent Variable: Share Price					
Source	**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
Contrast	92.888	3	30.963	14.587	.000
Error	789.630	372	2.123		

Results of Return Regressions

The return model results show that NI is more value-relevance than CI and OCI, also the adjusted R-squared for NI, CI and OCI was 0.6609, 0.6112 and 0.6598 respectively.

The results from testing the second Hypotheses [H2] which illustrated at section 3.1.1, this section will show the correlation between NI, CI and OCI and the share returns.

Based on using the fixed effect regression model as panel data model the adjusted R-squared for all model were ranged between 61% for the model included CI to 65% for the models included NI. The coefficients for the independent variables NI and CI were positive and highly significant at P<0.01 except OCI which was negative. And based on the criteria that used to compare between the models which is the R-squared, it's obvious that the models contain NI are preferred over those with CI, and the model that contain OCI is preferred over that depended only on CI.

To test [H4] if the correlation between CI and OCI and share return was affected by the IAS 1 (revised 2007) implementation the Chow Test applied (see the table 3.7). The Chow Test shows that the interaction between the two periods Pre-IFRS and Post-IFRS shows the applying of the IAS 1 (revised 2007) had affected the correlation among CI and share returns.

Chow Test Return model

Table 3.7: Chow Test Return model

Dependent Variable: Share Returns					
Source	**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
Contrast	.693	2	.346	5.066	.007
Error	25.576	374	.068		

Results of forecasting models

As mentioned in former sections the users especially the investors are not interested only in the correlation between market data and accounting numbers, but also with the predictive power and the forecasting ability of these information.

Forecasting Operating Cash Flows Regressions

The forecasting operating cash flows regression results show that CI does not have further forecasting ability compared to NI. The adjusted R-squared for NI, CI and OCI was 0.176, 0.170 and 0.175 respectively.

The results from testing the third Hypotheses [H3] which illustrated at section 3.1.1, this section will show the correlation between NI, CI and OCI with the future operating cash flows.

Based on using the fixed effect regression model as panel data model the adjusted R-squared for all model were around 17%. The coefficients for the independent variables NI and CI were positive and highly significant at P<0.01 except OCI which was negative. And based on the criteria that used to compare between the models which is the R-squared, it's obvious that the models contain NI are preferred over those with CI, and the model that contain OCI is preferred over that depended only on CI.

To test [H4] if the correlation between CI and OCI and forecasting operating cash flows was affected by the IAS 1 (revised 2007) implementation the Chow Test applied (see the table 3.8). The Chow Test shows that the interaction between the two periods Pre-IFRS and Post-IFRS shows that the implementation of the IAS 1 (revised 2007) had affected he correlation between the CI and operating cash flows.

Chow Test OCF

Table 3.8: Chow Test Operating Cash Flow

Dependent Variable: OCF/S					
Source	**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
Contrast	1.509	3	.503	1.332	.264
Error	140.432	372	.378		

Forecasting Net Income Regressions

The forecasting net income regression results show that NI is better than of CI as an indicator of current NI. The adjusted R-squared for NI, CI and OCI was 0.9575, 0.9090 and 0.9574 respectively.

The results from testing the third Hypotheses [H3] which illustrated at section 3.1.1, this section will show the correlation between Net Income, Comprehensive Income and Other Comprehensive Income and future net income.

On the basis of the fixed effect regression model as panel data model the adjusted R-squared for all model were ranged between 90% for the model included CI to 95% for the models included NI. The coefficients for the independent variables (NI, CI and OCI) were positive and highly significant at P<0.01. And based on the criteria that used to compare between the models which is the R-squared, it's obvious that the models contain NI are preferred over those with CI, and the model that contain OCI is preferred over that depended only on CI.

To test [H4] if the correlation between CI and OCI and forecasting net income was affected by IAS 1 (revised 2007) implementation the Chow Test was applied (see the table 3.9). The Chow Test shows that the interaction between the two periods Pre-IFRS and Post-IFRS shows that the IAS 1 (revised 2007) application had affected the correlation between the CI and forecasting net income.

