

**THE IMPACT OF ACCOUNTING DISCLOSURE ON INCREASING THE PROFITS OF INSURANCE COMPANIES: THE CASE OF JORDAN**

**Dr . Ali Mustafa Magablih**

Irbid National University  
Irbid- Jordan

---

**ABSTRACT:** *The interest in accounting disclosure recently became of growing interest by various stakeholders by both public and private institutions throughout the world. This is not only due to the orientation toward unifying the global financial systems, but also as an attempt to explain and influence the financial crises. This study attempts to describe the impact of the accounting disclosure on increasing the profits of the Jordanian insurance companies .This study aims at comprehending the impact of accounting disclosure on increasing profits of insurance companies in Jordan .It mainly tries to explain the relationship between accounting disclosure and profits on one hand , and clients satisfaction on the other hand. A questionnaire was administered among a representative sample and statistically analyzed. Results show that a statistical relationship exists between firms accounting disclosure and both attained goals and customer satisfaction. The study recommends more awareness to insurance company of the importance of accounting disclosure form the great importance it entails to such companies.*

**KEYWORDS:** Accounting, Disclosure, Insurance companies, Jordan

---

## **INTRODUCTION**

Nowadays, companies experience a state of instability as a result of globalization which highly increased their spread and activities, and therefore increased the number of their branches locally and internationally. As a result, the number of employees ,stockholders and clients has increased respectively , that forces such companies to disclose their accounting and financial data in a more transparent manner to meet the needs and expectations of all their stakeholders who are becoming more demanding For example investors need more financial and accounting information that could help them in making a more rational investment decision based on financial and accounting real figures .Thus any investors will need to analyze the financial statements of the company to make better investment decisions. Likewise, company management needs more accounting disclosure to help understand their financial positions and other related financial issues that are integral for them to take future competitive decisions that influence the future of the company and its stakeholders and beneficiary parties. Thus, disclosure is of interest to the different stakeholders and is considered as an integral part of the company social responsibility.

The importance of accounting disclosure received more consideration based on the fact that most of the users of the financial statements do not have the chance to see the financial reports and records of many projects and businesses, or they are not in a position to comprehend

them , therefore they rely more on the disclosure of the financial and accounting reports of the company to understand its different aspects .

### **Significance of the study**

Insurance companies have a core contribution to the economic development of all countries , and therefore their importance and economic and social roles should be highly appreciated and considered. Also, financial disclosure has a role to play in the profitability of firms and their relation with their stakeholders. This in return, contributes to their financial and business stability and in returns their ability to meet and manage financial crises. In addition, this could help insurance companies in Jordan adopt better disclosure policies and assist them prepare better financial and accounting reports that help stakeholders take better decisions related to the company.

### **The problem of the study:**

The accounting disclosure is important and has a major impact on the economics business organizations in general, and insurance companies in particular. Accounting disclosure is the fundamental guarantee for corporate credibility and clarity their economic and financial status .However , some corporate managers are not fully aware of the importance of accounting disclosure and hide their financial reports in a timely manner, therefore lose confidence on the part of their clients, investors and other stakeholders . This in return could lead to the breakdown, withdrawal or bankrupt of such companies .

In addition , some firms do not disclose all necessary accounting information which makes it difficult for its stakeholders and beneficiaries to take the right decision in relation to the firm

### **Research Hypotheses:**

The study aims to test the following hypotheses :

H1: There is a relation of statistical significance between the adoption of accounting disclosure, and increasing the profits of insurance companies ..

H2:: There is a relation of statical significance between accounting disclosure and increasing customer confidence in insurance companies.

## **METHODOLOGY OF THE STUDY**

The study adopts a descriptive analytical approach. A review of literature on the subject has been undertaken , as well as a n analysis of the financial and accounting disclosure aspects of insurance companies in Jordan .The study population consists of (26) public insurance companies according to the latest statistics published on 30 April 2014. The study sample consists of (18) companies representing 69% of the total insurance companies operating in Jordan. A questionnaire was distributed to the management and key staff of these companies for this purpose. Among the (160) questionnaires distributed during the first quarter of the year 2014 , (135) questionnaires we returned and analyzed , representing ( 84%) of the total number of questionnaires. SPSS (14) was used to analyze date to calculate averages , percentages and standard deviations to test hypotheses and answer the study questions .

