

## The Level of Compliance with International Accounting Standard (IAS 24): Evidence from Bahrain

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### ABSTRACT

*This paper aims to assess the level of compliance with IAS 24 (Related Party Disclosures) in Bahraini listed firms. A survey used to collect the data, the ninth dimensions of the survey, which include (General requirements, transactions with control relationship parent, transactions with joint control, transactions with subsidiaries, transactions with associates, transactions with joint venture, transactions with management personnel, transactions with government related entities, understanding IAS 24) were tested. The main results indicated the level compliance with IAS 24 is 76% in Bahraini listed firms. The results of this paper can benefit all related party disclosures. This paper recommends for future research to use different methods to collect the data as well as this paper also contributes towards a better understanding of the accounting practices and standards in order to help the regulatory body in Bahrain to increase the level of compliance of the disclosure requirements of IAS 24.*

**Keywords:** Disclosure Requirements, Related Party Disclosures, IAS 24, Bahrain Bourse

### INTRODUCTION AND LITERATURE REVIEW

The standard of IAS 24 is known as the standard of Related Part Disclosures. The most important disclosures are the ones that draw attention toward more effective income statements and balance sheets that have been affected by the existence of different transactions such as commitments, outstanding balances (Munjanja, 2008). IAS 24 is to provide vital information and data regarding entity's outstanding balances and different transactions related with several parties involved. This standard is related with different individuals and their respective disclosures such as directors' compensation and outstanding balances (KPMG, 2015).

The scope of this standard is to understand the related parties' disclosures, transactions, outstanding balances, any special commitments related with the entity. The disclosure includes the short term and post employee benefit, termination, share based benefits and other any long-term important benefit transactions.

International accounting standards 24 (IAS 24) initially came out in 1984 in order to elaborate the problems caused by RPTs. It became effective for the very first time on January 1st of 1986. The early stage of the IAS 24 development was the Exposure Draft E25 issued

by IASC in March 1983, it started working on January 1st of 1986 and was adopted by IASB in 2001. The purpose of the accounting standards that govern how to present the RPTs, is to reflect the change occurred in the financial position due to the related parties transactions (Elhelaly, 2014). The RPTs in many of the East Asian nations brought many reforms. These reforms include the accounting standards for RPTs (IAS 24), to strengthen the market regulations of capital market and procedure of approvals on RPTs and developed plans for providing guidelines of best practices of RPTs (Mohamad and Hashim, 2013). However, IASB released an updated exposure drafts in December 2008 to propose the amendment in the IAS 24 regarding the relationship with the state. The main purpose of this ED was to simplify the requirement of disclosure which is applied to those entities which are jointly controlled significantly affected by state or controlled IAS 24 before the current version regarding IAS 24 it was exempted the partly disclosure. These requirements were creating damages to the understandability and the usefulness of the financial statement of a state. These new amendments would be especially important for the government business enterprises (BDO, 2009).

The adoption of IAS 24 in listed firms in Bahrain Bourse is unknown as well as due to the lack of studies related to this standard IAS 24 in Bahraini market, this study extends to further emphasis on related studies conducted by several scholars (Sarea & Al Nesuf, 2013, Sarea & Al Dalal, 2015, Alrawahi & Sarea 2016, Budaraj & Sarea 2015; Demir & Bahadir, 2014), in order to address the issue of the ninth dimensions of the IAS 24, which include (General requirements, transactions with control relationship parent, transactions with joint control, transactions with subsidiaries, transactions with associates, transactions with joint venture, transactions with management personnel, transactions with government related entities, understanding IAS 24).

**RESEARCH METHODOLOGY**

**Research Design**

A survey used in this research in order to evaluate the level of compliance of IAS 24 in listed companies on Bahrain Bourse. This

**Table1.** Gender statistics

Gender	Frequency	Percent	Cumulative Percent
Male	53	76%	76%
Female	17	24%	100%
Total	70	100%	

The above table shows the demographics of the respondents in which the gender statistics were presented. A total of 70 responses were collected. In which 53 respondents were male,

**Table2.** Age of respondent statistics

Age(Years)	Frequency	Percent	Cumulative Percent
< 25	21	30%	30%
25 – 34	28	40%	70%
35 – 44	14	20%	90%
45 – 54	7	10%	100%
54 <	0	0%	100%
Total	70	100%	

The age statistics of the respondents were presented in the above table in which most of the respondents were fall under the age of full

**Table3.** Level of education

Certificate	Frequency	Percent	Cumulative Percent
Diploma	5	7%	7%
Bachelor	18	26%	33%
Master	14	20%	53%
Doctorate	3	4%	57%
Others	30	43%	100%
Total	70	100%	

Statistics about respondents’ level of education were presented in the above table in which most of the respondents hold other certificates (such

method is employed for determining the level of compliance in Bahrain. However, a questionnaire consisted of 58 items to obtain the perception of concern party (involving in preparing financial reporting). The questionnaire designed based on the disclosure requirements of IAS 24 according to KPMG checklist report of 2015 (KPMG, 2015).

