

The Difference in Accounting Treatments for Research and Exploration Costs and Their Impact on Financial Performance Reporting

An Applied Study in One of the Investment Oil Companies in Iraq

Noor Qasim Hamid^{1, a, *} & Asmaa Mahdi Al-Hashemi^{1, b}

¹Accounting Techniques Department, Technical College of Management/ Kufa, Al-Furat Al-Awsat Technical University (ATU), 54003, Najaf, Iraq

^anoor.qasimhamid@atu.edu.iq

^basmaa.mahdi@atu.edu.iq

*Corresponding Contact: noor.qasimhamid@atu.edu.iq

Abstract. *The research aims to define the concept of reporting on financial performance and its main dimensions. It also shows the role of the financial reporting standard IFRS6 in improving financial performance reporting through the presentation and analysis of financial analysis indicators to help the management of oil companies identify the reality of their financial status and activities and the status of their cash flows. As for the importance of the study, it lies in the importance of reporting on the financial performance of investment oil companies. To achieve the objectives of the study, the researcher adopted the analytical approach in the practical aspect through the method of financial analysis to report on the financial performance by the company's IFRS6 standard (the research sample) in a way that contributes to providing the decision-maker with the necessary Information to rationalize the decision.*

Keywords: *Reporting of financial performance; IFRS6, financial analysis*

1. INTRODUCTION

In light of the rapid spread of globalization and the significant development witnessed by the global economy, the interest in accounting has increased and the need to keep pace with international developments. Indicators and financial results are given that may not enable users to read a clear and correct reading of the financial status of companies. Therefore, the process of evaluating financial performance by analyzing it with appropriate financial methods and indicators helps in evaluation and control processes and lays a sound basis for thinking in drawing future plans for companies to know the role of adopting the financial reporting standard IFRS6, where this impact is manifested on the financial statements and the elements that make them up, given that the process of evaluating financial performance depends on the quality of the financial and accounting information and data produced by those lists.

2. MATERIALS AND METHODS

1.2. theoretical material

1.1.2. The problem of the study



The importance of investment oil companies in Iraq and their role in advancing the reality of the oil industry and the completion of its various stages in the oil industry and as a result of the non-application of the financial reporting standard IFRS6 and the weak interest of oil companies in financial analysis processes to report on financial performance, which made them lack practical tools in disclosure, planning, control and evaluation, and in the same at the time, it may have neglected an important part of the Information that can be used to give a clear picture of its financial performance. Therefore, the main problem of the study is limited to the following:

Does the use of the financial reporting standard IFRS6 improve the reporting of financial performance in oil companies?

2.1.2. The importance of the study

It comes from two important points:

1. The importance of applying the international financial reporting standard (IFRS6) in Iraqi oil investment companies.
2. The importance of applying the international financial reporting standard (IFRS6) in improving the reporting of financial performance.

3.1.2. Objectives of the study

The study aims to achieve the following:

1. Assisting the management of oil companies in identifying the reality of their financial status and activities and the status of their cash flows through their reliance on the results of financial performance.
2. Clarify the possibility of improving the reporting of financial performance in Iraqi oil companies in accordance with the IFRS6.

4.1.2. Study hypothesis

Financial performance Reporting of Iraqi oil companies when using IFRS6 helps in improving their position, financial performance, their activities, and expressing the cash flow situation.

5.1.2. previous studies

This includes a brief presentation of the results of some studies that the researcher was able to collect and review, which dealt with various aspects and areas related to the subject of the current study, and had a significant impact on enriching this study in its theoretical and practical aspects:

Study (Abd Aoun, 2019)[3] “The reflection of the application of international financial reporting standards on financial ratios and performance indicators (an applied study in Basra Gas Company)” The study aims to identify the concept, characteristics, importance and objectives of international standards for the preparation of financial reports in general and the system, as well as Identify the financial ratios and indicate the difference in the results of the financial ratios between the financial statements prepared on the basis of standards and the financial statements prepared on the basis of the unified accounting system, and analyze the results of the difference and their importance to decision makers. The study found that the adoption of international standards for the preparation of financial reports led to a positive impact on the performance and activity ratios, and the results of the financial ratios extracted from the financial statements prepared in accordance with the international standards for the preparation of financial reports help users in making decisions by improving the comparability of the results of financial ratios with Financial Statement Ratios Global Markets Analysts and users of financial statements must distinguish between changes in



financial ratios and performance resulting from the transition to international financial reporting standards and changes resulting from business activity when financial analysis and decision-making.

