

Development of accounting standards in selected Middle Eastern countries in comparison to the United States of America

Development
of accounting
standards

69

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Abstract

Purpose – The purpose of this paper is to compare the development of accounting standards in five diverse Middle Eastern countries with those of the USA.

Design/methodology/approach – A comparative analysis of each country with what is obtained in the USA.

Findings – While there are some similarities that influence the development of accounting standards in each country, there also exist a variety of differences, particularly in the areas of taxation, use of International Financial Reporting Standards (IFRS), religion, population and so on.

Research limitations/implications – The findings are limited to the five countries analyzed. Future research may want to expand the number of Middle Eastern countries included in the population studied.

Originality/value – The study is original particularly due to the diversity of the countries selected. While the USA is an economically and technologically developed country, almost all of the other countries could be classified as developing. Additionally, the USA is the only country with its own uniquely developed standards, which are universally respected, but different from the single set of high-quality standards commonly referred to as the IFRS, which more than 100 countries have adopted.

Keywords Iran, Turkey, IFRS, United Arab Emirates, Saudi Arabia, Cyprus

Paper type Research paper

Introduction

The Middle East is an emerging market in the world today. With the cultural difference from the Western values and the current stage of development that the Middle Eastern countries are in, accounting standards are at a whole different level than what the US standards have become. To comprehend the evolution of accounting standards in the Middle East versus the USA, the study of Turkey, United Arab Emirates, Cyprus, Iran and Saudi Arabia is necessary. These countries all have a great impact on the international market, which plays into how their standards will and are evolving. When discussing the development of accounting standards to understand how each country's standards have grown to be where they are today, the key areas that must be discussed are the details around each country's taxation system, the main source of financing present, major cultural influences such as religion and their place in economic development. The analysis of each of the five countries and the influences that take place



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will give a broader understanding of the similarities and differences in the development of accounting standards in the Middle East versus the USA.

Analysis of Cyprus

Cyprus is an island country located in the Mediterranean Sea and is populated by 1.1 million people. Cyprus is the third largest island in the Mediterranean Sea and is known as a trendy tourist destination in Europe, receiving millions of visitors annually. The island is about 140 miles long and consists of 3,571 square miles of land. The three main languages spoken in the country are Greek, Turkish and English, with Greek and Turkish being recognized as the two official languages. English is still widely spoken in the country and is used in business, courts and government. Since 1974, ethnic tensions between Greek Cypriots and Turkish Cypriots have caused the island to be divided into the Republic of Cyprus and the Turkish Republic of Northern Cyprus. However, only the Republic of Cyprus is recognized by the international community (Spilling, 2010).

The accounting profession in Cyprus is represented by many international accounting firms, including all of the “Big Four” accounting firms. Similar to the USA, Cyprus has a common law system for developing accounting standards, while English Law is the basis for statutes which regulate procedures and business matters within the country. The Institute of Certified Public Accountants of Cyprus (ICPAC) adopted International Accounting Standards in 1981. On May 1, 2004, Cyprus became part of the European Union (EU) and was one of ten countries to join the EU on this date. Because they joined the EU, Cyprus has been required to use International Financial Reporting Standards (IFRS) since 2005. In addition to its EU membership, Cyprus also joined the European Monetary Union (EMU) on January 1, 2008. Joining the EU and EMU has launched a new era of opportunities and responsibilities for the accounting profession (European Union, 2012). The following text summarizes some of the steps the accounting profession in Cyprus has taken from 1981-2008.

In the early 1960s, around the time Cyprus became an independent nation, most business transactions were solely from agriculture, and basic accounting was all that was required. At this point in time, a qualified accountant was merely a bookkeeper. In 1961, the ICPAC was established to further develop accounting intentions and instill professional conduct and ethics. The services offered are very similar to those in the USA, but not quite as extensive. Members of this institution offer public and private sectors professional accounting, auditing, management consulting as well as taxation services. As the Cyprus economy grew over the next 50 years, so did the accounting profession and the standards that come with it. Along with the establishment of tax incentives, the actual existence of a high standard accounting profession has caused a large increase in tourism and over a billion dollars in annual foreign exchange revenues (Growing with Economy, 2012).

Due to the diversity in population in Cyprus, educational standards have progressed by developing a more multicultural system. The Government of Cyprus has unveiled a reform program for education which encourages input from every interested party involved. This program will attempt to satisfy the need for meeting future challenges and needs for a more contemporary educational system. As Cyprus has joined the EU, conflicts between European and local components are expected to emerge and it is important that Cyprus is ready to respond to multicultural education challenges. Current attempts at harmonization, such as the government reform program, should

help to replace the current education system while blending with European and global education practices. As educational standards harmonize with the rest of the EU, the needs for qualified IFRS accountants should be gradually satisfied (Horner *et al.*, 2007).

The currency in Cyprus was known as the Cyprus pound and is similar to the dollar in the USA; it was divided into 100 cents. However, after becoming a member of the EMU, Cyprus adopted the euro as its national currency. After joining the EMU in 2008, Cyprus saw many economic and political benefits from joining and adopting the euro as its national currency. Empirical evidence has shown that the single currency has had a positive impact on trade creation between euro area countries. Along with trade creation, it is suggested that the more likely a country is to be integrated with other countries inside a currency union, the more likely their business cycles will become synchronized. This high degree of integration and convergence has led to an increase in price transparency, which results in an elimination of exchange rate risk, lower transaction costs and also decreasing price differentials (Constantinou *et al.*, 2008).