The population of the study was the listed companies in Bahrain Bourse. The questionnaires were distributed among 96 respondents, total of 70 completed questionnaires were received back and fit for the analysis.

**DATA ANALYSIS AND DISCUSSION**

The result is presented below:

**Demographic Description**

The alpha coefficient of the whole questionnaire is (Cronbach’s Alpha 0.703), indicating that the questionnaire have an acceptable internal consistency

while 17 respondents were female. This is reflecting that, in Bahrain the business sector is dominated by men.

time employed and have strong viewpoint about IAS 24 standards. The highest frequency of the respondents is fall of 25 to 34 age group.

as ACCA, CIMA, CMA and CPA) followed by those whom hold Bachelor, Master, Diploma and Doctorate respectively.

**Table4.** Experience

Experience(Years)	Frequency	Percent	Cumulative Percent
< 6	29	41%	7%
6 – 10	20	29%	70%
11 – 15	14	20%	90%
16 – 20	6	9%	99%
20 <	1	41%	100%
Total	70	100%	

The respondents' experience were identified in the above table showing that most of the respondents had 6 years of experience or less followed by those whom had 6 to 10 years of experience.

**Descriptive Analysis**

The following table summarizes the answer frequencies and percentages along with the mean and standard deviation.

**Table5.** General requirements

No.	Statement	Mean	Std Dev
1	According to IAS 24 It is mandatory to disclose relationships, transactions and outstanding balances of the related party, including commitments.	4.17	.722
2	Related party disclosures should cover the period during which transactions could have been affected by the existence of the related party relationship.	4.06	.991
3	The materiality of related party disclosures should be based on the nature of related party relationships and transactions not only the size of related party transactions	3.73	1.076
4	Separate disclosure should be provided for each category of related party.	3.51	1.087
5	It is possible to disclose items of similar nature in aggregate as long as aggregation does not obscure the importance of individually significant transactions	3.89	.843
6	It is possible to disclose items of similar nature in aggregate as long as aggregation does not obscure the importance of individually significant transactions.	3.71	1.079
7	An entity may disclose related party transactions that were made on terms equivalent to those that prevail in arm's length transactions only if such terms can be substantiated.	3.87	.931
8	Purchases or sales of goods whether they finished or unfinished must be disclosed if they are with a related party.	3.71	1.038
9	An entity should disclose any purchases or sales of property and other assets as long as they are with a related party.	3.81	.804
10	The entity must disclose any (rendering to / receiving of services from) a related party	3.76	.875
11	Any leases from / to a related party must be disclosed.	3.73	.850
12	It is necessary to disclose the transfers of research and development with a related party	3.73	1.048
13	Any transfers under license agreements with a related party must be disclosed	3.94	.796
14	All transfers (including loans and equity contributions in cash or in kind) should be disclosed if they were made under finance arrangements with a related party.	3.71	1.051
15	Any existence provision of guarantees or collateral should be disclosed in case the second party was a related party	3.94	.946
16	The disclosure of all commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognized and unrecognized) are required according IAS 24	3.63	1.079
17	Settlement of liabilities by the entity on behalf of related party or by another party on behalf of the entity must be disclosed.	4.09	.864
18	The entity must provide a disclosure if it reacquires its own shares from related parties	3.76	.999
	Average	3.82	0.949

The above table discussed the first dimension of the survey on the level of compliance with the general requirements of IAS 24 related

statements were rated by the respondents and their statistical descriptive results presented. The highest means score to lowest score values were

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4.17, 4.09, 4.06, 3.94, 3.94, 3.89, 3.87, 3.81, 3.76, 3.76, 3.73, 3.73, 3.73, 3.71, 3.71, 3.71 3.63 and 3.51 respectively. The research results unveiled that 76% of the respondents agree or strongly agree with the general requirements of

IAS 24. While 13% of them were neutral about it and 11% of them disagreed or with general requirements of IAS 24. A total average of 3.82 indicates that most respondents' perceptions agreed with the general requirements of IAS 24.

