

Framework for Enhancing the Egyptian Accounting Standards Towards Convergence with International Financial Reporting Standards

<https://www.doi.org/10.56830/IJAMS07202409>

Amani Hussein 

Associate Professor of Accounting, The British University in Egypt (BUE), Egypt

Amani.Hussein@bue.edu.eg

Received: 21 June 2024. Accepted: 23 July 2024. Published: 31 July 2024

Abstract

The Generally Accepted Accounting Principles (GAAP) which are theoretically unique to each country, it provides standards for evaluating and comparing the financial position of companies. However, the International Accounting Standard (IAS), are developed to be used by all countries. The convergence of these national and international accounting standards is important for attracting foreign investors and potential domestic investors. Egypt has undergone serious steps towards convergence, such as the introduction of new standards or converging of old standards to be consistent with the international standards. A number of complex standards has been understood either by separating them into two or more standards or by adding supplements or guidelines to some of them. Alternatives of some of accounting standards are reduced to avoid differences in practices and manipulating profits. This research developed a framework towards convergence of Egyptian accounting standards and International accounting standard that include a number of viable points: started with determining the objective of the financial reports, determining the methods of applying the international standards, the importance of studying the cultural influence, developing accounting education, the need to develop professional organizations concerned with the profession of accounting and for implementing and follow-up of standards.

Keywords: International accounting standard, convergence, Generally Accepted Accounting Principles, Egypt.

1. Introduction

Accounting is a reliable source of financial information that supports stakeholders' decisions. Most countries establish a set of accounting principles that serve as the basis for reporting financial statements for companies operating within their boundaries known as Generally Accepted Accounting Principles (GAAP), which are theoretically unique to each country. Their purpose is to provide a general and acceptable standard for evaluating and comparing the financial position of companies (Ebaid, 2016). With the development of media markets and the emergence of large economic entities and multinationals, it is difficult for stakeholders to read and understand the financial statements of these companies because of the differences in accounting principles between countries. The difference in accounting practices in the countries of the world is justified where the accounting systems in each country are influenced by environmental factors such as: language, culture, education, political, economic and legal systems as well as organizational factors (Hafnawi, 2004). Therefore, many scientific organizations and professional bodies have been called in, most notably the International Accounting Standard Board IASC, to develop standards that can be used by all countries.

The term harmonization, which was used at the beginning of the work of the International Accounting Standards Committee, was introduced in 1973. The harmonization of accounting standards refers to the process of reducing the conflicting accounting rules or the diversity of accounting practices in order to improve the comparability of financial reports prepared by companies from different countries. (Desoky, 2013).

Today, the International Accounting Standards Board (IASB) and local standard setters use the term convergence to reflect greater compatibility of their standards to achieve higher quality. (Zeff, 2017). The convergence of these domestic and international accounting standards is an important method of attracting foreign investors and existing and potential domestic investors. (Shil, Das, & Pramanik, 2009). Researchers have stressed that reconciliation is a very complex process influenced by political, cultural and organizational differences that often generate a great deal of uncertainty and opposition. It is very important to understand the process of convergence so that international bodies are aware of the needs of different countries. (Rezaee, Smith, & Szendi, 2010); (Ghio & Verona, 2015).

1.1. Convergence with IFRS: Opportunities and Challenges

There has been a growing movement around the world to adopt the International Financial Reporting Standards (IFRS) prepared by the IASB or at least to harmonize the generally accepted accounting principles with the requirements of international accounting standards. IASB developed its objectives for the preparation of the International Financial Reporting Standards (IFRS) as follows. (Nijam & Jahfer, 2016).

- A) Common standards: The main objective of the IASB is to develop one set of high quality, understandable and applicable global accounting standards.
- B) Credibility: International financial reporting standards lead to high quality and transparent information in the financial statements.
- C) Comparability: IFRS aims to enhance the comparability of the information contained in the financial reports so that the financial reports of countries can be compared effectively.
- D) Conformity: The IASB tries to encourage the strict use and application of IFRS.
- E) Customization: the IASB takes into account, to the largest extent possible, the specific needs of small and medium-sized entities and emerging economies.
- F) Convergence: convergence between local accounting standards and IFRS for high-quality solutions.

The harmonization of accounting standards requires a great deal of research and discussion among accounting professionals around the world. (Tay & Parker, 1990) classify the harmonization efforts into two categories: formal harmonization, which indicate the harmonization of the accounting regulations among different countries, and the essential harmonization in which accounting practices are harmonized.

Moreover, (Desoky, 2013) classified harmonization in financial reporting as disclosure harmonization or accounting method harmonization. **Al-Ghunaimi (2016)** explained that accounting convergence is an attempt to raise the level of consistency between international accounting policies and standards by bringing different points of view closer together. The convergence of accounting standards in different countries with international accounting standards will lead to improved performance.

There have also been serious attempts to bring about the process of convergence between international standards and the United States which is summarized in the following points (Lisa, 2016). In May 2002, the entities joining the International Accounting Standards Board (IASB) approved the formation of the International Accounting Standard Board (IASB) to issue the IFRS. The main objectives of the Board were to agree with the US Financial Accounting Standards Board (FASB). On October 2002 a memorandum known as the Norwalk agreement was issued, aiming at removing the differences between generally accepted accounting principles in the United States and international financial reporting standards. However, a full convergence has not achieved yet. The SEC issued in May 2011 the advisory paper on possible methods incorporating elements of international standards in the US GAAP within a period of 5 to 7 years to achieve convergence between them. In 2013, IASB and FASB endorsed their commitment to work together to eliminate the differences between GAAP and IFRS.