Since Cyprus joined the EMU in 2008, foreign direct investment (FDI) has increased because investors are now more likely to locate their facilities on the island. The financial community is collected from a central bank, a number of local banks, securities brokers, trust companies and portfolio managers. In regards to Cyprus' offshore financial activity, which started in 1976, it includes the incorporation of banks, private banking, trade finance and Eurocurrency loans. After the conflict with Turkey, offshore financial activity got off to a slow start but picked up in the late 1970s due to political violence in Beirut, Lebanon. In the 1990s, some banks from the former Yugoslavia appeared in Cyprus and since 1992, a large amount of Russian companies, financial service companies and banks have settled into Cyprus (Reed, 2012).

Over the years, favorable tax laws have played a role in increasing foreign domestic investment. In 1975, Cyprus began the encouragement of offshore company registration. Due to favorable tax treaties with Russia and other eastern European countries, Cyprus was successful at attracting over 50,000 offshore businesses to the island. By 2007, nearly 140,000 companies were registered. In July of 2002 as part of the Income Tax Act, the Cyprus House of Representatives approved a uniform corporate tax rate of 10 per cent. This rate is valid to both onshore and offshore companies and makes Cyprus the lowest corporately taxed country in Europe, with Ireland being second at 12.5 per cent. In addition to the price transparency, the low tax system and additional tax treaties between Cyprus and 45 other countries are big reasons why the island has continually attracted many companies involved in investments and financial holdings (Mirbagheri, 2010).

In addition, Cyprus levies a value added tax on the supply of all goods and services within the country, on the acquisition of goods from other member states and also on the importation of goods from a third-world country. The standard rate for value added taxes is 17 per cent, whereas the USA does not levy a value added tax (Taliotis, 2012). Cyprus also has negotiated double tax treaties with 45 other countries to avoid double taxation of income earned in any of these countries. These tax treaties are beneficial for trade with Eastern European countries, including Russia (Manning, 2010).

The Turkish people of Northern Cyprus take more of a secular approach to religion, while around 78 per cent of the Republic of Cyprus practices Greek Orthodoxy. The secular approach has caused many Northern Cypriots to become somewhat intolerable toward even their Turkish mainland brethren by often saying that they are "too

religious” (Maric, 2009). This attitude might coincide with the Turkish Cypriot’s mixed feelings toward the EU membership of Cyprus and the adoption of IFRS. The unknown answers to the uncertainties pertaining to potential future benefits and losses of IFRS adoption could be the reasons behind the economic, social and political difficulties facing the Turkish Cypriot people (Uslu, 2003). However, time will tell as to whether the decision to join the EU and adopt IFRS will pay off in the long term, especially with the ongoing financial crisis taking place in Europe.

Cyprus’ evolution in its accounting system has been mainly influenced by its economic involvement with the EU. Its move to join the EU forced it to adopt IFRS. For Cyprus, this has pushed it from a very minimal accounting structure to one that is being developed internationally. Cyprus needed to join forces with the EU to ensure it can continue economic growth. Its history is unlike USA, who has evolved mostly independently within itself, which in turn has caused it to have its own set of accounting standards. Adopting IFRS for the USA is so much more of a major transition going from a well-developed set of standards unlike what Cyprus had, for Cyprus, the benefits outweigh the costs. The following chart compares the important elements of Cyprus with the USA (Table I).

Analysis of Iran

Iran is the 16th largest country in the world in terms of area and has a population of around 70 million. Tehran is the capital city, which is the home of the Iranian Stock Market. Iran has one of the largest natural gas and petroleum reserves, and as a result, plays a key role in the world’s economy. Shia Islam is the official religion and Persian is the official language of the Iranians (Daniel, 2012). Unlike the USA, Iran is still in the early stages of development, just as many of the other Middle Eastern countries are. Accounting is one of the oldest professions in Iran. As Musa Kharazmi, an Iranian scholar, is considered the father of mathematics, many Iranians would argue that they can take credit for the development of accounting standards, as math is a fundamental factor (Previts *et al.*, 2012). Between the global economic actions taking place, the highly influential religious activities and its level of economic progress, Iran has developed a unique accounting system.

Iran’s evidence of accounting started over 10,000 years ago, in which records were kept on stone slabs solely to report revenues earned and expenses paid. Taxes levied on crops produced were the only transactions that took place and were recorded for the

	USA	Cyprus
Population	311 million	1.1 million
Religion	Diverse religion	Greek Orthodoxy
Culture	Individualism	Collectivism
Law system	Common law	Common law
Taxation	Differences between taxable income and accounting income–deferred taxes	Value added tax; favorable tax treaties with Eastern European countries; low corporate tax rate at 10 per cent
Needs	Well-established accounting system for fair presentation of financial information	Economy growing; went from solely agriculture to the development of tourism
Pressures	Trend of globalized accounting standards	European Union and the European Monetary Union

Table I.
Accounting development comparison of Cyprus

king to measure and budget his country's wealth. Over time evolved the agricultural era before Islam was introduced. Among the agricultural era was a private entrepreneurship market. The culture of the individuals in the working class could be described as individualist. They worked exclusively for their own and their family's well-being (Previts *et al.*, 2012). This cultural characteristic is similar to the USA today. Beginning around the time frame of the First World War, the Western influences came from American firms taking interest in Iran's growing, industrialized economy due to their known commodity of oil (Daniel, 2012). The worldwide need for oil reserves sparked international investor's interests, but Iran's accounting infrastructure does not give investors a sense of security.