Table 3.9: Chow Test Future Net Income

Dependent Variable: NI/S					
Source	**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
Contrast	.101	3	.034	8.929	.000
Error	1.403	372	.004		

3.3.4 Results Summary

This thesis included an empirical study on the relationship of income measures namely the relationship of NI, CI and OCI with the market data of companies like share prices and share returns. It also included a study of the income measures' predictive power in predicting of the future cash flows from operations and future net income. It is worth noting that the statistical differences between the income

measures were not significant and were judged by which one a higher adjusted R has squared.

The price model was applied to examine the first hypothesis [H1], which stated that CI, including OCI, is more correlated with share prices than NI. Subsequent to studying and analyzing the financial data and information obtained from the Palestinian Stock Exchange, the results indicated that NI is more correlated with the share prices compared to the CI, thus the first hypothesis was rejected.

The return model was applied to examine the second hypothesis [H2], which stated that CI, including OCI, is more closely correlated with share returns than NI. Subsequent to the studying and analyzing of the financial data and information obtained from the Palestinian Stock Exchange, the results indicated that the net income is more correlated with the share returns compared to the comprehensive income, thus rejecting the second hypothesis.

The correlation between income measures and predictability of future operating cash flows and future net income was examined to test the Third hypotheses [H3]. The results indicated that the NI has more predictable of future operating cash flows and net income than the CI, thus rejecting the third hypothesis.

Chow test was applied to examine whether the correlation between the CI and OCI and the share prices and share returns increased after the implementation of IFRS to test the fourth hypotheses [H4]. The results indicated that the correlation has increased and the value relevance and the predictive power of CI and OCI have increased after applying of IFRS, thereby accepting the fourth hypothesis.

Table 3.10: Hypothesis Test Summary

H_1	Rejected
H_2	Rejected
H_3	Rejected
H_4	Accepted

4. CONCLUSION AND RECOMMENDATIONS

4.1 Limitations

The preparing process of this thesis faced many of limitations started from the collecting of the data manually from the companies' financial statements and choosing the sample from the company in the way that appropriate to the period 2005-2018. The obtaining of financial information for the companies that related to the previous periods before the application of IFRS was hard because not all of companies disclosed the annual financial statement online so the contacting with the Palestine Capital Market for getting the information.

4.2 Recommendations

The emerging countries, including Palestine should work to communicate with the IASB and reporting needs related to accounting standards and financial reporting accounting, which could be taken into consideration by the IASB to take action and make amendments to some of the criteria in line with the economic environment of the emerging countries.

The need for the commitment of the Palestinian companies to apply International Financial Reporting Standards and the government should enact legislation and issuing laws that support the application of corporate standards while taking into account the changes in the Palestinian environment.

Activate the role of professional accounting associations in Palestine and activate their role in providing scientific references and books that are in line with the ongoing accounting and professional developments, in addition to holding educational seminars and conferences that educate accountants and auditors about their professional role and train them on the practices and applications of new standards.

Urging the official authorities responsible for companies listed on the PSE, such as the Securities Commission and the Companies Control Department, to raise the

awareness of corporate departments on the importance of the concept of other comprehensive income.

Urging the management of public shareholding companies to revalue their fixed assets and disclose the differences resulting from other comprehensive income items as they are an important part of their capital and this has an important impact for different stakeholders and the quality of profit disclosure.

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APPENDIXES

Appendix 1: List of Companies Used in the Analysis

Appendix 2: Regression Models' Equations

Appendix 3: Regression Models' Results

Appendix 4: List of IFRS and IAS Standards

Appendix 5: Financial Statement from Palestinian Companies before and after the implementation of IFRS

