CHAPTER SEVEN

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CONCLUSIONS:

In the light of theoretical study and results of empirical study (i.e., analysis of Questionnaires and Annual Reports of companies) the researcher has drawn some specific conclusions which are enumerated as below:

(FIRST) THE CONCLUSIONS RELATED TO THEORETICAL STUDY:

1) The subject of foreign exchange fluctuation as economic and accounting problem is associated with development of International Monetary System. The Fixed foreign exchange system adopted by the Bretton Woods Agreement in 1944 was collapsed in 1971. And the floating exchange system took its place. According to the new system, the external value of currency (i.e., exchange rate) is determined by market forces. The foreign exchange changes became an economic phenomena and problem in the world economy.

The fluctuation of foreign exchange rate became an important topic in the agenda of accounting thoughts and practices because the changes in the foreign exchange rate create accounting problems in the measurement and disclosure related to selecting the proper rate and treatment of exchange difference (gains or loss) in the accounts and financial statements. Also these changes in foreign exchange rates affect management accounting especially in the budgets and performance evaluation of a corporate unit.

2) In addition to changes in foreign exchange rate, there are also other factors that put the subject of foreign currency in the accounting agenda such as:
   a. Increasing the international trade movement
   b. Increasing the international investments
   c. Phenomena of international companies

3) The birthday of consolidated financial statements was considered as a crucial event in the history of foreign currency accounting, because the multinational companies wish to get information about the parent company and its subsidiaries from the global
angle as an economic single unit. Thus, the conceptual basis of foreign currency translation is associated with the philosophy, objectives and problems of consolidated financial statements.

4) The fluctuation of foreign exchange rate has economic, managerial and accounting dimensions. The results of a number of empirical studies show that the fluctuation of foreign exchange rate affects profitability, future cash flows and performance of the companies (i.e., economic risks) the fluctuation also affects the planning, controlling and performance evaluation and decisions related to finance, pricing and investments (i.e., managerial dimension). Finally, the fluctuation has also an impact on accounting information system and usefulness of financial statements for decision making (accounting dimension). The multi-dimensions of foreign currency problems should be considered while selecting an accounting approach to foreign currency translation.

5) That the inflation problem and exchange fluctuation problem are related to each other. The fact that the problems of inflation and fluctuating exchange rates are related suggests that accounting solutions are also related. Thus, the effects of domestic and foreign inflation should be taken into account while evaluating profitability and performance of foreign operations and when also translation of financial statements of foreign entity.

6) There is a debate on accounting thoughts regarding the measurement and recognition of exchange differences between the approach of immediate recognition of exchange gain and loss in the income statement and the approach of deferred exchange difference (gains) in the Balance Sheet.

7) The immediate recognition based on the Dual Approach that differentiates between commercial and financial side of foreign currency transaction. It is also based on the Accruals Principle.

But the deferral of exchange gains based on the Prudence Principle that acts as a necessary check on the optimism of the managements which are always trying to present the results of their endeavors in the best possible light.
However, the priority is given to **accruals principle** in the presentation of accounting data with a pragmatic approach for decision-making. In contrast, the **prudence principle** only protects the interest of the creditors. Thus, it is considered as the dustbin of the past. The prudence principle distorts the results and also it is in disagreement with full disclosure principle. Hence, **there is no room to accept prudence in advance accounting theory as per Hendrickson’s conclusion** (Hendriksen, 1990:319).

8) **The foreign currency financial statements translation approaches ignore the domestic and foreign inflation problem. In addition to that these approaches suffer from conceptual limitations.**

9) There are many Accounting Boards which issued accounting standards and guidelines regarding accounting for foreign currency. The accounting philosophy has **developed from single approach** based philosophy in translating financial statements of foreign subsidiaries to **Situational Approach** which adopts two methods (i.e., closing rate method and temporal method) according to the **economic relations and conditions**. If the foreign entity is independent, the closing rate method should be adopted but if the foreign entity is not independent, the temporal method should be adopted. In case the foreign subsidiaries work in highly inflationary environment, the closing rate also should be adopted to translate the financial statements. (See IAS No21, 1983, 1993, 2003)(US, FAS No 52)( UK SSAP No- 20)( Australia AAS 20);Canada ;India AS 11;France;Germany ; Korea; ( EC 1995 , OECD 1986 ).