Iran is classified as a code law country, and before the revolution, this was the major contributing factor to how financial reporting took place. Code law was and still is characterized with lack of investor protection from judicial inefficiencies (Mashayekhi and Mashayekh, 2008). Between a group of 12 Iranian scholars who were educated in the UK and the Big Eight firms that took interest in expanding the Iranian accounting field, Iran was well on their way to developing an accounting infrastructure. Education, auditing and financial reporting standards were in progress and closely related to the Anglo-American standards (Mashayekhi and Mashayekh, 2008). The Tehran stock exchange (TSE) opened in 1967, and as in the USA, it called for more transparency in the financial statements of listed companies to get investors more involved in trading (History, 2012).

Major changes in the Iranian accounting system took place after the Islamic revolution in 1979. For 10 to 15 years, development was at a standstill. The Big Eight firms dissolved and many active programs in progressing accounting education became inactive (Previts *et al.*, 2012). The amount of companies listed on the stock exchange dropped drastically and the culture of the Iranian people was transformed as well (History, 2012). The individualistic environment transitioned into a collective one in which people worked for the good of the entire community and the market turned into a socialist, common wealth market (ArabSalehi and Velashani, 2009). Around 70 per cent of the Iranian economy was controlled by the government (Mirshetary and Saudagaran, 2005). This caused accounting standards to be less prevalent; there was no need to be as transparent. Financing was through the government and private banks, significantly decreasing the need to inform investors. They focus more on the completeness and accuracy of the balance sheet for liquidity purposes (Ilias, 2010). This sharply contrasts with the USA, whose market is characterized by individualism and is considered a free market. Venture capitalists are heavily interested in transparency and completeness of all financial statements, with the purpose of being well-informed about their investments.

To grow economically and internationally, there was a need to change from a government-controlled market to a private market. In July 2006, privatization started to take place. Up to 80 per cent of shares of some companies in the oil, banking and transportation industries were being listed on the TSE (Ilias, 2010). To be listed on the TSE, the company must have a full set of audited financial statements (Previts *et al.*, 2012). A growing public sector called for more stringent accounting standards and readily available public financial information to encourage investment (Khanagha *et al.*, 2011). Along with the growing public sector came the evolution of the Iranian Income Tax Law. All Iranian companies are required by the Iranian Income Tax Law to

maintain adequate accounting records for tax purposes that have been audited by a certified public accountant (Mashayekhi and Mashayekh, 2008). As taxation is based on financial reporting, companies will try to find ways to defer their income and increase their expenses.

Both the tax law and the public sector growth were dependent upon the development of auditors and growth of education (Mashayekhi and Mashayekh, 2008). This brought about a strong demand for auditors who needed to be highly educated in tax law and accounting standards as that taxes are a main source of income for the government. Transparency is another key for economic growth, as this will raise investors' confidence and encourage more investment. Auditing standards in Iran are still less involved with performance measures and management of financial activities to encourage economic growth and more focused on compliance with requirements of developed countries. (Previts *et al.*, 2012) To continue progress, it came to the point where the Iranian Audit Organization was appointed by law to improve national accounting and auditing standards (Mashayekhi and Mashayekh, 2008). Developing the accounting and auditing profession is part of the many Five-Year Economic Development Plans that the government issued after the revolution (Roudaki, 2008).

The Shariah law, developed by the Islamic religion, was the driver behind the socialist market in Iran. The government ensures that Islamic values are upheld by the establishment of the Shariah Board in 2006. They oversee the financial reporting and the capital market (Previts *et al.*, 2012). The Shariah specifically deals with Zakat and interest-free banking. Zakat stems from the collectivist value that is part of the Islamic religion. Zakat means to purify oneself of greed once a certain level of wealth is obtained. One is not to hold on to more than a designated amount of wealth, it is to be shared among the poor and less fortunate community. The basic reasoning behind interest-free banking is to also promote development of the underprivileged and break away from the uneven distribution of wealth. Paying interest on a loan hinders the needy and makes the rich, richer, which is not acceptable under Islam (Rahman, 2007).

The advancement of the Iranian accounting system is in the development stage at best. This makes it difficult to compare Iran's accounting system today to the US complex and well-established accounting system. The US system is well above the curve, as it has had to evolve to growing demands of the user needs due to the state of economic development it is in. It is designed to prevent scandal and keep investors informed, because of this, financial reporting has become highly transparent with many stringent rules to follow. The great depression stemming from the market crash is the historical event that caused the creation of the Security and Exchange Commission (SEC) to regulate financial reporting. Sarbanes–Oxley exists as a result of corporate scandals dealing with Enron and WorldCom (Ijiri, 2005). Iran has not faced a catastrophic economic event that sets precedence as the USA has. Iran has a learning curve disadvantage due to their place in economic development.