The global financial reporting process is expected to be based on a single set of high quality accounting standards issued by the International Accounting Standards Board (IASB). The

efficiency and competitiveness of global capital markets depend on the ability of financial data providers to communicate effectively with investors through financial reporting. The convergence brings together many stakeholders and beneficiaries: (i) policymakers and regulators; (ii) investors investing worldwide (iii) companies (iv) auditors and (v) teachers in the integration of international accounting standards, including IFRS, into accounting programs. (Rezaee, Smith, & Szendi, 2010).

Convergence offers many benefits to investors such as better decision-making information, more confidence in information provided, better understanding of risk and return, easy comparison of financial statements of similar companies, and timely financial reporting (Singhal, 2015). Moreover, companies can benefit from convergence by reducing accounting policies, the ability of companies to manipulate profits and improving the quality of financial reports. (Al-Ghunaimi, 2016).

However, the practical reality confirms the existence of specific challenges to accounting convergence with international standards, due to national environmental factors and differences in legal legislation, accounting practice and users (Prince, 2008).

Hafnawi (2004) classified the main factors affecting accounting convergence into environmental factors and regulatory factors. The environmental factors may include culture, political and economic systems. Cultures differ from one country to another, where culture is one of the most important factors that can impede real comparison worldwide. Cultural differences may be caused by level of confidentiality of information, language differences and organized professional rules for the financial reporting process.

(Prince, 2008) pointed out that the issuance of Decision No. 243 in June 2006 by the Minister of Investment to adopt the International Financial Reporting Standards (IFRS) reflects the influence of the cultural factor prevailing in Egypt and the high level of legislative control over accounting professional practices. (Dahawy, Merino, & Conover, 2002) clarified that secrecy is an integral part of Egyptian culture that limits disclosure in financial statements. In a number of countries in Asia and the South Pacific that have signed IFRS, companies and their auditors do not mention that they use IFRS. Companies note that they use local accounting standards, although they may comply with IFRS. Additionally, auditor reports refer to local standards, not IFRS. (Zeff, 2007).

Furthermore, the economic system is an environmental determinant of the accounting information system, affecting, in one way or another, accounting objectives and functions, and thus influencing measurement and disclosure in a specific environment (**Amira Osman, 1989**)

The implementation of IFRS is a complex process which may be influenced by the organizational factors. There is a difference between the adoption of standards by regulators and the application of standards in practice (Albu, Albu, & Alexander, 2014). In the absence of appropriate implementation mechanisms, real convergence is difficult (Horton, Serafeim, & Serafeim, 2013).

2. Literature review

(Horton, Serafeim, & Serafeim, 2013) used a sample of companies that adopted and did not adopt IFRS in a broad range of countries in the financial years ended or after 31 December 2001 to 31 December 2007 to assess whether the mandatory transition to IFRS improves the company's information environment. Researchers have found that accurate forecasting and other measures of information quality are significantly improved for companies complying with standards. They concluded that reliance on IFRS would improve the information environment.

Another study in Africa found that revenues were significantly higher in African companies that used IFRS standards compared to companies that used local accounting standards. Moreover, the study concluded that accounting reports are of significant value in all African markets in countries that are substantially consistent with IFRS. This was evident in South Africa that relied mainly on international standards (Rao & Warsame, 2015).

A US study compared the views of academics and professionals regarding the convergence between GAAP and IFRS. The results indicated that (1) the majority of the views confirm that the convergence will be useful for the preparer, users, reviewers, analysts and standard setters. (2) An appropriate framework for the universal acceptance and implementation of IFRS should be agreed upon. (3) Convergence to international financial reporting standards could lead to improved cross-border integration of capital markets, harmonization of global financial reporting and promote a more informed global market. (Rezaee, Smith, & Szendi, 2010).

(Abd-Elsalam & Weetman, 2003) Studied and used a sample of 72 companies listed on the local stock exchange and applied the International Accounting Standards (IAS) in the period following the adoption of international standards in Egypt. The study found that the level of adherence was consistent with the familiar aspects of IAS disclosure requirements. The study indicates that international accounting standards /IFRSs are more complex than local standards.

(Zeghal & Mhedhbi, 2006) focused on the study of the criteria for the adoption of IAS / IFRS by developing countries. Their study included a sample of 32 developing countries following their adoption of international accounting standards and 32 other non- adoption countries. The researchers found that developing countries with a capital market, advanced levels of education

and high economic growth are more thoughtful and adhering to IFRS. They found that the level of economic growth was a major factor in the adoption of international accounting standards. Moreover, (Zehri & Chouaibi, 2013) using a sample of 74 developing countries reached the same conclusion that countries that adopt IFRS are those with high economic growth and high level of education. In addition, (Albu, Albu, & Alexander, 2014) noted that previous studies on emerging economies had emphasized difficulties in applying IFRS because of low level of commitment, lack of sophistication in the accounting profession and differences in tax regulations.

(Rezaee, Smith, & Szendi, 2010) also highlighted a range of challenges even in developed countries such as failure to cover IFRS in financial accounting books, coordination and cooperation between global regulators, and the required changes in the regulatory system, and the initial cost of convergence. Moreover, the researchers pointed out that a suitable plan should be developed for the transfer of all US companies to the IFRS including the education and training of management, auditors and investors in IFRS.