Appendix 1: List of Companies Used in the Analysis

Ahleia Insurance Group - AIG	PALESTINE INDUSTRIAL INVESTMENT - PIIC
AL QUDS BANK - QUDS	PALESTINE INVESTMENT & DEVELOPMENT - PID
ARAB COMPANY FOR PAINTS PRODUCTS - APC	PALESTINE INVESTMENT BANK - PIBC
ARAB INVESTORS - ARAB	PALESTINE ISLAMIC BANK - ISBK
Arab Islamic Bank - AIB	PALESTINE PLASTIC INDUSTRIES - LADAEN
ARAB REAL ESTATE ESTABLISHMENT - ARE	PALESTINE POULTRY - AZIZA
BANK OF PALESTINE - BOP	Palestine Stock Exchange Company - PEX
BIRZEIT PHARMACEUTICALS - BPC	PALESTINE TELECOMMUNICATIONS - PALTEL
GOLDEN WHEAT MILLS - GMC	The Arab Hotels Company - AHC
JERUSALEM CIGARETTE - JCC	THE NATIONAL BANK - TNB
JERUSALEM PHARMACEUTICALS - JPH	THE NATIONAL CARTON INDUSTRY - NCI
NABLUS SURGICAL CENTER - NSC	THE VEGETABLE OIL INDUSTRIES - VOIC
NATIONAL INSURANCE - NIC	TRUST INTERNATIONAL INSURANCE - TRUST
PALESTINE ELECTRIC - PEC	

Appendix 2: Regression Models' Equations

Price Regression Model:

The implemented model illustrated as follows:

$$P_{it} = \alpha_{0,1} + \alpha_1 BVE/S_{it} + \alpha_2 NI/S_{it} + \varepsilon_{it} + v_i \quad (1a)$$

$$P_{it} = \alpha_{0,2} + \alpha_3 BVE/S_{it} + \alpha_4 CI/S_{it} + \varepsilon_{it} + v_i \quad (1b)$$

$$P_{it} = \alpha_{0,3} + \alpha_5 BVE/S_{it} + \alpha_6 NI/S_{it} + \alpha_7 OCI/S_{it} + \varepsilon_{it} + v_i \quad (1c)$$

All variables are defined in section 3.1.3

Return Model:

The implemented model illustrated as follows:

$$RETit = \beta 0,1 + \beta 1(\Delta NI/S)it + \varepsilon it + vi \quad (2a)$$

$$RETit = \beta 0,2 + \beta 2(\Delta CI/S)it + \varepsilon it + vi \quad (2b)$$

$$RETit = \beta 0,3 + \beta 3(\Delta NI/S)it + \beta 4(\Delta OCI/S)it + \varepsilon it + vi \quad (2c)$$

All variables are defined in section 3.1.3

Forecasting Models:

The implemented model illustrated as follows:

$$OCF/Sit = \vartheta_{0,1} + \vartheta_1 NI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad (5a\_OCF)$$

$$OCF/Sit = \vartheta_{0,2} + \vartheta_2 CI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad (5b\_OCF)$$

$$OCF/Sit = \vartheta_{0,3} + \vartheta_3 NI/S_{i(t-1)} + \vartheta_4 OCI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad (5c\_OCF)$$

All variables are defined in section 3.1.3

The implemented model illustrated as follows:

$$NI/S_{it} = \varphi_{0,1} + \varphi_1 NI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad (5a\_NI)$$

$$NI/S_{it} = \varphi_{0,2} + \varphi_2 CI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad (5b\_NI)$$

$$NI/S_{it} = \varphi_{0,3} + \varphi_3 NI/S_{i(t-1)} + \varphi_4 OCI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad (5c\_NI)$$

All variables are defined in section 3.1.3

Appendix 3: Regression Models' Results

$$P_{it} = \alpha_{0,1} + \alpha_1 BVE/S_{it} + \alpha_2 NI/S_{it} + \varepsilon_{it} + v_i \quad \textbf{(1a)}$$

Dependent Variable: SHARE_PRICE
Method: Panel Least Squares
Date: 08/28/19 Time: 22:36
Sample: 2005 2018
Periods included: 14
Cross-sections included: 27
Total panel (balanced) observations: 378

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.192335	0.155142	7.685432	0.0000
B_V_E_S	0.377973	0.084870	4.453540	0.0000
NI_S	2.109088	0.291050	7.246468	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.703186	Mean dependent var	2.274180
Adjusted R-squared	0.679373	S.D. dependent var	2.115274
S.E. of regression	1.197751	Akaike info criterion	3.272386
Sum squared resid	500.6784	Schwarz criterion	3.574269
Log likelihood	-589.4810	Hannan-Quinn criter.	3.392199
F-statistic	29.52934	Durbin-Watson stat	0.600305
Prob(F-statistic)	0.000000		

$$P_{it} = \alpha_{0,2} + \alpha_3 BVE/S_{it} + \alpha_4 CI/S_{it} + \varepsilon_{it} + v_i \quad \textbf{(1b)}$$