10) **The preferential criteria in selecting accounting policies** of foreign currency translation, is providing information relevant for decision making which make the related parties to properly judge and evaluate the profitability and performance of foreign operations and to enable the users of accounting information (i.e. the investors , management , creditors ) **to evaluate and to predict the future cash flows.** This can only be done if translation of foreign currency establishes a link between exchange fluctuations and foreign and domestic inflation effects.

(((SFAS, 52 (USA) in case of subsidiary works in foreign country where suffer from high inflation, the temporal method is recommended))).
11) **No one accounting theory** in all situations can explain how accounting policies are selected and predict the managerial preference in selecting such accounting policies. However, **the positive theory** does provide insight into association between firm characteristics and managerial preference in selecting accounting policies of foreign currency. But the relationships between the variables and the firms are complex and not yet well understood. Interaction between variables can lead to results which may not prove to be valid or which may not provide adequate insight to allow predictive models to be developed.

12) **The accounting treatments and standards have economic effects.** In case of failure in finding significant effects, does not necessarily imply that there are no economic effects relating to the standards but only that tools available are not powerful enough to detect those effects.

13) **The politicization of accounting** and selecting accounting policies according to its effect on reported income both may harm the credibility of information but this does not mean accounting has no political and economic dimensions instead, we mean that the accounting choice should be logic and fair and not opportunistic.

14) There is an approach which believes that the accounting policies are a part of management policy and strategy to achieve the goal of the organization efficiently. Thus, accounting policy of foreign currency can not be isolated from its organizational context and its economic environment.

15) The theoretical study of this thesis reveals that there is diversity in international accounting practices of foreign currency transaction for, eg:

- **American –British approach** based on immediate recognition of exchange difference (gain or loss)

- **Japanese approach** based on no recognition of exchange difference related to long term monetary items till date of settlement.
French approach is based on views that state that exchange loss should be recognized in the income statement and exchange gain deferred in the balance sheet.

German approach is based on the philosophy that believes that exchange loss should be recognized in the income statement and exchange gain ignored.

Canadian approach is based on deferral and amortization of exchange difference related to long term monetary items.

Indian approach is based on the philosophy that states that exchange difference related to fixed assets should be adjusted with the cost of such assets (i.e. assets, imported as per Tax Act, 1961 and Companies Act 1956).

This diversity in international accounting practices raises two issues:

- What are reasons of differences in the accounting and reporting practices?
- The importance of harmonization of international accounting practices.

The first issue: Causes of international differences in financial reporting:

As a result of the discussion of the reason behind difference in international accounting practices, the researcher has state the following:

A. Impact of cultural values on accounting values and then on accounting policies adopted as S. Gray (1988) theoritized this work which was based on Hofsted views (1984).

In the USA and UK individualism, optimism and transparency are dominant values hence, the choice of immediate recognition of exchange gain &loss reflects the cultural values therefore.

In other countries such as France and Germany collectivity, secrecy and conservatism are dominant cultural values. Hence the choice of deferral of exchange gain or ignoring the gains of restatement of foreign currency balances at the balance sheet date reflects the cultural values.

Thus, the difference in the cultural values may lead to diversity in international accounting practices.
B. **Legal requirement**: In India the Companies Act (1956) requires that companies to adjust the exchange difference with the cost of fixed assets (imported from outside India).

Thus, the diversity in international accounting practices is due to the difference in the legal requirement related to accounting practices.

C. **The providers of finance**: Japanese companies normally rely heavily on Debt rather than Equity as their principal source of finance and banks are the main providers of this finance. Thus, the accounting treatment is based on conservatism to protect the creditors.

The **Second issue** is importance of harmonization of international accounting practice. The treatment of exchange difference affects the results and financial position of the company and the users of accounting information can not make proper comparison, when accounting treatments are different and they are misled and manipulated.

There are good signals which support harmonization of international accounting practices. The IASB revised IAS No21 (2003) and eliminated the capitalization of exchange difference.

Canada has a project to harmonize its GAAP with IASs (IFRS now) and the deferral and amortization of exchange differences of monetary long term transaction will be eliminated.

India: AS No 11 was revised in (2003) and the capitalization of exchange difference was eliminated, but the Tax Act and Companies Act still require the capitalization of exchange difference of fixed assets.