In the European Union, there are still some challenges. (Forst & Salerno, 2016) indicate that there are three main groups in EU countries: countries based on local accounting principles, accounting principles based on IFRS and complete IFRS principles. After ten years of the European Union's decision to companies to comply with IFRS, there are still significant differences in accounting practices. The researchers pointed out that there are differences in implementation among those who adopt the IFRS. While in most European Union countries, IFRS did not fully replace GAAP.

Another study in Egypt has shown the importance of applicable local professional regulations, implementation mechanisms and educational and training requirements for local accountants and auditors for the successful adoption and application of international financial reporting standards in local economic environments. The study showed that the independent auditor's implementation mechanism, and adherence to a set of accounting standards is a proof of the effectiveness of the monitoring and auditing process carried out by the capital market supervisory bodies such as the Egyptian Financial Authority in Egypt and responsible for the implementation of various capital market laws, including compliance with accounting standards (Ebrahim, 2014). (Samaha & Khelif, 2016) clarified that IFRSs are optimal in developing countries only if implemented by effective bodies and with effective follow up compliance.

Furthermore, (Ebaid, 2016) conducted another study in Egypt to examine whether the compulsory adoption of IFRSs enhances the quality of accounting in Egypt. The study examined a sample of 56 companies to test whether the mandatory adoption of IFRSs in Egypt would reduce the practice of profit management. The study compared profit management practices and

the preparation of profits and tendencies to profit management for listed Egyptian companies (2000-2006) and after (2007-2009) adoption of IFRS. The results of the study showed that the quality of the accounting has decreased in the period after the IFRS adoption compared to the period before its adoption. These results are consistent with previous research, which suggests that adoption of IFRS, which is perceived as achieving higher quality than local standards, does not necessarily lead to higher accounting quality. Due to lack of important mechanisms such as: no effective enforcement mechanisms, mandatory corporate governance regulations, investor protection mechanisms, and adequate institutional knowledge of IFRSs. IFRS also adopts a set of principles, Lack of corporate governance. The use of international standards does not necessarily improve the quality of accounting.

A study in Bangladesh concluded that non-compliance with application was the obstacle to the non-implementation of IFRS in Bangladesh. The study recommended a number of important measures that should be considered in order to achieve the effective implementation of the standards. This included penalty for non-compliance with standards and instead of multiple regulatory bodies, a clear authority should be given to a central regulatory body that has been given detailed administrative recommendations. (Nurunnabi, 2014).

(Newman & Ongay, 2016) reviewed previous studies on the impact of IFRS on the quality of financial reporting. Researchers have not been able to come up with systematic evidence that only the adoption of IFRS will improve the quality of financial reporting for committed firms.

The researchers suggested that senior management, external auditors and regulators should work together to tighten the compliance process so that they can benefit from the application of international financial reporting standards. Policymakers should also consider communicating the objectives of IFRS to all stakeholders. They should also conduct an awareness campaign to ensure that firms are fully compliant with IFRS.

To summarize, the most important challenges cover several points such as cultural differences, complexity and lack of clarity of standards, lack of awareness and insufficient educational and training requirements for accountants and auditors. In addition to the lack of advanced professional accounting institutions that have independent professional standards development bodies. Moreover, there are needs for a set of regulations, important legislation and effective bodies to implement and follow up.

3. Egyptian efforts in achieving convergence with accounting international standards

The Egyptian experience in building accounting standards was one of the leading experiences in the Arab countries. The start was in 1966 with the issuance of the unified accounting system as a mandatory accounting system for Egyptian companies and was related to accounting for tax

purposes. In 1981, the Egyptian government issued the Companies Law 159 which regulates joint stock, companies and companies with limited liability belonging to the private sector. The law established a framework for the establishment and operation of companies in Egypt.

In order to enhance market reliability, the Egyptian government issued the Capital Market Law 95/1992 and established the Capital Market Authority (CMA), a body that controls the capital market, registers and discloses companies. The Capital Market Authority oversees the recording of corporate data (such as income statement, balance sheet, cash flow statement and notes on accounts) with the CMA within three months of the end of the financial year and publishes a summary in two newspapers (Ebaid, 2016).

As part of the reform process, the Egyptian government followed the policy of harmonizing the Egyptian and international accounting standards and accordingly, the issuance of the Ministerial Decision No. 503 of 1997 on the Egyptian Accounting Standards. The number of these standards was 19 and the standards committee emphasized that the Egyptian accounting standards be consistent with the latest international accounting standards and in accordance with the Companies laws.

In July 2006, the Ministry of Investment issued a set of accounting standards to achieve convergence with international accounting standards. It included for the first time a framework for the preparation and presentation of the 35 accounting standards covering almost all areas addressed by international accounting standards.

In year 2015 a new Egyptian Accounting Standards 2015 were issued by the Minister of Investment Decree No. 110 of 2015 the actual adoption of the new version of the Egyptian Accounting Standards was on 1 January 2016.

The Egyptian accounting standards issued in 2015 aimed at improving the quality of disclosure in the financial reports and achieving consistency between these standards and developments in international standards to serve the investment and capital market in Egypt. It covers 39 standards with a framework for the preparation and presentation of the financial statements. It aims at converging with the financial reporting standards either through amendments to some existing standards or issuing new accounting standards. (Egyptian Standards, 2015).