Dependent Variable: SHARE_PRICE
Method: Panel Least Squares
Date: 08/28/19 Time: 22:38
Sample: 2005 2018
Periods included: 14
Cross-sections included: 27
Total panel (balanced) observations: 378

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.176822	0.157497	7.472049	0.0000
B_V_E_S	0.404457	0.086412	4.680559	0.0000
CI_S	1.821280	0.285830	6.371894	0.0000

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.694113	Mean dependent var	2.274180
Adjusted R-squared	0.669571	S.D. dependent var	2.115274
S.E. of regression	1.215922	Akaike info criterion	3.302498
Sum squared resid	515.9843	Schwarz criterion	3.604382
Log likelihood	-595.1722	Hannan-Quinn criter.	3.422311
F-statistic	28.28366	Durbin-Watson stat	0.593472
Prob(F-statistic)	0.000000		

$$\mathbf{P_{it} = \alpha_{0,3} + \alpha_5\, BVE/S_{it} + \alpha_6 NI/S_{it} + \alpha_7 OCI/S_{it} + \varepsilon_{it} + v_i} \qquad \mathbf{(1c)}$$

Dependent Variable: SHARE_PRICE
Method: Panel Least Squares
Date: 08/28/19 Time: 22:47
Sample: 2005 2018
Periods included: 14
Cross-sections included: 27
Total panel (balanced) observations: 378

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.188232	0.155047	7.663702	0.0000
B_V_E_S	0.388000	0.085173	4.555464	0.0000
NI_S	2.087251	0.291324	7.164710	0.0000
OCI_S	-1.116733	0.887117	-1.258833	0.2089

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.704532	Mean dependent var	2.274180
Adjusted R-squared	0.679909	S.D. dependent var	2.115274
S.E. of regression	1.196749	Akaike info criterion	3.273134
Sum squared resid	498.4088	Schwarz criterion	3.585427
Log likelihood	-588.6223	Hannan-Quinn criter.	3.397078
F-statistic	28.61349	Durbin-Watson stat	0.611804
Prob(F-statistic)	0.000000		

$$RETit = \beta 0,1 + \beta 1(\Delta NI/S)it + \varepsilon it + vi \quad (2a)$$

Dependent Variable: SHARE_RETURNS
Method: Panel Least Squares
Date: 08/28/19 Time: 22:57
Sample: 2005 2018
Periods included: 14
Cross-sections included: 27
Total panel (balanced) observations: 378

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.167533	0.009501	17.63348	0.0000
_NI_S	0.635933	0.038085	16.69763	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.664800	Mean dependent var	0.178884
Adjusted R-squared	0.638942	S.D. dependent var	0.306623
S.E. of regression	0.184244	Akaike info criterion	-0.473926
Sum squared resid	11.88103	Schwarz criterion	-0.182452
Log likelihood	117.5720	Hannan-Quinn criter.	-0.358245
F-statistic	25.70937	Durbin-Watson stat	0.575872
Prob(F-statistic)	0.000000		

$$RETit = \beta 0,2 + \beta 2(\Delta CI/S)it + \varepsilon it + vi \quad (2b)$$

Dependent Variable: SHARE_RETURNS
Method: Panel Least Squares
Date: 08/28/19 Time: 22:58
Sample: 2005 2018
Periods included: 14
Cross-sections included: 27
Total panel (balanced) observations: 378

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.170100	0.010123	16.80363	0.0000
_CI_S	0.525759	0.036889	14.25236	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.618937	Mean dependent var	0.178884
Adjusted R-squared	0.589541	S.D. dependent var	0.306623
S.E. of regression	0.196444	Akaike info criterion	-0.345688
Sum squared resid	13.50663	Schwarz criterion	-0.054215
Log likelihood	93.33507	Hannan-Quinn criter.	-0.230007
F-statistic	21.05493	Durbin-Watson stat	0.680877
Prob(F-statistic)	0.000000		

$RETit = \beta 0,3 + \beta 3(\Delta NI/S)it + \beta 4(\Delta OCI/S)it + \varepsilon it + vi$ (2c)