Both the USA and Iran recognize that to continue growth and be internationally involved, there is a need to develop financial reporting statements that are widely understood and accessible. The Islamic religion presents a major barrier for Iran to adopt IFRS. If Iran will ever adopt a set of international standards, they need to get more involved in the development to ensure they will fit their needs. At this point, Iran is still in the harmonization phase in adopting IFRS. IFRS is still not permitted; the Iranian National Accounting Standards must be followed by all companies (Previts *et al.*, 2012).

The USA presents a totally different set of issues; religion is not a competing factor for their decision in adopting IFRS (Table II).

Analysis of Saudi Arabia

The Kingdom of Saudi Arabia (KSA) is one of the fastest developing Middle Eastern countries in the world. KSA is in southwestern Asia, is the largest country in the Arabian Peninsula and contains the largest sand desert in the world. In the 1930s, the discovery of oil transformed Saudi Arabia's economy. Its oil area covers the majority of east province along with Persian Gulf. This country's population is around 26 million, including approximately 5.57 million foreign residents. Arabic is the official language of the Kingdom, and Islam is the official religion of KSA (Saudi Arabia, 2012). Monarchy is the central institution of KSA Government. The basic law declared that KSA's monarchy is to be set by the offspring of King Abd Al Aziz Al Saud. There were no political parties or elections until KSA launched the first municipal election in 2005 (Saudi Arabia, 2011). With the increasing development of the economy, KSA is making progress in both the economy and the society.

The Saudi accounting profession is controlled by the Ministry of Commerce (MOC). The MOC is responsible for issuing public accounting certificates, and exercising a disciplinary role. In general, the Saudi Arabian Generally Accepted Accounting Principles (SGAAP) asks for much more detailed disclosures than other Middle East countries, even though additional details are not mandatory (Moustafa, 2001). All public and non-public enterprises are required to follow generally accepted accounting standards in the KSA, just as the USA. The standard of general presentation and disclosure issued by the MOC on May 11, 1990, is the only formal, generally accepted set of accounting in Saudi Arabia, (Moustafa, 2001). The Saudi Organization for Certified Public Accountants (SOCPA) has issued only a limited number of accounting standards, but has stated that where its standards do not cover a topic, then US Generally Accepted Accounting Principles (US GAAP) should be used (O'Regan, 2009).

The SOCPA was established by Royal Decree in 1992, and carried these objectives out through the Accounting Standards Committee and Auditing Standards Committee. (Al-Amri & Co., 2007). Creating accounting and auditing standards is an endless process that has to continually evolve. With the developing of economy, SOCPA has issued two publications: Accounting Objectives and Concepts and Auditing Standards. These publications carry out Saudi Standards for the appropriate topics and issues and keep

	USA	Iran
Population	311 million	70 million
Religion	Diverse religion	Shia Islam
Culture	Individualism	From individualism to collectivism
Law system	Common law	Code law, Shariah law
Taxation	Differences between taxable income and accounting income—deferred taxes	Income tax law—taxation is based on financial reporting
Needs	Well-established accounting system for fair presentation of financial information	Islamic revolution; growing economically and internationally; encouraging investment
Pressures	Trend of globalized accounting standards	Anglo-American standards

Table II.
Accounting
development
comparison of Iran

them up-to-date in agreement with the relevant economic principles. Both the Accounting Objectives and Auditing Standards may be considered the source of guidelines for the accounting profession and the private sector. The new concepts and standards are similar to the accounting principles issued by the American Institute of Certified Public Accounting; however, compliance with the new concepts and its standards is not currently enforced by an independent governmental agency or a private organization (Moustafa, 2001).

Generally, Saudi taxation law requires that all foreign and Saudi enterprises pay taxes on earned profits, similar to the USA. The tax system of Saudi Arabia is controlled by the central government. The two main forms of taxation in Saudi Arabia are the Zakat and the income tax (Al-Amri & Co., 2007). However, Saudi Arabia has not created or appointed an organization or government body to be recognized as promulgators of accounting standards and practices. Therefore, major exceptions to the international standards are necessary in Saudi Arabia, and deferred taxation is not used (McKee *et al.*, 1999). By contrast, in the USA, SFAS 109 prescribes setting up deferred taxes according to the liability method for all temporary differences. This is where deferred tax benefits or liabilities are documented in the financial statements for all temporary differences (Subramani, 2009).

The Saudi Arabia Government has established a well-structured financial system. It consists of the Government Specialized Investment Funds and the Saudi Arabian Monetary Agency (SAMA). "The main function of Government Specialized Investment Funds is to provide medium and long-term loans to private or public projects. In 1952 the SAMA was created, it is the Central Bank of the KSA" (Commercial Development, 2002). The first duty of the SAMA was to create a Saudi currency system. Later in the 1980s, the SAMA found it necessary to concentrate on regulating inflation as the economy boomed. Growing the banking system to oversee foreign exchange reserves was also needed (IPB USA, 2005). The most important changes in the Saudi Arabia financial system have been the introduction of a new Capital Market Law in 2003. It has played a major role in opening up the financial system to a whole new range of market players and new financial instruments that will increase the breadth and depth of the Saudi Arabia financial system (Al-Amri & Co., 2007). The increased demand for new market players would be one of the influences that caused Saudi Arabia to develop transparent financial statements.