The following are the most important steps taken to strengthen this convergence with international standards:

3.1 Addition of new standards

The Egyptian standards (2015) prepared three new standards to be implemented for the first time as shown in Table (1) below

Table (1)

Standard	Comments
----------	----------

<p>New Egyptian Accounting Standard No. 44 Disclosure of Shares in Other entities.</p> <p>The objective is to require the entity to disclose the information that allows users of its financial statements to evaluate:</p> <p>(A) the nature of its shares in other entities and the associated risks.</p> <p>(B) the effects of such shares on their financial position, financial performance and cash flows.</p>	<p>It complies with IFRS 12 disclosure of shares in other entities</p>
<p>New Accounting Standard No. 45 - Fair Value Measurement</p> <p>This standard defines fair value as the price to be obtained from the sale of an asset or to be paid for an obligation in a systematic transaction between market participants on the measurement date</p> <p>This standard aims to:</p> <p>(A) Define the fair value.</p> <p>(B) Establish a framework for measuring fair value in a single standard.</p> <p>(C) Determine the disclosure required for fair value measurements.</p> <p>This Standard is applied when another Egyptian accounting standard is requiring a fair value measurements or disclosure for the fair value measurements</p>	<p>It is consistent with the international standard IFRS 13 Fair value</p>
<p>The new Egyptian accounting standard for Small & Medium Size Enterprises (SMEs)</p> <p>The properties of these SMEs are:</p> <ol style="list-style-type: none"> 1. It has no public responsibility. 2. It publish general purpose financial statements to external users. <p>The standard allows for some simple alternative treatments to suitable to those SMEs.</p>	<p>The Standard did not address earnings per share, periodic financial statements and the treatment of assets held for sale</p>

Moreover, the introduction of Egyptian accounting standards indicated that international standards are to be used in cases where Egyptian standards do not exist such as:

- First time adoption of IFRS
- Financial reporting in hyper-inflationary economies IAS29
- Regulatory deferral account IFRS14

3.2 Eliminate old standards and replace with new standards

The Committee has eliminated some of the standards in the previous version and replaced them with standards consistent with the international standards as in Table (2)

New Standard	Modification	Analysis and commentary
New Egyptian Accounting Standard No. 41 Operating Segments	Eliminate the Standard 33 of the Sectorial Reporting and replaced by 41 Operating Segments An operating segment is an element of a firm that participates in the business activities by earning revenue and incurring expenses. It has separate financial information and can be reviewed.	This is in line with IFRS 8 Operating Segments
New Egyptian Accounting Standard No. 43 Joint Arrangements	Eliminate the Standard No. 31: Equity shares in Joint ventures and replace with Standard No. 43 Joint Arrangements The objective of this standard is to establish principles for financial reporting in enterprises that have a share in joint arrangements. 1- The common arrangement is characterized by the following characteristics: (A) The parties are bound by a contractual agreement. (B) The contractual agreement provides joint control over two or	This is consistent with the IASB's decision to cancel IAS 31 Equity Shares in Joint Ventures and replace it with IFRS 11 Joint arrangements with the elimination of the proportionate consolidation method and applying only the equity method of accounting.

	<p>more arrangement parties. A firm which has a joint venture share should recognize it as an investment using only the equity method and eliminate the proportionate consolidation method.</p>	
--	---	--

3.3. Addition of details, instructions and supplements

To simplify the understanding and application of the standards, explanations, examples and guidelines for some of the standards were added as follows

- Adding of earnings per share.
- Adding many practical guidelines to the Business Combinations
- Adding multiple examples of employee benefits standard
- Multiple examples to explain the estimates associated with the measurement of the fair value of Standard 45
- Appendix for Revenue Standard No. 11 to clarify its difference from construction contracts

3.4. Splitting complex standards

Some standards were separated into two or more standards to overcome the complexity of consolidated financial statements as shown in Table (3)

Standard	Modification	Analysis and commentary
IAS 17 Separate Financial Statements	The financial statements that apply the equity method are not considered as separate financial statements and the financial statements prepared by a firm that does not have a subsidiary or a share in a jointly controlled entity are not separate financial statements.	Is consistent with the adoption by the Standards Board of separate and consolidated listing criteria where IAS 27 is divided into IAS 27 <i>Separate Financial Statements</i> and Consolidated Financial Statements IFRS 10
Egyptian Accounting Standard No. (42) Consolidated Financial Statements	The objective of this Standard is to establish principles for the preparation and presentation of consolidated financial statements when an entity controls one or more other entities. Requires the parent entity that controls one or more of the subsidiaries to	This complies with the consolidated financial statements IFRS10

	<p>present consolidated financial statements.</p> <p>This standard defines the principle of control and considers control as the basis of assembly.</p>	
--	---	--

3.5. Amendments of some Egyptian accounting standards to comply with international standards

Table (4) shows some amendments to some standards, making them clearer and more consistent with international standards.