And in the year (2020) the study (Fadil) [4]clarified the appropriateness of the value of financial performance reporting: an applied study in a sample of Iraqi banks.” The research seeks to enhance intellectual knowledge about the appropriateness of value and financial performance reporting. In private banks, the research sample, the earnings per share are the best measures of financial performance in terms of the appropriateness of the value to the prices of shares of banks listed in the Iraqi Stock Exchange, followed by net income, then net cash flows, and then operating cash flows.This means that it has a significant impact on the investor’s assessment of the value of the company. Any impact on the value of shares in the Iraqi stock market After the opening of the Iraqi market to international markets, it is necessary to conduct research on the relevance of value to global financial performance measures, in order to develop global financial reporting that helps to attract foreign investors who already suffer from weak comparability of local reporting With global reporting, by providing reporting on the most beneficial performance metrics to foreign investors. The previous studies and the conclusions they reached and the recommendations they presented represented our intellectual treasure that added new visions to that study. The most important features of the current study can be summarized as follows:

The current study dealt with the role of the financial reporting standard No. 6 and its impact on the reporting of financial performance in oil companies, especially investment companies within the private sector in Iraq, which is one of the important tools for evaluating their performance in the future.

6.1.2.The concept of financial performance reporting

Financial performance reporting is to highlight a set of important components of financial performance to help users understand the performance of a reporting entity in a period and help them form a basis for forecasting future results and expected cash flows [5] Many users of financial statements often evaluate this performance based on profits reported by economic units, and reported profits are usually in accordance with accounting standards [6]

Financial reporting has been the subject of many projects and FASB's research agenda for more than 15 years, including joint efforts with the International Accounting Standards Board (IASB), and continues to this day. No. 1) :

Table No. (1.): Financial Performance Reporting Projects

Results	the year	project authority
<ul style="list-style-type: none"> •Reporting Earnings Task - Discussion Note •Analyze issues related to earnings reporting 	1979	FASB
<ul style="list-style-type: none"> •Conceptual Framework - Presentation Draft •Reporting of income, cash flow, and financial position 	1981	FASB



<ul style="list-style-type: none"> • Jenkins Commission Report •Special Financial Reporting Committee 	1994	AICPA
<ul style="list-style-type: none"> •G4 + 1 - Special Report •Reporting of financial performance 	1998	FASB & G4+1¹
<ul style="list-style-type: none"> •Draft Presentation •Reporting of financial performance 	2000	UK ASB
<ul style="list-style-type: none"> •Joint Venture - Discussion Paper •Preliminary opinions on the presentation of the financial statements 	2008	FASB & IASB
<ul style="list-style-type: none"> •Joint Venture - Staff Draft of Presentation Draft •View financial statements 	2010	FASB & IASB
[7]		

In 2003 the IASB-FASB joint venture "Financial Performance Reporting Project" gradually modified the structure of the income statement. The entire project aims to improve the Information provided by the financial statement on performance as a whole, or in a sense improve the quality of the performance measure provided by the financial statement, particularly in terms of predictability of future cash flows.

At its March 5, 2003 meeting, the FASB discussed whether the IASB's project on financial performance reporting would meet the priorities and objectives set by the FASB. The FASB believes that the proposed IASB model responds to some priorities and objectives but does not address them all. The FASB, therefore,decided that staff should continue to develop an alternative to the IASB prototype that would be more responsive in addressing the concerns raised. [7].

In this convergence project for financial statement presentation, the International Accounting Standards Board (IASB) and the American Financial Accounting Standards Board (FASB) worked to develop a common standard for the presentation of information in financial statements that improves investors' ability to assess current performance and forecast future profitability. Ensuring that there is sufficient information in the financial statements to allow the calculation of the main financial measures used by investors and creditors.[8]

The G4+1 group consists of members of national standard setting bodies from Australia, Canada, New Zealand, the United Kingdom and the United States



Joint work on this project ceased after the withdrawal of the IASB in 2010, and FASB continued to work on completing the project by adding it to its research agenda to arrive at the most appropriate method for reporting performance.