### **Previous studies**

1- Aker, 2010 conducted a study entitled "the impact of level of accounting disclosure in the financial statements posted on the repercussions of the financial crisis on the banking sector to

commercial banks. This study aimed to describe the commitment of Jordan to the principle of accounting disclosure according to international financial reporting standards and determine the extent to which the financial stability of the banking sector in Jordan, and see whether the disclosure will help to limit the repercussions of the financial crisis in the banking sector. The study found that Jordan is committed to the principle of accounting disclosure in accordance with the accounting standards and international financial reporting and adherence contributes to the financial stability of the banking sector, and limit the repercussions of the financial crisis on the sector.

2- Study khasharmeh, 2003 entitled "disclosures in financial statements of banks and similar financial firms in Jordan", the study aims to measure the level of disclosure in the financial statements of banks. The study found multiple results, considering the requirements of international accounting standards is very important from the point of view of the study sample, representative of the merging firms in Jordan, as well as that there are some obstacles to the application of certain standards for malfunction of staff training.

3- Study of Salem (2008) entitled "the importance of measurement and accounting disclosure about the cost of human resources and its impact on financial decisions," the study aims to analyze the importance of measurement and accounting disclosure about the cost of human resources and the impact on financial decisions, the study found the most important results, there are plausible data human resources there is neglect of entrance records and books of accounting measurement of human resources and that disclosure provides objectivity and credibility and confidence in the data contained in the reports.\

4- A study of Ben Tahar, Hussein webotalaah, Mohammed (2012) entitled "the impact of corporate governance through transparency and disclosure quality financial statements in the financial accounting system" this study aimed to identify the impact of corporate governance on the transparency and disclosure quality financial statements in the financial accounting system and the study found that companies adopted international accounting standards known as accounting information quality, but this is not enough if you follow procedures for other accounting mechanisms for audit, Which promotes the principle of disclosure and transparency, which is the most important principles of corporate governance, the study recommended to try to compel firms to comply with the rules of corporate and private contributors tried and unlisted.

### **Elements of accounting disclosure**

You can select the components of accounting disclosure that make his trust and interest both inside and outside the enterprise:

1- Select the user for the information.

To identify the user of accounting information would know or identify characteristics that must be available in the information from the form and content of the accounting information users have different standards in the interpretation of the information and this information was to be set up through a single report with multiple forms of requirements or a single multi-purpose financial report to meet the needs of potential users and these two models is difficult to satisfy simultaneously so better prepare model assumes that meet the needs of a particular user from Between those groups and make it central in determining the dimensions of the disclosure.

2- Specify the purposes of use of accounting information.

To identify the purpose of using accounting information would bring about appropriate property user benefit from information and earnings predictability helps them make decisions, although the financial statements did not meet all the needs of those users of information, there are needs for these users, the financial statements that meet the needs of investors who bear the risk capital will also meet most of the needs of other users.

3- Determine the nature of the information to be disclosed.

Disclosed by the traditional financial statements:

- Statement of financial position.
- Income statement.
- List of retained earnings.
- Statement of changes in financial position.

Through the above, we find that we must focus on the quality of disclosures, rather than focusing on the amount of information disclosed.

4- Qualitative characteristics of financial statements.

Act venture capital companies rolling stock on the stock exchange to publish financial statements that is essential to rationalize decisions investors so it can be said that the budget is the first step in reading and key decision making sound without it becoming the investment process in the whole mysterious process based on speculations and rumors, hence the importance of accounting disclosure as a way of budget lines where the function of accounting disclosure of basic accounting functions and through the production of information through their lists, and financial reports As you review the content of these lists by an external auditor in order to increase the efficiency of accounting disclosure because the auditor's report is a published financial reports of the information may not be disclosed in the financial statements.

5- Techniques and methods of disclosure.

There are various means and methods of accounting disclosure and which can help users to understand and make the right decision and stop differentiation method and other on the nature of the information required and their relative importance and are the most common ways to use.

- Disclosure through financial statements: basic information appears in the financial statements in a manner conducive to disclosure as to the form and order of these lists, for example list of financial position shows the items of assets and liabilities of the company as well as ownership rights and the disclosure of appropriate relationships with the asset and liability items tab to fixed assets and circulating and fixed and current liabilities or monetary and non-monetary assets or current liabilities from current assets for access to working capital to other methods of tab.

- Use clear and universally accepted terminology: there is no doubt that the use of terms and the amount of detail in information is as important as the disclosure in financial statements previously referred to, and must use terms which express the exact meaning well known to users of information taking into account standardization of terminology for the same meaning in all reports to make user information or misleading disclosure became the opposite.