Standard	Modification	Analysis and commentary
Presentation of financial statements No.1	<p>Modify some terms</p> <ul style="list-style-type: none"> ▪ Use the statement of financial position instead of the balance sheet. ▪ Refer to non-controlling rights rather than minority rights 	<p>These terms are more consistent and harmonized with the International Standard Presentation of Financial Statements.</p>
	<p>Adding two new statements (A) the statement of comprehensive income</p> <p>Other comprehensive income statement items include:</p> <ul style="list-style-type: none"> • Re-measuring specific benefit systems. "Employee Benefits" • Gains and losses arising from the translation of foreign currency financial statements of a foreign operation. • Gains and losses on revaluation of financial assets available for sale. • Effective portion of gains 	<p>The addition of this list makes the Standard more consistent with IAS 1. But eliminate the alternative of a single comprehensive income statement adopted by the international standard.</p>

	<p>and losses on hedging instruments used to cover cash flow</p> <p>(B) The beginning period of comparative statement of financial position presented when the entity applies retrospective accounting policies or retroactively adjusts items in its financial statements</p>	
<p>The Egyptian Accounting Standard No. 14, the cost of borrowing</p>	<ul style="list-style-type: none"> • An entity shall capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. • An entity shall recognize the other borrowing costs as an expense in the period in which the entity incurs the cost. 	<p>This is consistent with IAS 23, which eliminated immediate recognition of borrowing costs as expenses.</p>
<p>IAS 18 Investments in Associates</p>	<p>The objective of this Standard is to explain the accounting for investments in associates and determine the requirements for applying the equity method when accounting for investments in associates and joint ventures</p>	<p>This is consistent with IAS 28</p>
<p>Egyptian Accounting Standard No. 29 Business</p>	<p>This Standard defines business combinations as a transaction or other event in which the acquirer obtains control over</p>	<p>IFRS 3 The acquirer must measure the cost of the business combination through the sum of the fair values at the date of the exchange of the assets and liabilities</p>

<p>combinations</p>	<p>one or more business activities. The entity adopts the acquisition method when treating each business combination. The acquirer must measure the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at the date of acquisition The acquirer must treat the costs associated with the acquisition as expenses in the period in which the expenses are incurred and services are received.</p>	<p>acquired. This means the agreement of the Egyptian standard with the international standard after eliminating the International standards the method of purchase and applying the method of acquisition.</p>
---------------------	---	---

3.6. Exclude options among available alternatives.

The following table (5) shows some of the alternatives that were available in the Egyptian standards in 2006 and then eliminated in Egyptian standards 2015 in order to homogenize the treatments and reduce manipulation and management of profits

Standard	Egyptian Standards	International Standards	Analysis and commentary
Presentation of financial statements	<ul style="list-style-type: none"> Income statement Comprehensive income statement 	<ul style="list-style-type: none"> Income statement Comprehensive income statement <p>Can be viewed as one statement or two statements</p>	The statement of comprehensive income is eliminated as a single statement in the Egyptian Standard
Fixed Assets and Depreciation	<p>Standard No. 10 Measurement after recognition Cost model Any item of fixed assets - after recognition as an asset - is recognized at its cost less</p>	<p>IAS 16 Cost model: This is the cost of the asset at initial measurement less any accumulated depreciation and any accumulated impairment loss</p>	In the Egyptian Standard, the cost model is used only and the revaluation model alternative is eliminated when the fixed assets are

	the accumulated depreciation and the accumulated impairment loss.	<ul style="list-style-type: none"> Re-valuation model: The asset is re-measured in case the fair value changes with a value of relative importance and is adjusted by the accumulated depreciation 	subsequently measured.
	Strategic spare parts (main) and backup equipment are considered fixed assets when an entity expects to use them for more than one period and to be associated with the use of assets.	Spare parts, backup equipment and maintenance equipment are classified as fixed assets if the definition of fixed assets included in the standard are applicable.	The deletion of a requirement from IFRS 16 that parts and equipment that are related only to the use of a fixed asset.
Intangible assets	Egyptian Standard No. 23 Measure these assets after initial recognition using the cost model	International Standard No. 38 After an intangible asset is recognized, two models are followed based on the entity policy, either the cost model or the revaluation model	In the Egyptian Standard, when the intangible asset was subsequently measured the revaluation model alternative is eliminated.
Real Estate Investment	The Egyptian Standard 34 Lands or buildings - or part of a building - or both held by the owner to achieve a lease or an increase in their value or both and are not: 1. For use in the production or supply of goods or services or for administrative purposes Or 2. For sale within the normal course of business. Real estate investment is	International Standard 40 <ul style="list-style-type: none"> Cost model – represent investment properties after deducting the accumulated depreciation and the accumulated impairment loss Fair value model: - The item is measured at fair value at each statement of financial position date. 	Unlike IAS 40, when measuring subsequent investment properties, the entity may choose between the cost model and the fair value model In the Egyptian Standard, only the cost model is used.

	<p>initially measured at cost and the first measurement should include transaction costs.</p> <p>An entity shall apply the cost model in paragraph 56 of this Standard as a single accounting policy and shall apply this policy to all real estate investments.</p>	<p>-The fair value differences are presented in the income statement.</p>	
--	--	---	--

3.7. The main differences between Egyptian and international standards

The following table (6) presents the most important differences between Egyptian standards in 2015 and international standards

Standard	Egyptian Standards	International Standards	Analysis and commentary
Presentation of financial statements	<p>Egyptian Standard No. 1</p> <p>Dividends on employees and board members are considered as profit distribution and not as expenses included in the income statement. In order to be consistent with the application of legal requirements</p>	<p>Standard No. 1</p> <p>Such profit distribution is considered expenses on the income statement</p>	<p>This Egyptian standard treatment affects both Egyptian Accounting Standard No. 22 Earnings per Share and Egyptian Accounting Standard No. 38 Employee Benefits.</p>
Revenue	<p>Egyptian Standard No. 11</p> <p>This Standard is applied in the accounting for revenue arising from the following transactions and events:</p> <ul style="list-style-type: none"> • Sale of goods and 	<p>IFRS 15</p> <p>Steps to recognize revenue:</p> <ol style="list-style-type: none"> 1. Determination of the contract: to order to account for the contract the terms of the contract must be fulfilled 2. Defining performance obligations 	<p>The Egyptian standard is inconsistent with IFRS 15, which replaced IFRS 11 on construction contracts and IAS 18 Revenue</p>