16) **The requirements of IAS No21 are not available** in Yemeni accounting pronouncements and there is no specific list of all accounting standards required in Yemen. Thus, the absence of such a list in the researcher opinion is a main source of diversity in accounting practices in Yemen.
India has achieved great heights in the development of accounting profession and education. India has two accounting bodies:

- **The Institute of Chartered Accountants of India (ICAI)**
- **The Institute of Cost and Works Accountants of India (ICWAI).**

The ICAI was established by an act of 1949 for the purpose of regulating the profession of chartered accountants in the country. The ICAI has chapters outside the country, e.g., at Abu Dhabi, Dubai, and Jeddah. The other accounting body in India is the Institute of Cost and Works Accountants of India (ICWAI) established by Act of 1959, its objective being to promote, regulate, and develop the profession of cost and management accounting.

- Entry to the profession is through passing the theoretical examination and completing the prescribed practical training.
- The ICAI has issued 29 accounting standards till 2006. The ICAI while issuing accounting standards gives due consideration to IASs and tries to integrate them to the extent possible, in the light of the conditions and practices prevailing in India.
SECOND: THE CONCLUSIONS RELATED TO ANALYSIS OF ANNUAL REPORTS OF COMPANIES FOR FIVE YEARS:

**Yemen: (17 Joint Stock Companies):**

1) The empirical study of Annual Reports of the sample companies reveals that the requirements of International Accounting Standard NO 21 (1993) regarding accounting policies of foreign currency transaction are fully adopted by 13 companies (76.4% of the companies selected for the study) and partly by 2 companies (11.8%). The remaining 2 companies (11.8%) have not disclosed their accounting policies adopted.

2) The results show that the sample companies have not differentiated between short term and long term foreign currency monetary transactions.

3) The results clearly show that there is no change in accounting policies of sample companies regarding foreign currency transaction during the period of the study (i.e., 5 years).

4) The sample companies have not entered into external hedging with outside parties, but some of the companies practice the internal (green) hedging. Example banks practiced the policy of balanced basket of foreign currencies as management policy of foreign exchange risk according to the directives of Central Bank of Yemen (2000) and the constructive and manufacturing companies have taken into account the exchange rate fluctuation in their policies of pricing as well as when capital projects decision.

5) There is no separate statement of foreign currency transaction included in Annual Reports of companies selected for the study.

6) Consolidated financial statements have not been prepared by the sample companies.

7) The companies selected for the study have outside investments but they have no foreign subsidiaries or associates. Thus, there is no need for translation of financial statement of foreign entity. Except the Bank of Altdamon that has indicated in its
Annual Report that it has investment in foreign association (in Sudan). (But it noted that ratio of ownership is less than 20%).

8) The study reveals that all the banks under this study have separately presented their foreign exchange differences in the financial statements structure.

9) The Annual Reports of the companies do not show the exchange differences related to foreign currency loans and debts used for financing capital investments.

India: (30 Top Indian Multinational Companies):

1) The result of the study reveals that the requirements of IAS No 21 regarding foreign currency transaction are partly adopted by 4 companies (13.3 % of companies under the study) and are fully adopted by 26 companies (86.7 %). Thus, the study shows 100% adaptation by the companies (either fully or partly) the IAS No.21.

2) The requirements of IAS No 21 regarding translation of financial statement of foreign subsidiaries, branches and associates are fully adopted by 22 companies (73.3 % of the companies under the study) and partly by 6 companies (20 %) and 1 company (3.3 %) has not given any information in its annual reports about accounting policies adopted regarding accounting translation. The remaining company (3.3 %) has adopted the standard rate method which is in complete disagreement with IAS21.

3) The Indian multinational companies (under the study) have differentiated between the monetary long term transaction and the monetary short term transaction. Thus, the exchange gains and losses related to foreign loan and debts used for financing fixed assets are adjusted with the cost of fixed assets according to the Companies Act (1956).
4) The companies of sample have not changed their accounting policies of foreign currency translation except one company which continuously adopted the **Temporal Method** of financial statement translation of its foreign branches. When the company established foreign subsidiaries, this company adopted the **Closing Rate Method** to translate the foreign subsidiary financial statement for the purpose of consolidation of the financial statement of the parent company and its subsidiaries and branches.

As these foreign subsidiaries are not integral operations but independent foreign entities. (As has been mentioned in its Annual Report.)

5) Most of the companies have adopted external financial hedging to protect risk of foreign exchange by derivatives or loans.