At its 2019 meeting, the FASB specifically discussed the portion of the project devoted to classification of performance information, where the Board discussed an “internal view approach” whose objective is to “classify income statement account information based on how management internally views consolidated expenses.” No decisions have been made, but the Board has instructed its staff to begin communication efforts related to this topic (FASB, 2019). As of January 29, 2020, the FASB puts financial performance reporting and the structure of the financial performance statement under research study[9].

7.1.2. The importance of reporting on the financial performance reporting for oil companies

[10] stresses the importance of reporting on financial performance as follows:

1. It helps in reporting the degree of alignment and consistency between the approved objectives and strategies and their relationship to the company's competitive environment.
2. It works to create a kind of competition between the different departments in the company, which helps in improving the level of performance in it.
3. Provides clarification to workers on how to perform their job tasks, and works to direct efforts to achieve successful performance that can be measured and judged.

2.2 applied study

Discussing the results of using financial analysis indicators for measuring financial performance in the study sample on the basis of the unified accounting system first and on the basis of the financial reporting standard IFRS6,

1.2.2. Measuring the financial performance of the oil company (T, F, Q) according to the unified accounting system

The financial statements for years (2018-2019) were used to determine the role of financial indicators in evaluating the financial performance of the oil company (T,F,Q), using the financial performance ratios represented by the following indicators:

1- Activity ratio

The activity ratio is concerned with evaluating the financial performance of the following company: Operational levels, such as asset management, receivables and inventory, and the relationship between fixed and current assets on the one hand and revenues on the other hand, and that the preparation and management of these assets in an efficient and effective manner, inevitably reflects on the profitability and liquidity of the company, and from these The proportions are:

Asset turnover ratio is calculated according to the following equation:

$$\text{Asset Turnover} = \text{Revenue} / \text{Total Assets} * 100\% [1]$$

Table No. (2) shows the turnover rate of assets in the company (T, F, Q) according to the unified accounting system



Table No. (2) The turnover rate of assets for the company (T,F,Q) for the two years 2018-2019

Year	The ratio	total assets	Revenues
2018	0,3	279,612,703,379	815,022,563
2019	0.1	416,769,600,455	421,765,191
The Table was prepared by the researcher based on the financial statements of the oil company (T,F,Q)			

Table No. (2) indicates a statement of the asset turnover ratio, as we note the turnover ratio in 2018 amounted to (0.3) and in 2019 it amounted to (0.1) that a decrease in the percentage means a reduction in revenue, which means a reduction in the conversion of assets into cash. profitability ratio

These ratios measure the efficiency of the facility's management in achieving profit on sales, assets, and property rights. Therefore, these ratios are used to evaluate the performance of the unit. The most important profitability ratios are as follows:

A - Return on assets (ROA)

$$\text{Return on Assets} = \text{Net Profit} / \text{Total Assets} * 100\% [2]$$

Table No. (3) shows the return on assets of the company (T, F, Q) according to the unified accounting system

Table No. (3) shows the rate of return on assets in the company (T, F, Q) according to the unified accounting system

Table No. (3) Return on Assets for the Company (T, F, Q) for the two years 2018-2019

Year	return on assets ratio	total assets	Net profit
2018	0,2	279,612,703,379	45,349,308,295
2019	0,1	416,769,600,455	53,053,531,272
The Table was prepared by the researcher based on the financial statements of the oil company (T,F,Q)			

Table No. (3) indicates that the return on assets for the company(T, F, Q) decreased in 2019 from 2018, and that the decrease in the indicator indicates the company's failure to use its available assets to increase income.



2.2.2. Measuring the financial performance of the oil company (T, F, Q) according to the IFRS6 Financial Reporting Standard

After presenting the financial indicators and showing their impact on the financial performance of the oil company (T, F, Q) according to the unified accounting system, using the financial ratios of financial performance and financial position, the role of the IFRS6 financial reporting standard in improving the financial performance of the oil company will be shown here (T, F, Q) generate financial data of high quality that reflects the reality of the financial position and the result of the activity, and thus correct financial indicators.