Disclosure is required by the MOC guidelines for results of continuing operations and discontinued operations, as well as extraordinary items (O'Regan, 2009). Increase in information disclosure was also needed because of the significantly larger disclosure and accounting requirements – particularly in USA – the companies have to provide information to the market, which so far has neither been made available to investors in the domestic market nor been published by domestic competitors (Walton *et al.*, 2003).

According to the World Bank's (2012) Doing Business:

Doing Business in a More Transparent World report released in October 2011, Saudi Arabia is ranked as the 12th most business-friendly country out of 183 economies worldwide and led the Middle East region on the list.

It is noted that they are persistently refining their standards to continue improvement in a number of other categories studied to make it more "favorable for businesses" to carry out business in Saudi Arabia (USA Saudi Arabian Business Council, 2012).

Transparency is important to the development of the accounting standards, as it has been in the USA. Ranking high in transparency will help Saudi Arabia continue growth; investors will feel more secure knowing more about their investment through the transparent financial statements.

Saudi law is based strictly on Islamic Shari'a law. It is also called Shariah law, drawn from the Holy Qur'an and the Sunnah. The Foreign Investment Law is in place, which requires all foreign investors in the KSA to have a license issued. Foreign companies are authorized to establish branches of foreign companies, where 100 per cent is owned by the parent that established the branch. Like many other underdeveloped countries, Saudi Arabia follows a commercial law system, which is a unique legal system. Unlike KSA, the USA requires the common law. In common law countries, such as the USA, much more detailed rules are developed. The extreme case might be the Financial Accounting Standards Board (FASB) in the USA, which provides a substantial amount of implementation guidance in accounting standard codification (Doupnik and Perera, 2015).

Cultural influences in KSA come from the Islamic religion, while business is based on personal relationship in this culture. This is very different from the USA, and there is a distinct masculine way of doing business in KSA. To determine if accounting differences are present because of the cultural differences, one must understand the impact that cultural values have on the accounting system. In the Middle East, Arab countries have higher power distance and lower individualism compared to the USA. Power distance is strongly linked to professionalism, which is close relationship with secrecy. In Saudi Arabia, most international joint ventures with foreign partners involve the disclosure of information at minimum degree to preserve power inequalities (Moustafa, 2001).

Recently, representatives of the International Accounting Standards Board (IASB) and the SOCPA met on 24 October 2012 in London. This meeting was held to discuss what major actions have taken place leading Saudi Arabia toward convergence of IFRS. Commenting on the meeting, Ian Mackintosh, Vice-Chairman of the IASB said:

Saudi Arabia is a leading regional economy as well as being an important member of the G20. We are extremely pleased to note the progress Saudi Arabia is making towards the adoption of IFRS. We have undertaken to help them in any way we can and we look forward to welcoming them into the family of IFRS adopters. (IFRS, 2012).

Saudi Arabia companies are required to comply with the accounting standards issued by the SOCPA. IFRS are to be used as a guide if no SOCPA accounting standard exists. There are many benefits for Saudi Arabia adopting IFRS in the country, such as transition from local GAAP to IFRS would help them to adapt new regulations efficiently. Therefore, adopting IFRS in KSA seems like a sensible choice. Unlike the USA, Saudi Arabia does not have a well-structured and tested accounting system. The major problem for KSA adopting IFRS may be their religion of Islam, but the trend of globalization will push the KSA applying IFRS in the future (Table III).

Analysis of Turkey

Turkey, whose official name is known as the Republic of Turkey, is a Eurasian country. It lies partly in Europe and partly in Asia. Throughout Turkey's history, it acted as a

bridge which connected Europe to Asia. The capital of Turkey is Ankara, while the largest city in the country is Istanbul. The population is around 74 million, which makes it the world's 17th most populous nation (The World Bank, 2012). The main religion practiced in Turkey is Islam, while the official language of the country is Turkish. The accounting system of Turkey has developed since 1839, but the Uniform Accounting System, which is implemented by several enterprises, was not further developed until 1960. Therefore, the accounting development history of Turkey took place over a very long period. Its development was a product of many influential factors (Bureau of European and Eurasian Affairs, 2012).

The developments of accounting practices in Turkey were influenced by France and Germany in a period when Turkey's economic and political powers were tied to these Western countries. The Turkish Trade Law, which was the basis of accounting practices, was translated from French Trade Law. When the Republic of Turkey was founded in 1923, the new commercial code was taken into account based on the influence of Germany in 1926. After the Second World War, Turkey started to develop rapidly. In this unprecedented development period, many successful individuals in Turkey had training experience in the USA, which introduced American experience into the Turkish accounting practice. From that time on, the accounting system of Turkey was heavily influenced by the American accounting system. After that, Capital Markets Board and Istanbul Stock Exchange (ISE) were founded in Turkey. ISE is the only stock exchange in Turkey. Today, the number of listed companies traded on the ISE has reached 363.