6) The companies under the study have not prepared a separate statement for foreign currency transactions in their Annual Reports. But these companies have provided some information about foreign currency transaction. **Accrual Basis** is used by 6 companies and 4 companies have used **Cash Basis** and the remaining companies (20) have not disclosed the accounting basis used. The India Company Act 1956 requires the companies to provide additional information about foreign currency receipts and payment, but this Act does not determine what information should be disclosed? How they should be presented? And what accounting basis should be adopted?

7) All the companies included in the study have prepared consolidated financial statements of the parent and its foreign subsidiaries, branches and associates.

8) 21 companies (70% of the companies included in the study) have presented a separate account of exchange differences in the structure of financial statement and 9 companies (30%) have included them in the other income or in the general and administrative expense.

9) **All the companies included in this study have not taken into consideration the effects of foreign inflation and domestic inflation when translation of financial statements of foreign subsidiaries, associates and branches has been done.**
THIRD: THE CONCLUSIONS RELATED TO ANALYSIS OF THE QUESTIONNAIRES:

1. The results of analysis of questionnaires have revealed that (97% in India) and (95% in Yemen) of the respondents do think that the IAS NO 21 is suitable and applicable to India and Yemen and major difficulties in the application of IAS NO 21 are: absence of legal requirements to prepare consolidated financial statements. And conflicts with some legal pronouncements, ignoring domestic problem by IAS NO 21 and that IAS21 considers only needs of international companies.

2. The results have revealed that the respondents have high perception and awareness of importance of exchange rate fluctuation and its impact on accounting information system, profitability, and performance of the company. Also on the controlling, planning, evaluation of performance and on the managerial decision related to finance, investment and pricing.

3. Most of the respondents (97% in India and 95.8% in Yemen) have confirmed that the companies have taken into account the exchange rate fluctuation, while preparing their capital budgets or making capital expenditure decision.

4. Most of respondents (93.5% in India and 92.5% in Yemen) do state that the statement of foreign currency transactions (FCT) is useful for decision making as it provides additional information which is not available in other financial statements and they prefer to prepare this statement of (FCT) compulsorily and it should be prepared on the Accrual Basis.

5. The respondents (100% in India and 100% in Yemen) have realized the importance and usefulness of restatement of foreign financial statements according to the changes in prices level.
6. The sample respondents (78.2% in India and 80% in Yemen) have felt that there is need to issue a special accounting standard for the Banking Sector regarding treatment of the effects of changes in foreign exchange rates.

7. The finance factor has scored the first rank as an economic indicator in the classification of foreign operations into independent entity and integral operation of the parent company.

8. The sample respondents have supported the application of IASs. They do think that the application of International Accounting Standards (IASs) in both countries (India and Yemen) leads to the improvement of the accounting education and practices. In addition to that it also encourages foreign investments. More over (IASs) facilitate auditing of multinational companies.

9. Most of sample supported adoption of immediate recognition policy of exchange gains and loss of foreign currency transaction, on the ground of providing information relevant to decision making and considering accounting Accrual Assumption and Full Disclosure Principle. This is in agreement with requirements of IAS NO 21 and in tune with international accounting practices.

10. Most of sample respondents (76.5% in India and 75% in Yemen) have supported the use of the Situational Approach in the translation of financial statement of foreign branches and subsidiaries. This is in turn with contemporary international accounting practices and standards.

11. The results have clearly showed that most of respondents (88.2% in India and 86.7% in Yemen) have supported the elimination of the rule of capitalization of exchange differences of foreign loan and debt used for acquisition of assets. And they justify that the exchange difference related to financing decision and not to selling /buying decision. And now there is no exchange control. Moreover, capitalization leads to carry losses to future periods.
12. The “Shwayder Approach” in treatment of financial statement of foreign entity under the inflationary environment has been suggested by most of the sample as this approach considers both effects of foreign and domestic inflation on translation of foreign financial statement. And it is able to provide more relevant information for decision making.

**General Conclusions:**

1) The results of empirical study of the present Thesis have greatly supported the harmonization of international accounting practices and application of international standards (IASs) in the developing countries particularly if the accounting treatment of those standards deals with technical issues which have no cultural and social dimensions.