- Information between the brackets: it is made in the financial statements in the case of some items that cannot be understood from their titles only without extensively lengthening and therefore can explain such items as brief parentheses such as method of assessing a particular item such as restricted assets mortgage or a brief explanation.

-Observations and margins: the way notes and the margins of important for disclosure of information may not be provided in the financial statements but should not be relied upon in lieu of financial statements disclosure.

-Reports and schedules: use this tool to show some additional information and details which are difficult or even impossible to show in the heart of the financial statements and has used this medium within the way notes and footnotes or independent reports.

-Report of the Chairman of the Board and this report is an integral part of the financial statements, without which it is difficult to interpret a lot of financial information.

- The external auditor's report: report by the external auditor is a secondary, not primary disclosure where it could emphasize disclosure or non-disclosure of certain information by observations or reservations mentioned by the external auditor in his report.

### **The importance of financial statements:**

I've shown the importance of disclosure in Jordan and can be linked to the two main reasons, the first is to increase the number of public shareholding companies, and the second is the establishment of the stock market and subsequent developments in the past years.

Financial statements are a window that overlooks the others on different aspects of company activity, they learn about its financial position allowed by the budget, and the result of its work through the income statement, as well as changes in its financial position, or cash.

And prepare financial statements and published to meet the needs have different categories of information attached to these lists usually explanations of methods, accounting policies and any other information the Department deems helpful reader and want to describe.

The preparation of financial statements and their numbers and disclose all information it is the responsibility of the company management.

### **The qualities that should exist in the financial reports:**

And there must be other attributes reports of companies such as understandability, this does not necessarily mean that simplicity and the information presented is primary, and also reliability, mean that data users should be able to fairly assess the degree of confidence which can take in information, objectivity, through the prejudice to the interests of any group of data users.

### **The importance of disclosure in the financial statements:**

The importance of disclosure of financial statements of the law that requires input from the corporate values by disseminating financial information and periodically through periodic reports and listings of securities and become available for consultation so that investors make rational decisions regarding investment in companies and noted that most companies brought capital investors are unsuccessful and sometimes faces well as excessive in estimating the size of assets and manipulate accounting figures published. Increased importance of disclosure also after the crisis in the financial markets, which were caused by the failure of market investors decide whether buying or selling a particular stock price based on accurate information, in many cases the stock prices are exponentially to the true value of a share because of strong speculation on stock prices.

### **The purposes for which it is used in the financial statements:**

- Investment in shares of the company be sold or purchased or retained as well as the price that must be paid in stock.

- Statement of price changes and their effects.
- A profitable company and agents and the profit per share.
- Credit and financing structure for the company.
- Estimated tax.
- Performance evaluation of project management.
- A commodity and inventory components of fixed assets.
- Statement of the ways current and planned capital expenditures and sources of funding.

### **Categories and stakeholders accounting disclosure in the financial statements:**

There are many categories that have a direct or indirect interest in the company and interested in getting sufficient information about the success of the company and its management the financial statements the main source of information for some of these beneficiaries and that can be identified as follows:

- Existing and prospective investors: those who need information to make decisions to sell their current company or continue in possession, and decisions to invest or not to invest so that financial statements provide information that helps the sector to assess the flows that are expected to accrue to them from acquiring rights in the company.
- Current and prospective lenders must provide financial statements means the needs of lenders to information that relates to lending and guarantees for these loans and the sector of users interested in obtaining information that would enable an indicator on: historical income-generating capacity, ability to meet corporate obligations in due dates, the value of the net assets of the company as security for the repayment of debt.
- Company management: the management of the company financial statements is used as a source of information on bathetic and performance evaluation.
- Customers and employees: and need information to calculate the indicators in the ability of companies to  
As a source of livelihood in the case of staff or as a source of goods and services if the customer or a consumer of goods and services.
- Government services: provide financial benefit to some circles the governmental equivalent of the income tax Department, government departments and departments responsible for planning and directing the national economy, the income tax department can calculate the tax due from the company by the published financial statements.

### **Some problems related to disclosure:**

One of the problems is that companies disclose more information necessary and relevant in one way or another benefited from this information, especially investors, perhaps the problem is not to give the timing of the issuance of annual financial reports of companies in developing countries, in particular Jordan.