Dependent Variable: SHARE_RETURNS
Method: Panel Least Squares
Date: 08/28/19 Time: 22:59
Sample: 2005 2018
Periods included: 14
Cross-sections included: 27
Total panel (balanced) observations: 378

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.167406	0.009507	17.60933	0.0000
_NI_S	0.637592	0.038158	16.70920	0.0000
_OCI_S	-0.075758	0.093110	-0.813646	0.4164

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.665435	Mean dependent var	0.178884
Adjusted R-squared	0.638593	S.D. dependent var	0.306623
S.E. of regression	0.184333	Akaike info criterion	-0.470530
Sum squared resid	11.85853	Schwarz criterion	-0.168647
Log likelihood	117.9302	Hannan-Quinn criter.	-0.350717
F-statistic	24.79088	Durbin-Watson stat	0.584502
Prob(F-statistic)	0.000000		

$OCF/Sit = \vartheta_{0,1} + \vartheta_1 NI/S_{i(t-1)} + \varepsilon_{it} + v_i$ (5a_ OCF)

Dependent Variable: OCF_S
Method: Panel Least Squares
Date: 08/31/19 Time: 20:47
Sample: 2005 2018
Periods included: 14
Cross-sections included: 27
Total panel (balanced) observations: 378

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.104796	0.037524	2.792746	0.0055
NI_S_T_1_	0.414399	0.120308	3.444494	0.0006

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.235357	Mean dependent var	0.183914
Adjusted R-squared	0.176371	S.D. dependent var	0.635684
S.E. of regression	0.576909	Akaike info criterion	1.808922
Sum squared resid	116.4883	Schwarz criterion	2.100396
Log likelihood	-313.8863	Hannan-Quinn criter.	1.924604
F-statistic	3.990005	Durbin-Watson stat	1.733073
Prob(F-statistic)	0.000000		

$$OCF/Sit = \vartheta_{0,2} + \vartheta_2 CI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad \text{(5b\_ OCF)}$$

Dependent Variable: OCF_S
Method: Panel Least Squares
Date: 08/31/19 Time: 20:49
Sample: 2005 2018
Periods included: 14
Cross-sections included: 27
Total panel (balanced) observations: 378

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.112137	0.037943	2.955406	0.0033
CI_S_T_1_	0.356749	0.116875	3.052397	0.0024

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.229936	Mean dependent var	0.183914
Adjusted R-squared	0.170531	S.D. dependent var	0.635684
S.E. of regression	0.578950	Akaike info criterion	1.815987
Sum squared resid	117.3142	Schwarz criterion	2.107460
Log likelihood	-315.2215	Hannan-Quinn criter.	1.931668
F-statistic	3.870662	Durbin-Watson stat	1.722566
Prob(F-statistic)	0.000000		

$$OCF/Sit = \vartheta_{0,3} + \vartheta_3 NI/S_{i(t-1)} + \vartheta_4 OCI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad \text{(5c\_ OCF)}$$

Dependent Variable: OCF_S
Method: Panel Least Squares
Date: 08/31/19 Time: 20:51
Sample: 2005 2018
Periods included: 14
Cross-sections included: 27
Total panel (balanced) observations: 378

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.108967	0.037866	2.877711	0.0043
NI_S_T_1_	0.410903	0.120429	3.411981	0.0007
OCI_S_T_1_	-0.342763	0.407329	-0.841489	0.4007

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.236906	Mean dependent var	0.183914
Adjusted R-squared	0.175683	S.D. dependent var	0.635684
S.E. of regression	0.577150	Akaike info criterion	1.812186
Sum squared resid	116.2525	Schwarz criterion	2.114070
Log likelihood	-313.5032	Hannan-Quinn criter.	1.931999
F-statistic	3.869585	Durbin-Watson stat	1.740616
Prob(F-statistic)	0.000000		

$$NI/S_{it} = \varphi_{0,1} + \varphi_1 NI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad (5a\_NI)$$

Dependent Variable: NI_S
Method: Panel Least Squares
Date: 08/31/19 Time: 20:54
Sample: 2005 2018
Periods included: 14
Cross-sections included: 27
Total panel (balanced) observations: 378