3) The conclusions of other accounting studies and survey such as:
   - IASC (1988); **Price Water House (1995)** indicated that IASs are applied in most of countries.
   - Alseyh (**Yemen**) (1998) concluded that the IAS NO 21 is fully applied in Yemen (by 79% of companies under his study). Based on analysis of financial statements of 14 companies. He recommended adoption of (IASs) in Yemen till the National Accounting Standards would be issued by the Accounting Board which will be formed as suggested in his study.
TESTING HYPOTHESES IN THE CONTEXT OF THE RESULTS

(A) The Hypothesis Related To Theoretical Study:

It was framed as follow:

“The accounting approaches of translation of financial statements of foreign entity ignore the inflation problem.”

The analytical and critical study of the accounting approaches of translation: has revealed that:

- Current non-current approach and
- Monetary non-monetary approach
- Temporal approach
- Current rate approach. All of them completely ignored the effects of domestic and foreign inflation on translation of financial statements of foreign entity.

Hence, the researcher feels that the above hypothesis is fully proved.

(B) The Hypotheses Related To The Empirical Study (Related To Questionnaires) Were Framed As Follows:

1. “The International Accounting Standard NO 21 is not suitable and applicable to Yemen and India”.
2. “There is an awareness and high perception of significance of exchange rate fluctuation and its impact on different aspects of the company.
3. “The companies take into account the exchange rate fluctuation while setting their capital budgets or making capital expenditure decisions”.
4. “The statement of foreign currency transaction is not useful for decision making”
5. “The finance factor occupies advanced class among other economic indicators in the classification of foreign operations into independent foreign entity and integral foreign operation”.
6. “There is no need for issuing a separate accounting standard for the banking sector regarding accounting for the effects of changes in exchange rates”
The analytical study of the results of the questionnaires has led to:

1) That IAS 21 is suitable and applicable to Yemen and India.  
   **Hence**, we reject the hypothesis no (B-1) as it has not been proved.

2) That there is awareness and high perception of significance of exchange rate fluctuation and its impact on:
   - Accounting information system of the company,
   - Performance of the company and its cash flow,
   - Management decisions and performance evaluation systems.  
   **Hence**, we accept the hypothesis no (B-2) as it is has been proved.

3) That the companies take into account the exchange rate fluctuation while setting their capital budget or making capital expenditure decisions.  
   **Hence**, we accept the hypothesis no (B-3) as it has been proved.

4) That the statement of foreign currency transaction is useful for decisions making as it provides additional information that is not available in other financial statement.  
   **Hence**, we reject hypothesis no (B-4) as it has not been proved.

5) That the finance factor scored the first rank amongst other economic indicators in the classification of foreign operations into independent entity and integral operations.  
   **Hence**, we accept the hypothesis is no (B-5) as it has been proved.

6) That there is need for issuing separate accounting standard for banking sector regarding accounting for the effects of changes in exchange rates due to the nature of banking activity which affected strongly by exchange fluctuation and the banking sector has dominant monetary assets and liabilities and financial instrument.  
   **Hence**, we reject the hypothesis no (B-6) as it has not been proved.

(C) The Hypotheses Related To (Annual Reports) Were Framed As Follows:

1) “The accounting practices of companies in Yemen and India in respect of accounting and reporting for the effects of changes in exchange rates are, fully in disagreement with the requirement of IAS NO 21 (1993).”
2) “The companies do not take into consideration the effects of domestic and foreign inflation while translation of financial statements of their foreign branches, subsidiaries and associates”.

The analytical study of Annual Reports of Sample Companies has revealed:

(1) (India):

(1) 26 companies (86.7% of the companies selected for the study) fully have applied requirements of IAS 21 regarding foreign currency transaction and 4 companies (13.3%) partly have applied IAS 21.

(2) 22 companies (73.3% of the sample companies) fully have applied the requirements of IAS 21 regarding translation of financial statements of foreign entity and 6 companies (20% of the sample) partly have applied and 1 company (3.3% of the sample) has applied other method . Whereas 1 company (3.3%) has not disclosed accounting policies of translation of financial statements of foreign entity. Hence, we reject the hypothesis No (C-1) as it has not been proved (in the Indian side).

(2) (Yemen):

That 13 companies (76.4% of the sample) fully have applied the requirements of IAS 21 (1993) regarding accounting for foreign currency transactions and 2 companies (11.8% of the sample) partly has applied IAS 21. Whereas, the remaining (2) companies (11.8% of the sample) have not disclosed accounting policies adopted regarding foreign currency transaction. As mentioned that sample companies in Yemen have no foreign entity, Hence there is no need for translation of foreign statement and this study has been confined to study only first part of IAS 21 regarding foreign currency transaction (please see Chapter No 6).