1- Activity rate

Table No. (4) shows the turnover rate of assets in the company (T, F, Q) according to IFRS6

Table No. (4) The turnover rate of the assets of the company (T,F ,Q) for the two years 2018-2019

year	The ratio	total assets	Revenues
2018	3.5	2296468163408	815,022,563
2019	9.6	4416914379992	421,765,191

The Table was prepared by the researcher based on the financial statements of the oil company (T,F,Q)

Table No. (4) indicates that the turnover ratio of assets in 2018 amounted to (3.5) and in 2019 reached (9.6), and therefore, compared to Table (2), the reflection of the use of IFRS6 affects the results of performance indicators, as it showed the company's success in using its available assets. to increase income.

2- Profitability Ratio

A - Return on assets (ROA)

Table No. (5) shows the return on assets of the company (T, F, Q) according to IFRS6

Table No. (5) Return on Assets for the Company (T,F ,Q) for the two years 2018-2019

year	return on assets ratio	total assets	Net profit
2018	2	2,296,468,163,408	45,308,396,854
2019	1.2	4,416,914,379,992	52,991,482,899

The Table was prepared by the researcher based on the financial statements of the oil company (T,F,Q)



Table No. (5) indicates that the rate of return on assets according to IFRS6 in 2018 amounted to (2) and in 2019 reached (1.2), and therefore the ability of assets to generate cash flow increased compared to Table (3) according to the company's unified accounting system, which confirms that The company's financial performance has improved in light of the application of IFRS6.

3. RESULTS AND DISCUSSION

the comparison is made between them and the statement of the role of the standard on improving the financial performance in the oil company.

Measuring the financial performance of the oil company (T, F,Q) according to the unified accounting system and the financial reporting standard IFRS6

In the following, the ratios prepared in accordance with the unified accounting system and the IFRS6 standard are clarified and the impact of the standard on improving the reporting of financial performance and financial performance indicators.

Table No. (6)

Comparison between the ratios of the company (T,F ,Q) according to the unified accounting system and IFRS6

The ratio	according to the standard IFRS6		According to the unified accounting system		2018	2019
	2018	2019	2018	2019		
activity ratio	9.6	3.5	0.1	0.3	+3.2	+9.5
profitability ratio	1.2	2	0.1	0.2	+1.8	+1.1
return on equity	16.4	22.3	12.8	16.3	+4	+3.6
debt ratio	28.7	3.8	5.3	2.7	+1.1	+23.4
trade rate	3.3	29.3	3.3	29.3	0	0
The Table was prepared by the researcher based on the data of the oil company (T, F, Q)						

The activity ratio in the oil company (T, F,Q) was in 2018 and 2019 before the adjustment (0.3) (0.1) respectively, this ratio rose to (3.5) (9.6) respectively and with a change rate of (+3.2) (+9.5) (Respectively after adjusting according to IFRS6 standard, and that the reasons for this increase are due to the increase in fixed assets due to the application of the method of successful efforts. As for the profitability ratio in 2018 and 2019 before the adjustment was (0.2) (0.1) respectively and with a change rate of (1.8+) (+1.1) respectively, this ratio rose to (2) (1.2) respectively after the adjustment according to IFRS6 standard and that The reasons for this rise are due to the rise in net profit assets due to the recognition of the revenues generated from successful wells according to the



method of successful efforts. The rate of return on equity came in 2018 and 2019 before the adjustment (16.3) (12.8) respectively, this percentage rose to (22.3) (16.4) respectively and with a change rate of (4+) (+3.6) respectively after the adjustment according to IFRS6 standard and that the reasons for this increase are due to the increase in the realized return compared to equity after recognizing the realized revenues in the income statement, while the debt ratio in 2018 and 2019 before the adjustment was (2.7) (5.3), respectively, with a change rate of (1.1 +) (23.4 +)) respectively, this ratio increased to (3.8) (28.7), respectively, after the adjustment according to IFRS6 standard, and the reasons for this increase are due to the increase in total assets, while the trading ratio was in 2018 and 2019 before the adjustment (29.3) (3.3), respectively. , this ratio did not change as it was (29.3) (3.3) respectively after adjusting according to the IFRS6 standard and that the reasons for this ratio not changing due to the lack of change in the assets traded in the oil company (T, F, Q).