	<p>services</p> <ul style="list-style-type: none"> the use by others of the entity assets that generate interest, royalties or dividends. <p>Revenue is recognized when future economic benefits are likely to flow to the entity and these benefits can be measured reliably.</p> <p>This standard does not address the treatment of revenue generated directly from construction contracts.</p>	<p>3. Determine the financial consideration of the transaction</p> <p>4. Allocate the price of the transaction to the performance obligations</p> <p>5. An entity recognizes revenue when the performance obligation is fulfilled.</p>	
<p>Leasing finance</p>	<p>Egyptian Standard No. (20)</p> <p>Where the lessor retains in his books the leased asset and depreciate it. The lessee shall charge the profits or losses with the payments on the leases as expenses for the period in which they were paid.</p> <p>This is required by the Law No. 95 of 1995 and Financial Leasing in Articles 24 and 25 of the accounting procedures are obligatory.</p>	<p>IFRS 17 Leases from lessee point of View:</p> <ul style="list-style-type: none"> - At the beginning of the contract, the lessee recognizes and measures this contract as assets and liabilities in the statement of financial position at fair value of the leased asset or the present value of the minimum lease payments whichever is lower. <p>As for the lessor, the finance income is recognized based on the rate of return on net investment</p>	<p>This Egyptian standard is different from IAS 17 due to involving the Egyptian standard to be consistent with Egyptian law.</p>

<p>Income Taxes</p>	<p>Egyptian Standard No. 24 The new standard eliminates the tax differences arising from the application of the measurement method at the fair value of fixed assets as the Egyptian standards do not allow this method of measurement.</p>	<p>International Standard No. 12 International standards allow the use of the fair value model to measure fixed assets.</p>	<p>Most of the differences between IAS 24 and IAS 12 relate to non-used tax applications in Egypt</p>
---------------------	--	--	---

To summarize the Egyptian experience in the preparation of standards is a pioneering experiment that seeks to converge with international standards at a great rate of progress, ranging from issuing new standards or replacing old standards with new standards to meet international standards. Simplifying a number of complex standards has been understood either by separating them into two or more standards or by adding supplements or guidelines to some of these standards. Moreover, restrictions of alternatives to standardize the accounting treatments in the Egyptian accounting practices level have been applied to enhance harmonization and avoid manipulations. It is clear from the comparisons made in the research that the main differences between Egyptian standards and international standards were in a few standards, most of which were linked to a set of Egyptian laws and regulations such as employee benefits and income taxes or specific economic activities such as finance leases. Therefore, in order to achieve complete convergence with international standards, there must be direct changes in such laws and regulations.

4. A framework of convergence with international standards

The effective convergence of a range of domestic and international accounting standards will be useful for financial statement preparers, investors, accountants, auditors, analysts and standard setters. This is an important topic covered by much research.

This researcher aims to provide some suggestions to overcome some of the challenges and serve as a framework to enhance the process of convergence of international financial reporting standards and Egyptian accounting standards. Moreover, the researcher determines the achievements of the Egyptian standards experience and the challenges that require appropriate solutions. The framework covers the following important points:

Framework for Enhancing the Egyptian Accounting Amani Hussein

Pp. 426

4.1. Determine the objective of the financial reports

Accounting standards have been developed in different countries in different legal, economic, social and cultural environments. For this reason, there is a diversity of accounting standards among countries across the world. If convergence is to be achieved, it is necessary first to reach agreement on the main objective of financial reporting, which aims at meeting the requirements of investors and capital markets. Countries with a different reporting philosophy would have difficulty converging their domestic standards with IFRSs (Shil, Das, & Pramanik, 2009).

According to Egyptian standards, the objective is consistent with international standards to improve disclosure and transparency in order to serve the investment and capital market in Egypt.

4.2. Determining the methods of applying IFRS

There are currently three methods to apply IFRSs by local standard setters (Rezaee, Smith, & Szendi, 2010). The first method requires listed local and foreign companies to use IFRS to prepare financial reports and to convey the compliance with IFRSs in the management notes, financial reports and independent audit report.

The second method is to adopt all IFRS for listed companies, with adjustments to comply with the regulatory, legal and commercial environments of the country (such as EU, Singapore and Hong Kong).

The third method of double reporting is required for listed companies so that financial reporting meets both local accounting standards and international standards (such as New Zealand and Australia).

According to the latest Egyptian standards most of its standards are consistent with international standards, with some relatively limited points of difference. Moreover, the Egyptian Standards Committee emphasized on applying the international standards on cases or conditions where there are no Egyptian standards.

4.3. The importance of the cultural influence

Cultural influence is one of the most important environmental factors affecting the accounting system. However, with the emergence of regional and global economic unions and cultural agreements between countries, cultural differences between countries have been greatly reduced and have enabled opportunities to benefit from the experiences of other more advanced countries in the field of accounting (Shawqi, 2004). It is also important to raise the awareness of the idea of convergence to all beneficiaries, such as scientific and professional bodies, the financial market, government agencies, companies and representatives of the beneficiaries of financial reports on the important differences between national standards and IFRS (Rezaee, Smith, &

Szendi, 2010). Furthermore, there is great need to conduct more seminars and conferences by global scientific and professional bodies to overcome the obstacles hindering their application in practice, as well as holding training sessions for stakeholders of accounting information in order to develop their accounting skills (Sami, 2016). Moreover, providing more time to comprehend the language of international standards and some complex terms. (Ebaid, 2016).