**Table6.** Transactions with Control relationship Parent

No.	Statement	Mean	Std Dev
1	the name of the parent and the ultimate controlling party must be disclosed, if different	3.94	.991
2	It is necessary to disclose the name of the ultimate parent of the group, if not disclosed elsewhere in information published within the financial statements.	3.87	1.128
3	Irrespective of whether there are transactions between them or not related party relationships between parent and subsidiaries must be disclosed.	3.54	1.045
4	The entity must disclose the nature of the relationship with it parent.	3.69	1.015
5	It is necessary to disclose information about the entity's parent transactions and outstanding balances, including commitments, to understand the potential effect of the relationship on the financial statements.	3.86	.952
6	The minimum disclosure required for the entity's parent should include, the amount of the transaction	3.80	1.124
7	The entity must disclose the amount of outstanding balances, including commitments (their terms and conditions, details of any guarantees given or received) of its parent	3.90	.935
8	It is important that provisions for doubtful debts related to the amount of outstanding balances and the expense recognized during the period in respect of bad or doubtful debts due from the entity's parent.	3.86	.889
9	If a branch of an entity prepares its own financial statements, then it should disclosed as related party transactions and relationships. Although a branch is not formally defined in IFRS.	3.84	.927
	Average	3.81	1.001

The above discussed the second dimension of the survey on the level of compliance with IAS 24 regarding control relationship and the respondents rated transactions with parent, related statements and their statistical descriptive results presented. The highest means

score to lowest score values were 3.94, 3.90, 3.87, 3.86, 3.86, 3.84, 3.80, 3.69 and 3.54 respectively. On average of 3.81 it indicates that respondents agree on IAS 24 requirements regarding transactions with parent.

**Table7.** Transactions with Joint control / Significant influence

No.	Statement	Mean	Std Dev
1	The nature of the relationship with entities with joint control or significant influence over the entity must be disclosed.	3.44	1.150
2	It is mandatory to disclose information about entities with joint control or significant influence over the entity and thier transactions and outstanding balances.	3.87	.977
3	The minimum disclosure required for the entities with joint control or significant influence over the entity should include, the amount of the transaction.	3.84	.942
4	The disclosure of the entities with joint control or significant influence over the entity should include the amount of outstanding balances, including commitments (their terms and conditions, details of any guarantees given or received) of its parent	3.76	.970
5	Disclose the provisions for doubtful debts related to the amount of outstanding balances and the expense recognized during the period in respect of bad or doubtful debts due from the entities with joint control or significant influence over the entity.	3.83	1.021
	Average	3.75	1.012

The above table discussed the third dimension of the survey on the level of compliance with

IAS 24 regarding transactions between entities with joint control or significant influence, the

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respondents rated related statements and their statistical descriptive results presented. The highest means score to lowest score values were 3.87, 3.84, 3.83, 3.76 and 3.44 respectively. On

average of 3.75 it indicates that respondents agree on IAS 24 requirements regarding transactions with entities with joint control or significant influence.

**Table8.** *Transactions with Subsidiaries*

No.	Statement	Mean	Std Dev
1	The entity is required to disclose the nature of the relationship with its subsidiaries along with information about the transactions and outstanding balances, including commitments.	3.69	1.071
2	The entity should disclose the amount of the transactions with its subsidiaries.	3.96	.842
3	It is important to disclose information regarding the entity's subsidiaries such as transactions and outstanding balances, including commitments, to understand the potential effect of the relationship on the financial statements.	3.87	1.034
4	The provisions for doubtful debts related to the amount of outstanding balances and the expense recognized during the period in respect of bad or doubtful debts due from the entity's subsidiaries.	3.66	1.250
	Average	3.79	1.049

The above table discussed the fourth dimension of the survey on the level of compliance with IAS 24 regarding transactions with entities subsidiaries, the respondents rated related statements and their statistical descriptive results

presented. The highest means score to lowest score values were 3.96, 3.87, 3.69 and 3.66 respectively. On average of 3.79 it indicates that respondents agree on IAS 24 requirements regarding transactions with subsidiaries.

**Table9.** *Transactions with Associates*

No.	Statement	Mean	Std Dev
1	The entity is required to disclose the nature of the relationship with its associates in addition to the information about the transactions and outstanding balances, including commitments.	4.06	.759
2	The entity is required to disclose the amount of the transactions with its associates.	4.03	.780
3	The entity is required to disclose the amount of outstanding balances, including commitments (their terms and conditions, details of any guarantees given or received) regarding its associates.	3.59	1.070
4	Within its disclosure regarding its associates the entity should include The provisions for doubtful debts related to the amount of outstanding balances and the expense recognized during the period in respect of bad or doubtful debts.	3.67	.989
	Average	3.84	0.899

The above table discussed the fifth dimension of the survey on the level of compliance with IAS 24 regarding transactions with associates, the respondents rated related statements and their statistical descriptive results presented. The

highest means score to lowest score values were 4.0, 4.03, 3.67 and 3.59 respectively. On average of 3.84 it indicates that respondents agree on IAS 24 requirements regarding transactions with associates.