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.000790	0.004097	0.192844	0.8472
NI_S_T_1_	0.931776	0.013134	70.94280	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.960598	Mean dependent var	0.178686
Adjusted R-squared	0.957558	S.D. dependent var	0.305717
S.E. of regression	0.062982	Akaike info criterion	-2.620746
Sum squared resid	1.388360	Schwarz criterion	-2.329272
Log likelihood	523.3209	Hannan-Quinn criter.	-2.505064
F-statistic	316.0270	Durbin-Watson stat	2.047559
Prob(F-statistic)	0.000000		

$$NI/S_{it} = \varphi_{0,2} + \varphi_2 CI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad (5b\_NI)$$

Dependent Variable: NI_S
Method: Panel Least Squares
Date: 08/31/19 Time: 20:54
Sample: 2005 2018
Periods included: 14
Cross-sections included: 27
Total panel (balanced) observations: 378

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.004574	0.006044	0.756871	0.4496
CI_S_T_1_	0.865385	0.018616	46.48645	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.915532	Mean dependent var	0.178686
Adjusted R-squared	0.909016	S.D. dependent var	0.305717
S.E. of regression	0.092215	Akaike info criterion	-1.858199
Sum squared resid	2.976268	Schwarz criterion	-1.566725
Log likelihood	379.1996	Hannan-Quinn criter.	-1.742518
F-statistic	140.5033	Durbin-Watson stat	2.230771
Prob(F-statistic)	0.000000		

$$NI/S_{it} = \varphi_{0,3} + \varphi_3 NI/S_{i(t-1)} + \varphi_4 OCI/S_{i(t-1)} + \varepsilon_{it} + v_i \quad (5c\_NI)$$

Dependent Variable: NI_S
Method: Panel Least Squares
Date: 08/31/19 Time: 20:55
Sample: 2005 2018
Periods included: 14
Cross-sections included: 27
Total panel (balanced) observations: 378

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.000608	0.004137	0.147063	0.8832
NI_S_T_1_	0.931928	0.013159	70.82218	0.0000
OCI_S_T_1_	0.014919	0.044507	0.335210	0.7377

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.960610	Mean dependent var	0.178686
Adjusted R-squared	0.957450	S.D. dependent var	0.305717
S.E. of regression	0.063062	Akaike info criterion	-2.615777
Sum squared resid	1.387913	Schwarz criterion	-2.313893
Log likelihood	523.3818	Hannan-Quinn criter.	-2.495964
F-statistic	303.9715	Durbin-Watson stat	2.046582
Prob(F-statistic)	0.000000		

Appendix 4: List of IFRS and IAS Standards

Standard #	Standard
IFRS 1	Financial Instruments: Disclosures
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRS 14	Regulatory Deferral Accounts
IFRS 15	Revenue From Contracts with Customers
IFRS 16	Leases
IFRS 17	Insurance Contracts
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Reporting Period
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 32	Financial Instruments: Presentation
IAS 33	Earnings per Share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IAS 41	Agriculture

Appendix 5: Financial Statement from Palestinian Companies before and after the implementation of IFRS

Before Implementation of IFRS

Palestine Telecommunications Company P.L.C.

Preliminary and Tentative for Discussion Purposes Only

CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2008

	Notes	2008 JD	2007 JD
Revenues	24	291,105,648	226,202,357
Telecommunication services costs	25	(19,375,301)	(16,605,057)
License fees	26	(21,903,806)	(16,805,332)
Other costs	27	(14,604,838)	(14,668,354)
		235,221,703	178,123,614
Administrative expenses	28	(136,354,654)	(98,916,436)
Loss from investments	29	(1,589,956)	(11,391,808)
Finance costs		(2,299,573)	(5,215,392)
Other (expenses) revenues, net	30	(5,218,278)	3,108,229
Profit before income tax		89,759,242	65,708,207
Income tax expense	23	(579,394)	(182,429)
Profit for the year		89,179,848	65,525,778
Basic and diluted earnings per share	31	0.678	0.498

Palestine Telecommunications Company P.L.C.