There is encouragement from the government to list companies on the stock exchange (IMKB Annual Reports, 2011). This stimulated the development of accounting and auditing standards and reinforced the importance of financial reporting. The goal is to bring convenience to domestic investors and increase accessibility and transparent financial information, which in turn will support economic growth. To strengthen its economic growth and attract more investment from other countries, the IFRS-based statements are required in Turkey for the foreign stock exchange. Another important reason for adopting IFRS is to provide harmonization to EU legislation. On July 1, 2012, the New Turkish Commercial Code, which was promulgated in 2011, became effective. Turkish Accounting Standards Board (TASB) deals with forming and publishing accounting standards. The Turkish Accounting Standards (TAS) published by TASB is the Turkish translation of IFRS. From January 2013, all companies, listed or not, will be required

Table III.
Accounting
development
comparison of Saudi
Arabia

	USA	Saudi Arabia (KSA)
Population	311 million	26 million
Religion	Diverse religion	Islam
Culture	Individualism	Collectivism
Law system	Common law	Code law, Shariah law
Taxation	Differences between taxable income and accounting income-deferred taxes	Zakat and income tax-taxation is based on financial reporting
Needs	Well-established accounting system for fair presentation of financial information	SOCPA; capital market law; demand for new market players
Pressures	Trend of globalized accounting standards	Trend of globalization

to prepare financial statements in agreement with the TASB. This will create great progress for the accounting system in Turkey (PwC Turkey, 2011).

The legal system is another important factor influencing the development of accounting in Turkey. Turkey is classified as a code law country. In 1926, Turkey adapted many Western countries' laws like Switzerland and Germany; hence, Turkish laws are very similar to Western laws (Yasemin, 2007). But after the Second World War, the USA has played a more and more significant role in the world economy. Therefore, the commercial laws have changed from the Continental Europe model to an Anglo-Saxon accounting model under the influence of the USA (Altintas and Yilmaz, 2012). The establishment of a private sector, Expert Accountants' Association of Turkey, is an important milestone event in the Turkish accounting system development. This sector helps regulate the accounting profession in Turkey. Even though Turkey is a code law country, with economic reforms, Turkey's Government has opened up its market and is gradually reducing government controls. Under the new policies and economic circumstances, the development of its accounting system has been heavily affected by domestic and international factors. To meet the financial information need of foreign investors, Turkish accounting is affected heavily by IFRS. As a result, the financial information in Turkey has become more and more comparable, transparent and reliable (Sayar *et al.*, 2008).

In 1986, the laws of the Istanbul Stock Exchange came into effect. Meanwhile, the increases in foreign investment have stimulated the development of accounting standards. In 2005, banks and firms that have registered with the ISE were to prepare their financial statements following IFRS principles (Yilmaz *et al.*, 2007). Tax laws in Turkey have been effective at not only providing tax information to the government, but also for the purpose of providing correct tax bases in accounting practice (Alp and Ustundag, 2009).

In 2012, a new Turkish Commercial Code became another milestone in the country's accounting history. In this new code, TASB became the only authority for accounting implementation and all the companies in Turkey, whether public or not, are required to prepare financial statements under TAS, which is published by TASB. TAS is the Turkish translation of IFRS. The new law aims to provide financial information in accordance with TAS and is widely accepted in the international markets by introducing a uniform application and principles to accounting which meet the international users' needs (PwC Turkey, 2011).

The economy in Turkey is shifting from a state-led economy to a market-based economy. These market reforms have resulted in transforming Turkey from an agricultural to an integrated industrial society (Yeldan, 1989). In this rapidly developing situation, the economic and financial information needed from foreign investors and businesses have prompted the development of accounting standards and accounting practices in Turkey. These investors are gradually satisfied with the comparability and transparency of the financial information available to make investment decisions (Previts *et al.*, 2012).

To encourage growth in its economy, Turkey has reduced government controls on foreign trade and FDIs to open up its market. After openly pushing for these policies, Turkey implemented them in the 1980s, which was the goal of developing a free market economy (Tatoglu and Glaister, 1998). The export-led strategy has promoted economic

growth, specifically, the development of an industrialized economy (Yeldan, 1989). In this macro-economic background of trade liberalization, FDI has increased in recent years (Bilgili *et al.*, 2012). The USA is one of the important trading partners of Turkey. In 2011, bilateral trade between both countries increased drastically (USA Census Bureau, 2012). To increase bilateral trade with USA, accepting a global-based accounting system is inevitable for Turkey.

The different accounting systems arise from a different culture environment. In terms of five dimensions of Hofstede's societal values and combined with Gray's accounting values, we can find how the culture shaped accounting in a country. Turkey is a high power distance country. Therefore, the accounting value in Turkey is considered "statutory control", which means accounting practices are compliant with legal requirements, which is the same as the USA. In addition, accounting practices in Turkey are less flexible than the USA. Turkey is also a high-secrecy country in accounting values, which means that they limit disclosure in their financial statements, but financial information in USA is fully disclosed. This reflects the different financial sources and different information users. In contrast to the wide scope of users of financial information in the USA, the main user in Turkey is government departments. After several reforms to improve the economy in Turkey, the situation has changed. To become a member of the EU, Turkey is working on diminishing the gap with EU countries by adopting IFRS. Its accounting practice will become less secretive and more professional to satisfy more international investors and organizations (Askary *et al.*, 2008).