The researcher emphasizes the importance of awareness and practical training on the new standards to be conducted by experts and specialists in accounting and auditing firms to focus on the differences between new and the previous releases of standards and how to apply them.

4.4. Development of accounting education

Understanding, interpreting and applying these international accounting standards requires advanced levels of education, including inclusion in university textbooks and accounting programs, qualified teachers, and conducting good training programs by accounting firms with high experience of both international and national reporting standards.

Accordingly, it is possible to conclude that Egypt is one of the first Arab countries that is keen to issue Egyptian accounting standards consistent to a great extent with international accounting standards. These standards were also included in the curriculum content in most Egyptian universities

4.5. The need for accounting and auditing professional Committee

It is essential to have a specialized accounting committee responsible for issuing standards and coordination with the international bodies to achieve convergence and follow up the new developments in this regard. The researcher agrees with the **Al-Ghunaimi (2016)** that in order to achieve the highest needed benefit from specialized accounting committee in coordinating with the International committee is provided by introducing the interpretations as a key part in the basic preparation of the standards instead of the appendix, or in determining the circumstances in which a particular treatment is used instead of other treatments. Moreover, there is a need for a working relationship and cooperation with security regulators around the world and global participation of all local standard-setting bodies and regulators. (Rezaee, Smith, & Szendi, 2010).

The issuance of the new Egyptian accounting standards has been implemented by a committee involving experts from the Egyptian Financial Supervisory Authority, the Egyptian Accountants and Auditors Association, the Central Auditing Organization, the General Authority for Investment, the Egyptian Institute of Accountants and Auditors and the Accounting Practice Division of the Commercial Association. Moreover, the researcher recommends benefiting from the successful experiences of other countries in terms of communication and working with the International Standards Board.

4.6. Development of legislation and regulations

Framework for Enhancing the Egyptian Accounting Amani Hussein

Pp. 428

Nomination of a supreme body or a specialized committee to prepare, formulate and update integrated regulations for capital market, taxes, and investor protection that does not conflict with the values of society. In order to improve the chances of convergence, the harmonization of accounting regulations such as the tax laws between different countries can have a positive impact on the convergence of standards. Moreover, the activation of governance rules. These rules are important in improving the quality of financial reports so that companies disclose whether they are committed or why are not committed.

Zeff and Nobes (2010) pointed out that there is no country that has adopted international standards with no direct and immediate changes in their national accounting laws. **(Zeff and Nobes, 2010 as cited in De Luca & Prather-Kinsey, 2018).**

Therefore, in the context of progress towards convergence with international standards, the researcher recommends that some of these laws and regulations should be updated

4.7. Strong mechanisms for implementation and follow-up

Implementation and enforcement mechanisms are among the most important challenges to convergence of accounting standards. The quality of financial reporting depends not only on the quality of the accounting standards but on the effectiveness of implementation. (Shil, Das, & Pramanik, 2009). Therefore, a clear authority must be given to a trustworthy organization to implement the legislation prepared with detailed administrative guidelines (Nurunnabi, 2014). Moreover, strict sanctions for companies that are proven to be involved in manipulating accounting information, distorting the content of financial statements or non-compliance with standards. **(Al-Ghunaimi, 2016)**

One of the positive stages of the Egyptian experience was becoming a member of the International Organization of Securities Commissions (IOSCO) since the IOSCO aims to develop, implement and strengthen standards implementation for protecting investors and maintaining fair and efficient markets. Moreover, it consists of 34 securities regulators and the Emerging Markets Committee that is considered one of its largest committees. **(IOSCO, 2016).**

In Egypt, the Financial Control Authority has the authority for overseeing auditors. However, the researcher recommends that its role and responsibility must be strengthened. In addition to strengthening the role of auditors to be more influential in terms of companies' compliance with standards and governance.

6. Summary and Conclusion

Accounting is a reliable source of information that contributes to decisions rationalizing the beneficiaries of the financial reports. With the development of global markets and the emergence of large economic entities and multinational corporations, it has become difficult for beneficiaries to read and understand the financial statements of these companies as a result of

different national accounting standards among countries. This has led to serious attempts by international committees and bodies to find solutions and issue international standards.

The effective convergence of national and international accounting standards gives many opportunities and benefits to financial statement preparers, investors, accountants, auditors, analysts and standard setters. These benefits may include better decision-making information, more confidence in the information provided, and the ease of comparison between the financial statements of a group of similar companies.

Despite many opportunities and benefits, there are many obstacles and challenges that may limit the convergence of international and local standards, including cultural differences, complexity of standards and lack of awareness of how entities can apply international financial standards. Furthermore, insufficient educational and training requirements standards development bodies, deficiencies in some important regulations and legislation, and the lack of effective bodies to follow up on compliance and implementation of standards.

Egypt has undergone serious steps towards convergence, such as the introduction of new standards or converging of old standards to be consistent with the international standards. A number of complex standards has been understood either by separating them into two or more standards or by adding supplements or guidelines to some of them. Alternatives of some of accounting standards are reduced to avoid differences in practices and manipulating profits. The main differences between Egyptian standards and international standards were concentrated in a few standards, most of which were linked to a set of Egyptian laws and regulations.