Preliminary and Tentative for Discussion Purposes Only

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2008

	Paid-in share capital	*Reserves*			*Foreign currency translation*	*Cumulative changes in fair values*	*Proposed dividends*	*Retained earnings*	*Total Equity*
		Statutory	*Voluntary*	*Special*					
	JD	JD	JD	JD	JD	JD	JD	JD	JD
Balance at January 1, 2008	131,625,000	28,899,260	6,756,219	7,949,555	(26,009)	(61,516)	26,325,000	75,859,280	277,326,789
Net losses on available-for-sale investments	-	-	-	-	-	(788,971)	-	-	(788,971)
Foreign currency translation	-	-	-	-	(23,541)	-	-	-	(23,541)
Total income and expense recognized directly in equity	-	-	-	-	(23,541)	(788,971)	-	-	(812,512)
Profit for the year	-	-	-	-	-	-	-	89,179,848	89,179,848
Total income and expense for the year	-	-	-	-	(23,541)	(788,971)	-	89,179,848	88,367,336
Transferred to statutory reserve	-	8,917,985	-	-	-	-	-	(8,917,985)	-
Cash dividends (Note 17)	-	-	-	-	-	-	(26,325,000)	(6,581,250)	(32,906,250
Proposed cash dividends (Note 17)	-	-	-	-	-	-	-	-	-
Balance at December 31, 2008	131,625,000	37,817,245	6,756,219	7,949,555	(49,550)	(850,487)	-	49,539,893	332,787,875
Balance at January 1, 2007	131,625,000	22,346,682	6,756,219	7,949,555	(10,828)	-	26,325,000	43,211,080	238,202,708
Net losses on available-for-sale investments	-	-	-	-	-	(61,516)	-	-	(61,516)
Foreign currency translation	-	-	-	-	(15,181)	-	-	-	(15,181)
Total income and expense recognized directly in equity	-	-	-	-	(15,181)	(61,516)	-	-	(76,697)
Profit for the year	-	-	-	-	-	-	-	65,525,778	65,525,778
Total income and expense for the year	-	-	-	-	(15,181)	(61,516)	-	65,525,778	65,449,081
Transferred to statutory reserve	-	6,552,578	-	-	-	-	-	(6,552,578)	-
Cash dividends	-	-	-	-	-	-	(26,325,000)	-	(26,325,000
Proposed cash dividends (Note 17)	-	-	-	-	-	-	26,325,000	(26,325,000)	-
Balance at December 31, 2007	131,625,000	28,899,260	6,756,219	7,949,555	(26,009)	(61,516)	26,325,000	75,859,280	277,326,789

After Implementation of IFRS

PALESTINE TELECOMMUNICATIONS COMPANY P.L.C.

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

	Notes	2012 JD '000s	2011 JD '000s
Revenues	26	365,852	370,605
Telecommunication services costs	27	(32,374)	(29,728)
License fees	28	(26,636)	(27,185)
Other costs	29	(23,085)	(25,215)
		283,757	**288,477**
Operating and administrative expenses	30	(171,698)	(161,036)
Loss from investments	31	(6,845)	(18,169)
Finance costs		(1,478)	(2,127)
Other income (expenses)	32	1,903	(6,135)
Profit before income tax		**105,639**	**101,010**
Income tax expense	24	(23,507)	(10,266)
Profit for the year		**82,132**	**90,744**
Basic and diluted earnings per share	33	**0.624**	**0.689**

Income Statement

PALESTINE TELECOMMUNICATIONS COMPANY P.L.C.

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

	2012 JD '000s	2011 JD '000s
Profit for the year	82,132	90,744
Other comprehensive income:		
Net losses on available-for-sale investments	(2,933)	(4,916)
Impairment loss recognized in the income statement	3,313	4,183
Foreign currency translation	(19)	(5)
Other comprehensive income for the year	**361**	**(738)**
Total comprehensive income for the year	**82,493**	**90,006**

Comprehensive Income Statement

CURRICULUM VITAE

Salah Sarahneh, born November 5, 1995, in Nablus, Palestine.

Education

2017 - 2019	**Istanbul Aydin University / Turkey - Istanbul**
	Master Student
2013 – 2016	**AlQuds University / Palestine – Jerusalem**
	Bachelor Degree of Accounting

Professional Experience

2018 - Present	**AG Investments**
	Financial Accountant
2017	**Arab Islamic Bank / Palestine – Ramallah**
	Anti-Money Laundering Officer
2016 - 2017	**Ernst & Young / Palestine - Ramallah**
	IT Auditor