Hence, we reject the hypothesis No (C-1) in the light of the study results of Annual Reports of Sample Companies (Yemen side) as it has not been proved.

The analytical study of Annual Reports of Sample Companies (in India) has shown that the companies have not taken into consideration the effects of domestic inflation and foreign inflation when translation of financial statements of their foreign entity.

Hence, we accept the hypothesis No (C-2) as it has been proved and is validated.
RECOMMENDATIONS OF THE STUDY

In the light of the result of the theoretical and empirical study, some recommendations are suggested to develop the accounting thoughts and practices in Yemen and in India and in the international accounting practices as well:

1.) The researcher recommends adoption of the IAS NO 21 in the Yemen and India as the results of the study have proved it to be a suitable and applicable, keeping in mind the recommendations no(2) and (4)

2.) The researcher strongly recommends that the effects of foreign inflation and domestic inflation should be taken into consideration while evaluation of performance of foreign operation. It should also be considered at the time of translation of financial statements of foreign entity (i.e., subsidiaries, branches, associate) in order to provide relevant information for decision making.

Thus, the Researcher recommends adoption of Shwayder Approach as it takes into account economic relations between inflation and exchange fluctuation therefore, the effects of both foreign and domestic inflation have been considered while translating financial statement of foreign operations.

Hence, the Shwayder Approach is able to provide information which is more relevant to the investors in order to predict the future cash flow of their investments and also to the management to properly evaluate the performance of the company.

Moreover, the Shwayder Approach adopts the concepts of maintenance of productive capacity of capital invested. This accounting philosophy enables the investors to identify the real value of their investments in foreign companies in terms of their national currency.

3.) The researcher recommends adoption of Dual Transaction Approach in measuring foreign currency transaction because it differentiates between the commercial cost and financial cost which enables to measure correctly the cost of production and
providing information relevant to the users of accounting information. Besides that, it serves the purposes of Management Accounting in providing information for controlling, planning and decision-making.

4.) The policy of immediate recognition of exchange gains and losses of foreign currency transaction is recommended in the ground of decision-oriented framework. The immediate policy reflects the economic effects of changes in foreign exchange rates on results and the financial position of the company. It also provides information more relevant for decisions making based on the Accruals Assumption and full disclosure Principle. But the researcher recommends that exchange gain related to restatement of unsettled foreign currency transaction at the year end should not be included in the distributed profit in order to protect the real value of the capital invested. The same procedure has been already adopted in the British accounting practice.

5.) The researcher recommends issuing a separate accounting standard for the Banking Sector regarding the effects of changes in the foreign exchange rate. The banking sector more involved in the risk element of exchange fluctuation due to the nature of banking activity and the dominance of the monetary assets and liabilities. The hedging accounting and fair value approach in measuring the financial instruments should be integrated with the accounting standards suggested. This may lead to improve transparency and accountability in corporate governance and limit the accounting scandals in the Banking Sector.

6.) It is suggested that the statements of foreign currency transaction (SFCT) should be introduced as a require part of the body of financial statements for external reporting in Yemen and in India. This statement is useful for decision making as it provides additional information which is not available in other financial statements. It has incremental information regarding the risk, uncertainty, stability, vulnerability and internationality level of the business of the corporate. Besides that the foreign
economic operation could influence a myriad of variables related to the performance of a corporate.

Therefore, it does not seem reasonable for financial analysts to ignore the foreign sector of a corporate that they are evaluating.

In this regard, the accounting profession should profess and popularize these statements among both producers and users of accounting information through seminars and continuous professional education programs.

7.) The legal requirements to prepare the consolidated financial statements should be issued in India and Yemen.

The consolidated financial statements present the group (i.e., the parent and its subsidiaries) as an economic single entity and provide useful information for comparison, performance evaluation and resource allocation. The investors and the creditors of the parent company wish to see from global perspective, the parent and its subsidiaries together at the same time. The failure or success if any may affect the evaluation of the group as a whole.

8.) The conflicts between IAS NO (21) and IAS NO (28) regarding items of net investments in associated companies should be settled.

According to IAS NO 28 loans are not included in the net investment of the associated company but the loans are part of the net investments in the foreign entity as per IAS NO21. Trade payables are part of the net investment as per IAS NO28. But they are not as per IAS NO21.