The study developed a frame of convergence consisting of a number of important points: determining the objective of the financial reports, determining the methods of applying the international standards, the importance of the cultural influence, developing accounting education, the need to develop professional organizations concerned with the profession of accounting and for implementing and follow-up of standards.

References:

- Abd-Elsalam, O., & Weetman, P. (2003). "Introducing International Accounting Standards to an emerging capital market: relative familiarity and language effect in Egypt. *Journal of International Accounting, Auditing & Taxation* 12, 63–84.
- Albu, C. N., Albu, N., & Alexander, D. (2014). When global accounting standards meet the local context—Insights from an emerging economy. *Critical Perspectives on Accounting*, 25(6), 489-510.
- Dahawy, K., Merino, B. D., & Conover, T. L. (2002). The conflict between IAS disclosure requirements and the secretive culture in Egypt. *Advances in international Accounting*, 15, 203-228.

- Desoky, A. (2013). An Empirical Investigation of International Accounting Harmony – Evidence from Egypt, Jordan and GCC Countries. *Journal of Accounting, Finance and Economics* Vol. 3. No. 1., Pp. 77 – 101.
- Ebaid, I. (2016). "International accounting standards and accounting quality in code law countries: The case of Egypt". *Journal of Financial Regulation and Compliance*, Vol. 24 Issue: 1, pp.41-59.
- Ebrahim, A. (2014). IFRS compliance and audit quality in developing countries: The case of income tax accounting in Egypt. *Journal of International Business Research*, 13(2), 19.
- Forst, A., & Salerno, D. F. (2016). Ten Years of Mandatory Use of IFRS in the European Union: A Status Report. *Journal of Corporate Accounting & Finance*, 27(5), 29-36.
- Ghio, A., & Verona, R. (2015). Accounting harmonization in the BRIC countries: A common path? *In Accounting Forum* (Vol. 39, No. 2, pp. 121-139). Elsevier.
- Horton, J., Serafeim, G., & Serafeim, I. (2013). Does mandatory IFRS adoption improve the information environment? *Contemporary accounting research*, 30(1), 388-423.
- Lisa, W. (2016). "Managing the Transformation from US GAAP to IFRS", translated by Mohamed Arafa, Research and Development Committee of the Association of Accountants and Internal Auditors "2016 Hamithir Publishing.
- Newman, E. M., & Ongay. (2016). "A Literature Review On The Impact Of IAS/IFRS And Regulations On Quality Of Financial Reporting" . *Risk governance & control: financial markets & institutions / Volume 6*, Issue 4.
- Nijam, H. M., & Jahfer, A. (2016). International financial reporting standards: a review of status of adoption and approaches for evaluation. *International Letters of Social and Humanistic Sciences*, 69, 69-78.
- Nurunnabi, M. (2014). The role of the Securities and Exchange Commission in a developing economy: Implications for IFRS. *Advances in accounting*, 30(2), 413-424.
- Prince, M. G. (2008). "The role of environmental variables in developing the accounting dimensions affecting the attraction of foreign investment". *a conference of global economic trends and global economic in a rapidly changing world*.
- Rao, A., & Warsame, M. (2015). Effect of IFRS on the emerging African capital markets. *Journal of Applied Financial Research*.
- Rezaee, Z., Smith, L. M., & Szendi, J. Z. (2010). Convergence in accounting standards: Insights from academicians and practitioners. *Advances in accounting*, 26(1), 142-154.

- Samaha, K., & Khlif, H. (2016). "Adoption of and compliance with IFRS in developing countries: A synthesis of theories and directions for future research". *Journal of Accounting in Emerging Economies, Vol. 6 Issue: 1*, pp.33-49.
- Sami, M. A. (2016). The Role of Compliant Accounting Standards in the Face of Creative Accounting and Accounting Estimates - A Field Study. *Journal of Accounting and Auditing*.
- Shawqi, A.-A. B.-H. (2004). "A proposal to reconcile Arab accounting practices", the Fourth Annual Scientific Conference Reconciling the business environments of business organizations, the tool of Arab economic integration, in facing the challenges of globalization," 9-11 September .
- Shil, N. C., Das, B., & Pramanik, A. K. (2009). Harmonization of accounting standards through internationalization. *International Business Research, 2(2)*, 194.
- Singhal, D. (2015). Convergence with IFRS: New Opportunities to Investors Global Journal of Contemporary Research in Accounting. *Auditing and Business Ethics (GJCRA) An Online International Research Journal Vol: 1 Issue 2*, (ISSN: 2311-3162).
- Tay, J. S., & Parker, R. H. (1990). Measuring international harmonization and standardization. *Abacus, 26(1)*, 71-88.
- Zeff, S. A. (2007). Some obstacles to global financial reporting comparability and convergence at a high level of quality. *The British Accounting Review, 39(4)*, 290-302.
- Zeghal, D., & Mhedhbi, K. (2006). An analysis of the factors affecting the adoption of international accounting standards by developing countries. *The International Journal of Accounting, 41(4)*, 373-386.
- Zehri, F., & Chouaibi, J. (2013). Adoption determinants of the International Accounting Standards IAS/IFRS by the developing countries. *Journal of Economics Finance and Administrative Science, 18(35)*, 56-62.