In addition to the above problems some companies contribute to the manipulation of mathematical figures published for the values of its assets and property in order to attract capital from investors. After collecting data from sample surveys and has been selected to the programmed SPSS. The following conclusions emerged

:

| sex    | frequency | Percentage |
|--------|-----------|------------|
| Male   | 106       | 79%        |
| Female | 29        | 21%        |
| Total  | 135       | 100%       |

Table (1)

Members of the study sample according to sex The table shows that the proportion of males was 79%, while the proportion of females 21%, insurance companies want the outcome of its work males than females

Table (2)

| Variable | Frequency | Percentage |
|----------|-----------|------------|
| Diploma  | 8         | 6%         |
| Bachelor | 111       | 82%        |
| Master   | 12        | 9%         |
| Doctoral | 4         | 3%         |
| Total    | 135       | 100%       |

Members of the study sample by educational qualification degree

It is clear from the table that the achievement indicates that responds very well in the sample are bachelor and this increases reliability Answers such as Bayous concerning qualification you need insurance companies

Members of the study sample according to specialist

| Variable                       | frequency | Percent |
|--------------------------------|-----------|---------|
| Accounting                     | 102       | 76%     |
| Business administration        | 13        | 9%      |
| Banking and financial sciences | 16        | 12%     |
| Others                         | 4         | 3%      |
| Total                          | 135       | 100%    |

The above table shows that the proportion of 76% undergraduate, increase the adoption of specialized insurance companies

Which increases the reliability and build on the results

Table . (4)

Members of the study sample according to experience years

| Variable              | Frequency | Percentage |
|-----------------------|-----------|------------|
| Less than the 6 years | 9         | 7%         |
| 6-less than 12 years  | 12        | 9%         |
| 12-less than 18 years | 8         | 6%         |
| 18-less than 24 years | 38        | 28%        |
| 24 years and more     | 68        | 50%        |
| Total                 | 135       | 100%       |

The above table shows that the insurance companies keep their expertise so that 50% of the sample of the study experience 24 more

Where can rely and build on these experiences and to trust the results of their work in companies

Table (5)

Averages and standard deviations for the level increase profits

| No | paragraph  | mean  | Standard deviation | Order |
|----|--|-------|--------------------|-------|
| 1  | Works accounting disclosure to increase profits in the companies                 | 4.115 | .808               | 3     |
| 2  | The information and data provided by disclosure to increase corporate profits    | 4.269 | .689               | 2     |
| 3  | Accuracy of disclosure have a significant impact on increasing corporate profits | 4.057 | .826               | 4     |
| 4  | Financial disclosure by companies are often modern                               | 4.038 | .765               | 5     |
| 5  | ] information disclosure system in insurance companies time                      | 4.365 | .525               | 1     |

1. sample answers tended to paragraph (1) to the agreement and the average is high, which means that most of the sample supported the accounting helps increase profits of corporations

2. the sample answers paragraph (2) to the agreement and the agreement on information and data provided by the accounting disclosure serves to increase corporate profits

3. Note that the answers to the sample paragraph (3) refers to the average is also high, which indicates the orientation of the sample agreement that the accuracy of disclosure have a significant impact on increasing profits

4. the sample answers to have paragraph (4) as the agreement that financial disclosure by companies are often modern

5. the sample answers to doctrine (5) toward agreement that the information provided by the accounting disclosure is timely

Notes from table no. (5) that all the media is high, which demonstrates that the answers of the respondents were to prove the hypothesis that the accounting disclosure has nothing to do with boosting profits at companies Jordan insurance



Table (6)

Standard deviations for the level of customers confidence

| No | paragraph   | Mean  | Standard deviation | Order |
|----|---|-------|--------------------|-------|
| 1  | disclosure helps in making economic decisions                               | 4.115 | .615               | 3     |
| 2  | Accounting disclosure facilitates family economic decision-making           | 4.22  | .76                | 1     |
| 3  | Accounting disclosure builds trust with customers                           | 3.95  | 1.49               | 4     |
| 4  | Accounting disclosure raises the trust between the company and the customer | 4.15  | .82                | 2     |
| 5  | Accounting disclosure is able to control the protection of company losses   | 3.89  | 1.01               | 5     |

1. Sample answers tended to paragraph (1) to the agreement and the average is high, which means that most of the sample supported the lavish accounting helps in making investment decisions

2. The sample answers paragraph (2) to the agreement and the agreement on accounting disclosure facilitates investment decisions

3. Note that the answers to the sample paragraph (3) refers to the average high too, including orientation and sample agreement that accounting disclosure real builds trust with customers

4. The sample answers to have paragraph (4) towards the accounting disclosure agreement is of great importance in raising the trust between the company and the customer

5. The sample answers to doctrine (5) towards agreement that real accounting disclosure is able to control the protection of company losses