9.) The IAS NO 29 regarding translation of foreign currency financial statements in a highly inflationary environment does not specify treatment of translation gains and losses in the consolidated statements whether they should be in the income statement? or in the balance sheet?.

10.) AS NO 11 (India) was revised in 2003 and eliminated capitalization of exchange difference but the Company Act (1956) requires the exchange difference to be adjusted with the cost of fixed asset imported from outside India. The Indian
companies still practice capitalization as per the Company Act because the Act has priority over AS11. Thus, this conflict should be eliminated

11.) The IAS NO (2) regarding inventories allows adjusting the exchange differences with the cost of purchase of current asset (i.e., inventories) in tune with the requirements of IAS NO21 (1993). But the IAS NO 21 was revised in 2003 and eliminated the adjustments of exchange difference with the assets. Thus the IAS NO (2) should be revised to eliminate Para no (9).

12.) In order to improve the quality of accounting education in Yemen and to meet successfully the challenges of globalization and rapid developments in the information technology, the researcher recommends establishing the Yemen Institute of Certified Public Accountants (YICPA). The objective of the VICPA is to prepare an accounting curriculum of CA course and grant membership to the successful candidates.

The professional course of PCA should cover 3 years (foundation, intermediate and final course). The International Accounting Standards of Education (IASE) issued by IFAC should be considered. Today, the accountants are not clerks, but they are business consultants. Thus, they not only need technical skills but they also need knowledge to improve their analytical and diagnostic ability to help the corporate to achieve its goal effectively. It is also recommended that the entry to the profession is through passing the theoretical accounting education and completing practical training.

13.) It is suggested that the Accounting Ethics should be integrated into Accounting Education.

The contemporary accounting scandals showed that the corruption and malpractices of accounting firms occurred not due to lack of skills and knowledge but due to lack of ethics. To rebuild public confidence in accounting profession, integrating ethics into the accounting curriculum should get the due attention.
14.) The researcher recommends establishing the Institute of Cost and Management accountants in Yemen (ICMAY) to regulate and develop the profession of cost and management accountancy. The experiences show that the integration between internal and external auditing plays a vital role towards the development of accounting and auditing profession.

15.) **Oxley Act 2002 (USA)** regarding Corporate Governance as Institutional Approach to manage company should be considered particularly in the banking sector to improve the transparency and the accountability. In this regard the rotation of external auditors and independence of auditing committees and board directors are issues which should be put in the accounting agenda in Yemen and India.

16.) Yemen will establish a **Stock Exchange Market** in the near future- according to the government plans- and **WTO** membership and integrating with Arabic Gulf States, all these require to evaluate accounting education and profession in Yemen and to reform the directions and to develop accounting and auditing practices. Thus, the researcher recommends that **Accounting Conference should be held** in Yemen to understand the existing situation and to make suggestions for development of accountancy in the light of the contemporary needs and trends in order to improve the role of accounting profession in the economic development.

17.) **The foreign exchange risk management** should be integrated into corporate policy and strategy because, the objective of corporate management is to maximize the wealth of shareholders of the corporate and this depends on operating cash flows, which are affected by exchange rate changes.

18.) The accounting professions in Yemen should adjust with the institutes of accounting and auditing of **Arabic Gulf States** to get benefits from their experiences because these states have already passed through remarkable steps in the development of accounting profession. Also this accounting harmonization between Yemen and Arab Gulf States may encourage the investment flows.

19.) It is necessary to establish a **Supreme Board of Accounting and Auditing** in Yemen to issue the accounting and auditing standards which are suitable and
applicable to Yemen. It is suggested that the Institute of C.A. should be presented in this Board.

20.) It is suggested that the branches of foreign companies and joint stock companies should apply (IASs) till the establishment of the Supreme Board and then the Board would decide which accounting standards should be applied in Yemen.

Area of Further Studies:
The researcher believes there is enough scope to conduct future researches in the following areas:

1.) A study of foreign currency translation according IAS NO.21 and IAS NO.39.
2.) Accounting measurement of exchange differences and performance evaluation of foreign operation.
3.) Accounting for foreign currency and its effects on the financial statements.
4.) Using financial statements to guide capital expenditures decision under foreign exchange changes and inflation.
5.) Foreign currency: Translation, Accounting, and its effects on decisions of finance investments and pricing.