And those ratios and indicators that show an improvement in the effectiveness and ability of the company to achieve acceptable financial performance indicators that were prepared on the basis of a standard for comparing the indicators achieved in the company that was prepared on the basis of the accounting system, which proves the validity of the hypothesis that reporting on financial performance in oil companies when using the financial reporting standard IFRS6 helps in improving its financial position, performance and activities, expressing cash flow status, and based on the results of analysis and adherence to financial reporting standards. It also helps in evaluating financial performance. It also provides financial data with comparability and analysis. Therefore, the process of evaluating financial performance by analyzing it with appropriate financial methods and indicators helps in evaluation processes. And oversight lays a sound basis for drawing up future plans for companies, and that the lack of standards leads to a difference in the treatment of the same accounting practices, which are required by accounting, which may be abused by accountants in fraud and manipulation, which reduces the objectivity and fairness of accounting outputs.

Conclusions

1. The absence of an accounting system for mineral resources, especially the oil industry, and a commitment instead to the principles, foundations and instructions of the unified accounting system, as this system, which is currently applied in Iraqi oil companies, is specific. One of the determinants of the application of the international financial reporting standard IFRS6 in the field of measurement and disclosure.
2. The voluntary method is. Processing method. Research and exploration costs. By the oil companies and not adopting both methods, the cost. College and successful efforts recommended by a standard. International Financial Reporting IFRS6.
3. The results show the impact of the financial performance ratios when applying the IFRS6 financial reporting standard. This means the role of the standard on evaluating the company's performance, that is, its impact on the profitability and cash flow of the company.

Recommendations

In light of the conclusions reached in the first topic, the researcher recommends the following:

1. Develop an accounting system for oil companies in isolation from other industries so that this system addresses all the details of this industry due to its specificity, importance and complexity, in



order to comply with international accounting standards, especially International Financial Reporting Standard No. (6) because working with the current unified accounting system does not provide sufficient benefit to users Information through financial reporting does not meet the requirements of the standard. International Financial Reporting No. (6), which represents an obstacle in the application of this standard.

2. The need to pay attention to the accounting policies used in the oil industry, which will enhance the reporting of financial performance, through reporting on financial performance indicators that help investors take appropriate decisions without resorting to external sources to obtain accounting information on financial performance.

3. Distinguishing between successful and unsuccessful areas and showing this in the financial statements by following the method of successful efforts.

4. Capitalizing the search and exploration costs that pertain to the successful areas within the account (deferred revenue expenditures 118 - exploration and survey expenditures 1183) so that the amortization is calculated correctly, and the costs related to the failed areas are closed in the profit and loss account for the period in which these costs were achieved.

References

1. Singh, S., *Ratio analysis in manufacturing sector a study*. International Journal of Innovative Research in Engineering and Management, ISSN, 2017: p. 2350-0557.
2. Suhadak, S., et al., *Stock return and financial performance as moderation variable in influence of good corporate governance towards corporate value*. Asian Journal of Accounting Research, 2019.
3. Hadi, A.A.K., *the reflection of the application of international standards for the preparation of financial reports on the financial ratios and performance indicators (an applied study in the Basra Gas Company)*, in *Financial Accounting*. 2019: Basra.
4. Afdel, A.Z., *the appropriateness of the value of reporting on financial performance: an empirical study in a sample of Iraqi banks.*, in *Financial Accounting*. 2020, University of Kufa: College of Administration and Economics.
5. Lin, S., *Testing the information set perspective of UK Financial Reporting Standard No. 3: reporting financial performance*. Journal of Business Finance & Accounting, 2006. **33**(7 - 8): p. 1110-1141.
6. Brinkman, E., *The determinants of disclosing alternative performance measures*. 2019.
7. Albetairi, H.T.A., G. Kukreja, and A. Hamdan, *Integrated reporting and financial performance: Empirical evidences from Bahraini listed insurance companies*. Accounting and Finance Research, 2018. **7**(3): p. 102-110.
8. Gornik-Tomaszewski, S. and Y.C. Choi, *The conceptual framework: Past, present, and future*. Review of Business, 2018. **38**(1): p. 47-58.
9. Linsmeier, T., D. Wangerin, and E. Wheeler, *The Underlying Economic Components of Acquired Goodwill*. Available at SSRN 3663210, 2020.
10. Al-Afasy, Fahd Muhammad, *Natural Resources Contracts in Foreign Participation Agreements (oil contracts as a model)*. 2007, Kuwait: Academic House.