Considering the relationship between Turkey and the USA, Turkey has been heavily influenced by the USA in both its politics and its economy. The development of accounting in Turkey also makes progress under USA's influence. In the education aspect, Turkey can learn about the advanced experiences in developing, regulating and adjusting the accounting system. On the economic side, the increasing need of financial information from investors pushes the development of accounting in Turkey.

To sum up, companies in Turkey are preparing their financial information in accordance with IFRS, and in conformity with the new commercial code which became effective in 2012. It is presumed that all companies in Turkey will accept TASB, which is a translation of IFRS. The Union of Chambers of Certified Public Accountants of Turkey has a blueprint to educate members of the accounting profession about TAS. Turkey relies on global business, foreign investment and cooperation with EU. This necessitates the country to adopt global accounting standards (Previts *et al.*, 2012) (Table IV).

Analysis of United Arab Emirates

The United Arab Emirates is also called UAE. It is a united federation of seven emirates in the Middle East and North Africa region. The population is roughly 7.6 million (UAE Interact, 2012). The nationally recognized religion is Islam, which 96 per cent of the UAE population practices. The Political Federal Supreme Council, composed of the sheikhs (chiefs) of the seven emirates, is the highest decision-making authority. The Council discusses and makes decisions on major policy issues. Presidents and vice presidents are elected every five years from members of the Supreme Council. UAE is famous as a natural gas export country, but in recent years, more than 60 per cent of its gross domestic product is

contributed by the non-oil sector. As a member of the Gulf Cooperation Council (GCC) with five other Arab countries, UAE has its political place in Middle East and the North African region. All six GCC members are oil-rich countries and all have “adopted IFRS to some extent” (Irvine and Lucas, 2006). Unlike the USA which has its own GAAP, codified accounting standards were never developed in UAE.

The development of accounting standards in UAE was late and imperfect. Prior to 1980, accounting regulatory organizations which supervise the financial results were not present. As the needs increased due to economic growth, banks, financial institutions and investment, companies were required to report under IFRS by the UAE central bank in 1999. By 2009, the UAE required certain entities to prepare financial statements under IFRS (IFRS, 2009).

Halbouni (2009) found that “The UAE has positive low self-rating, moderate individualism, and high collectivism perspectives”. Different culture dimensions have different accounting values. In the USA, the accounting values in the culture of individualism are professionalism, flexibility, optimism and transparency, while there are statutory controls, uniformity, conservatism and secrecy in a culture of collectivism, as in the UAE (Doupnik and Perera, 2015). To meet the foreign investors’ requirements of reliable accounting information, IFRS was adopted. The globalized standards could be their best choice because UAE people like their collectivism behavior to be confirmed by others. However, IFRS was developed based on Western culture (individualism), which is quite different from that (collectivism) in UAE. Thus, besides the changes of accounting standards, UAE may face a cultural and religious reform too. As introduced earlier, most people in the UAE are Muslims who are explicitly prohibited from converting to other religions. Therefore, the culture and religion reform could be one big obstacle during the adoption process.

As a country that favors secrecy, the major financing source is private. Thus, accounting information serves insiders like banks and government much more than the public in the UAE. It is very different from that in the USA, where information is transparent for all the stakeholders. To get more private investment, speedup economic growth and support the transition to a market economy, Middle Eastern countries will need to implement economic reforms (Khanaghga, 2011). The government decided to create an attractive investment environment by providing better accounting information, lower taxation, no exchange control regulation, free trade zones, etc. As a

	USA	Turkey
Population	311 million	74 million
Religion	Diverse religion	Islam
Culture	Individualism	Collectivism
Law system	Common law	Code law
Taxation	Differences between taxable income and accounting income–deferred taxes	Taxation is based on financial reporting
Needs	Well-established accounting system for fair presentation of financial information	Growing economy and attracting investment
Pressures	Trend of globalized accounting standards	Second World War: influence from the USA; harmonization to EU legislation

Table IV.
Accounting
development
comparison of
Turkey

secondary market, the “Dubai Financial Market” and the “Abu Dhabi Securities Market” were established in 2000 for trading securities and bonds. Additionally, the Dubai International Financial Exchange was established in 2004 for gaining capital (PKF, 2009). These foreign exchange markets will encourage more transparent financial reporting, just as in the USA.

Although the common law principles have an increasing impact in commercial contracts, the UAE is a civil law or code law country that was influenced by “French, Roman and Islamic laws” (PKF, 2009). Like most of the code law countries, the taxable income in the UAE is retrieved from financial statements and there are no deferred income taxes. In contrast to the USA, deferred income taxes exist from the difference between accounting income and tax income. Compared to the well-established taxation system in the USA, the UAE is nearly a tax haven because companies do not pay corporate income tax, except that banks and oil companies pay it at 20 per cent and 55 per cent, respectively. No individual income tax or withholding taxes are levied and hotel services pay municipal taxes at rates varying from 5 per cent to 10 per cent (PKF, 2009).

To keep stimulating the economy and attracting foreign investors, the UAE is moving with big changes such as the major overhaul of corporate law to introduce unified accounting standards for all business, amend guidelines for share offerings in local capital markets and extend the possibility of foreign majority ownership of companies nationwide. The new legislation releases the 49 per cent limit of foreign shareholding in certain companies and requires small companies to provide financial statements that are not required under the current law. A better financial disclosure for small businesses would lead them into a better position to gain financing. Analysts also suggest that the government proposes new transparency standards for tax requirements, as the UAE does not currently tax foreigners (Hamdan, 2011).