Notes from table no. (6) most high circles, which demonstrates that the answers of the respondents were to prove the hypothesis that the accounting disclosure related to increased customer confidence in insurance companies contribute to Jordan

Results:

Through the analysis of a sample survey showed the following results:

1. there is a statistically significant impact of accounting disclosure system to increase customer confidence in insurance companies contribute to Jordan

2. there is a statistically significant effect of using accounting disclosure system to increase profits in the Jordan insurance company

3. one of the most important benefits of using accounting disclosure in the Jordan insurance companies increase customer confidence for these companies is that the accounting disclosure builds trust with customers

4. one of the most important benefits of advanced accounting disclosure in insurance companies contribute to Jordan to increase profits for these companies is that the information provided by the accounting disclosure in companies in a timely

## RECOMMENDATIONS

Through findings developed the following recommendations:

1. focus on accounting disclosure system because of its great importance in raising the trust between the company and the customer
2. Activate the role of accounting disclosure to increase profits in all insurance companies contribute to Jordan
3. Activate the role of accounting disclosure in the decision-making processes for insurers to contribute to Jordan

## REFERENCES

- Abbas 1998 capital subscription to the first House of culture Jordan Edition  
- Aker, Moataz 2010 impact messtoi accounting disclosure in the financial statements posted on the repercussions of the financial crisis in the banking sector, unpublished Master thesis
- Abd-Elsalam, O. H., & Weetman, P. (2003). Introducing international accounting standards to an emerging capital market: Relative familiarity and language effect, with a case study of Egypt. *Journal of International Accounting, Auditing and Taxation*, 12 (1), 63-84
- Abd-Elsalam, O. H., & Weetman, P. (2007). Measuring accounting disclosure in a period of complex changes: the case of Egypt. *Advances in International Accounting*, 20, 75-104.
- Abrahamson, E., & Amir, E. (1996). The information content of the president's letter to shareholders. *Journal of Business Finance & Accounting*, 23 (8), 1157-1182.
- Ahmed, K., & Courtis, J. K. (1999). Associations between corporate characteristics and disclosure levels in annual reports: a meta-analysis. *British Accounting Review*, 31(1), 35-61.
- Ahmed, K., & Nicholls, D. (1994). The impact of non-financial company characteristics on mandatory disclosure compliance in developing countries: the case of Bangladesh. *The International Journal of Accounting*, 29, 62-77.
- Ali, A., Chen, T., & Radhakrishnan, S. (2007). Corporate Disclosures by Family Firms. *Journal of Accounting and Economics*, 44 (1-2) (September), 238-286.
- Ali, M. J., Ahmed, K., & Henry, D. (2004). Disclosure compliance with national accounting standards by listed companies in South Asia. *Accounting and Business Research*, 34(3), 183-199.
- Bailey, W. G., Karolyi, A., & Salva, C. (2006). The economic consequences of increased disclosure: evidence from international cross-listings. *Journal of Financial Economics*, 81(1), 175-213.
- Bassett, M., Koh, P., Tutticci, I., 2007. The association between employee stock option disclosures and corporate governance: Evidence from an enhanced disclosure regime. *The British Accounting Review* 39 (4), 303-322.
- Bontis, N. (2003). Intellectual Capital Disclosure in Canadian Corporations. *Journal*

of Human Resource Costing and Accounting, 7 (1-2), 9-20.

Botosan, C. A. (1997). Disclosure level and the cost of equity capital. *The Accounting Review*, 72 (3), 323-349.

- The gardener of shada, 2005 measurement and accounting disclosure of cost of quality, applied study on gas filling company, publications of the Arab Institute for accounting
- Hammad, stephy 2006, analysis of financial statements for investment and credit current and future look at Alexandria University House
- Hamad, Mohammed 2005 role of accounting disclosure and its importance in the application of accounting standards, Cairo, unpublished ma thesis, Faculty of Commerce, Suez Canal University
- Alhayaly, Walid Naji, 2007 accounting theory, academic Arabic
- Khasharmeh, Hussein, 1999 analysis of the level of disclosure in Jordanian corporations field study centre at Yarmouk University
- Behind, winfred, 2009 accounting disclosure in the accounting curriculum expansion of contemporary social accounting academic publications included Arabic in Denmark
- Al-Zubaidi, Muhammad Ali, 2000 accounting in traditional banks and Islamic House of contemporary thought in Sana'a
- His Excellency, the slave 1999 disclosure in financial reports of Jordanian industrial corporations under international accounting standards
- Shirazi, Mahdi, 1991 accounting theory of strings press Kuwait