**Table10.** *Transactions with Joint Venture*

No.	Statement	Mean	Std Dev
1	The nature of the relationship with its joint ventures must be included in the entity's disclosure, especially when the entity is a venturer.	3.90	.935
2	The entity is required to disclose the information regarding the entity's joint ventures transactions and outstanding balances, including commitments necessary for an understanding of the potential effect of the relationship on the financial statements.	3.93	.840
	Average	3.91	0.887

The above table discussed the sixth dimension of the survey on the level of compliance with IAS 24 regarding transactions with joint

venture, the respondents rated related statements and their statistical descriptive results presented. The highest means score to lowest score values

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were 3.93 and 3.90 respectively. On average of 24 requirements regarding transactions with joint venture, 3.91 it indicates that respondents agree on IAS

**Table11.** *Transactions with management personnel*

No.	Statement	Mean	Std Dev
1	The entity must disclose the nature of the relationship with its key management personnel. Besides information about the transactions and outstanding balances, including commitments.	3.89	.925
2	The amount of the transactions, the amount of outstanding balances, including commitments (their terms and conditions in addition to details of any guarantees given or received) must be disclosed by the entity regarding its key management personnel.	3.84	.879
3	The disclosure of key management personnel compensation should include short-term employee benefits, post-employment benefits, including contribution plans, other long-term benefits, termination benefits and share-based payments.	3.80	1.071
4	The entity is not required to disclose the compensation paid or payable by the management entity to the management entity's employees or directors. If the entity obtains key management personnel services from another entity.	3.83	.992
5	Disclosure of key management personnel compensation is generally aggregated rather than presented separately for each person unless it is otherwise required.	3.66	.976
6	The entity's disclosures should include the insurance cover provided to key management personnel by the reporting entity.	3.79	1.102
7	The entity is required to disclose information about the transactions and outstanding balances, including commitments, necessary for an understanding of the potential effect of the relationship on the financial statements regarding post-employment benefit plans.	3.80	1.044
	Average	3.80	0.999

The above table discussed the seventh dimension of the survey on the level of compliance with IAS 24 regarding transactions with joint venture, the respondents rated related statements and their statistical descriptive results presented. The highest means score to lowest

score values were 3.89, 3.84, 3.83, 3.80, 3.80 and 3.79 respectively. On average of 3.80 it indicates that respondents agree on IAS 24 requirements regarding transactions with key management personnel and post-employment benefit plans.

**Table12.** *Transactions with government related entities*

No.	Statement	Mean	Std Dev
1	The name of the government and the nature of its relationship must be included in the entity's disclosures	3.80	.910

The above table discussed the eighth dimension of the survey on the level of compliance with IAS 24 regarding transactions with joint venture, the respondents rated related statements

and their statistical descriptive results presented. On average of 3.80, it indicates that respondents agree on IAS 24 requirements regarding transactions with government's related entities.

**Table13.** *Understanding IAS 24*

No.	Statement	Mean	Std Dev
1	IAS 24 is very important for all business oriented units	3.79	.849
2	IAS 24 can enhance the stability of the securities markets.	3.71	.950
3	IAS 24 standard will provide the users with important information about related party transaction which may affect the financial statements which enable the user to understand them easily and efficiently.	4.07	.688
4	Adopting IAS 24 standard could increase the investors' confidence in stock market	3.94	.759
		0.388	0.759

The above table discussed the ninth dimension of the survey, which is measuring the respondents' understanding the importance of adopting IAS 24 standard, the respondents rated

related statements based on their perception and the statistical descriptive results presented. The highest means score to lowest score values were 4.07, 3.94, 3.79 and 3.71 respectively. On

average of 3.88 it indicates that respondents understand and agree on the importance of IAS 24. The overall mean scored 3.82 indicates that the companies listed in Bahrain Bourse have high compliance level with IAS 24.

### CONCLUSIONS AND FURTHER RESEARCH

The related party transactions as described in IAS 24 standard should be implemented across the organization in which all executive members of the company such as key management should be declared their liabilities and all other short or long-term benefits that they have been utilized from the company's assets. Because the outstanding balance on key management persons have significant impact on liabilities side as well as financial performance. In this regards, IAS 24 standard should be implemented, and related party transactions must be presented in financial statements in order to enhance the reliability of assets and performance in the market. However, this research measures the degree of compliance with IAS 24 requirements. The main results indicated the level compliance with IAS 24 is 76%. The research highlights the importance of IAS 24 and its implications could be:

- Providing the users with important information about related party transactions which may affect the financial statements.
- Complying with IAS 24 makes financial statements more practical and enhances comparability.
- IAS 24 can enhance the stability of the securities markets.
- Adopting IAS 24 standard could increase the investors' confidence in stock market and attracts more investments.

Further research as below:

- More time period is suggested for the study to increase the depth of the study and to get more responses.
- Larger sample to be considered for the next research.
- More responses are required to enhance the

research analysis more effective results.

- Apply this study by using independent variables to identify more factors that might affect the level of compliance with IAS 24.

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