The US GAAP is well-known as a sophisticated accounting standard. The FASB, the Congress and the SEC have control over accounting to serve companies and stakeholders better in the USA. Thus, it is more complicated for the USA to adopt IFRS. Unlike the USA, the UAE does not have a set of well-established accounting standards for its own interests. They could save the set up costs by adopting IFRS (Zoubi and Al-Khazali, 2011). Four other major factors that have pushed UAE toward IFRS are trade, a capital market, the Big Four international accounting firms and the World Bank (Irvine and Lucas, 2006).

The UAE has a strong trading relationship with Western nations. Due to its free trade policy, its tariffs on imports were revised upwards from 1 per cent to 4 per cent after 1994 (Looney, 2003). In 2003, the trade with the EU was over \$9.5 billion and \$2 billion with the USA. The EU required listed consolidated entities to adopt IFRS from January 2005. It is reasonable for UAE to keep close to its big trading partners by adopting IFRS (Irvine and Lucas, 2006). The accounting literature suggests three criteria for evaluating the adequacy of financial reporting by foreign stock market: availability, reliability and comparability (Zoubi and Al-Khazali, 2011). UAE is committed to attract foreign capital through its local stock market. This will necessitate a more integrated, transparent and efficient accounting information system. This can be achieved by adopting the IFRS globalized accounting standards. The UAE joined the World Bank and began to follow its guidelines in

1972. The globalization of the Big Four accounting firms has been accomplished partly because the World Bank requires projects that it finances to be certified by “internationally reputable firms of accountants” (Annissette, 2004). All of the Big Four accounting firms have influenced the Arab countries and require their clients in UAE to prepare financial reports in accordance with IFRS (Irvine and Lucas, 2006).

In summary, the USA has its own sophisticated accounting and taxation systems and they fit the best needs of the country, which makes it difficult to adopt IFRS due to the conceptual differences. However, the adoption of IFRS seems to be a good choice for the UAE, as it does not have a well-established accounting system and the fair presentation of financial information is needed to gain worldwide capital and to stimulate economic growth. The one main obstacle that the UAE may face in adopting IFRS deals with culture/religion because the adoption of IFRS may result in reforming culture and religion, which is against the Muslim’s beliefs (Table V).

Conclusions

The results have shown a great amount of similarities and diversities among the five respective countries studied when compared to the USA (Table VI). As these countries have a large impact on the international market, it is expected that the accounting standards will continue to develop despite existing cultural, legal and political obstacles. Like the USA, it is up to each accounting body in these countries to determine when the benefits outweigh the costs of adopting IFRS. Growing economies and relatively favorable taxation systems have made the Middle East a desirable place for FDIs. Despite the Middle East’s accounting standards being very divergent when compared to the USA, this paper has shown how each system developed and why it became what it is today. Cultural influences, taxation, sources of financing and the rate of economic development will continue to make an impact on the development of accounting standards for not only the Middle East, but the USA as well. With many of the countries already adopting or moving toward adopting IFRS, this should provide further assurance to international investors to look positively at investment opportunities in the Middle East.

	USA	United Arab Emirates (UAE)	
Population	311 million	7.6 million	
Religion	Diverse religion	Islam	
Culture	Individualism	Collectivism	
Law system	Common law	Code law	
Taxation	Differences between taxable income and accounting income—deferred taxes	Taxation is based on financial reporting; nearly a tax haven	
Needs	Well-established accounting system for fair presentation of financial information	Economy reforms; attracting investment	
Pressures	Trend of globalized accounting standards	European Union; Big Four international accounting firms; World Bank	

Table V.
Accounting
development
comparison of United
Arab Emirates

Table VI.
Development of
accounting standards
in selected Middle
Eastern countries in
comparison to the
USA

	USA	Cyprus	Iran	Saudi Arabia (KSA)	Turkey	United Arab Emirates (UAE)
Population	311 million	1.1 million	70 million	26 million	74 million	7.6 million
Religion	Diverse religion	Greek Orthodoxy	Shia Islam	Islam	Islam	Islam
Culture	Individualism	Collectivism	From individualism to collectivism	Collectivism	Collectivism	Collectivism
Law system	Common law	Common law	Code law/Shariah law	Code law/Shariah law	Code law	Code law
Taxation	Differences between taxable income and accounting income—deferred taxes	Value added tax; favorable tax treaties with Eastern European countries; low corporate tax rate at 10 per cent	Income tax law—taxation is based on financial reporting	Zakat and income tax—taxation is based on financial reporting	Taxation is based on financial reporting	Taxation is based on financial reporting; nearly a tax haven
Needs	Well-established accounting system for fair presentation of financial information	Economy growing; went from solely agriculture to the development of tourism	Islamic revolution; growing economically and internationally; encouraging investment	SOCPA; capital market law; demand for new market players	Growing economy and attracting investment	Economy reforms; attracting investment
Pressures	Trend of globalized accounting standards	European Union and the European Monetary Union	Anglo-American standards	Trend of globalization	Second World War: influence from the USA; harmonization to EU legislation	European Union; Big Four international accounting firms; World Bank

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