



RESEARCH ARTICLE

Accounting Treatment of Contractors' Dues and its Impact on Project Completion and Government Accounting System: Evidence from Iraq

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ARTICLE INFO

ABSTRACT

Received: Sep 17, 2024

Accepted: Nov 8, 2024

Keywords

Accounting treatment
Contractors' dues
Project completion
Service provision

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This paper aims to identify the role played by the accounting treatment of contractors' receivables in the completion of projects and its impact and the government accounting system using data collected through a structured questionnaire distributed to employees in the field of accounting for contractors' receivables in government entities. Our findings reveal a positive association between the accounting treatment and the project completion suggesting that better accounting treatment of the contractors' dues leads to an improvement of project realization. In addition, we find evidence that the indirect effect of the accounting treatment on the government accounting system is greater than its direct effect. Indeed, the project completion plays a mediating role to transmit effects from the accounting treatment to the government accounting system. Our findings imply that the Iraqi Accounting and Regulatory Standards Board should issue a direct standard for accounting treatments that conforms to international accounting standards.

INTRODUCTION

The government accounting system is based on collecting and analyzing accounting data and information in order to obtain good administrative and accounting decisions in the government field. The accounting system aims to serve the purposes of financial control, which seeks to ensure that government funds are spent for their specified purposes and that they are implemented in accordance with the laws, rules and regulations adopted in government units. Besides social goals that it seeks to achieve, the accounting system aims also to treat the contractors' receivables. The method used in requesting bids does not meet the requirements for implementing many of the engineering projects presented to citizens, the most important of which is completing the project within the specified period and cost, in addition to achieving high project quality. This is because the method used is the financial bid at the lowest price, where most bids are awarded at a significant discount from the price specified in the estimate statement, and thus this will most likely be achieved at the expense of quality and often leads to problems during implementation. In many cases, the accounting systems failed to address the accounting processes for these projects, which may cause serious harm to their owners as a result of delays in the time of completion of the investment on the one hand and the poor quality of the work carried out in these projects on the other hand. This is through its inability to achieve a balance between time (less), cost (lower), and quality (higher), which is what project management seeks to achieve in any project. Although it seems that it has achieved the lowest cost, which is the most prominent goal, in many cases the cost and duration of completion may increase through the possibility of repeating steps or procedures as a result of their low level of quality, and this cannot be

accepted at the present time in light of the great scientific development in the field. Implementing and managing employment contracts, as most countries of the world have moved to new accounting systems that are more capable of creating a balance between time, cost and quality.

Due to the lack of previous studies that dealt with contractors' receivables and their accounting treatment, this study attempts to provide a comprehensive analysis of the accounting treatment of contractors' receivables and its impact on project completion and service provision. This study seeks to answer the following questions:

- *Is there an impact of the accounting treatment of contractors' receivables on the completion of projects in government entities?*

- *Is there an impact of the accounting treatment of contractors' receivables on government accounting system?*

The importance of this study consists of explaining the disadvantages of following the lowest-priced bid method, which may lead to the use of an inappropriate contractor, and it is not in line with scientific developments, which requires searching for a practical and systematic way to evaluate tender offers.

RESAERCH METHODS

The study population consists of employees in the Accounting and Auditing Department in the Iraqi ministries, while the study sample will be selected by (30%) from the population. The data are collected through a questionnaire distributed to a random sample consisting of 400 individuals from the study population, with 300 responses retrieved. In our empirical analysis, we use the statistical programs (SPSS. V24) and (Amos. V.24) to ensure the accuracy and reliability of outputs. Table 1 describes the research sample:

Table 1: Sample's characteristics

Profile	Number	Percentage
Gender		
- Male	207	69%
- Female	93	31 %
Age		
- Between 20 and 30 years old	5	1.6 %
- Between 30 and 40 years old	95	31.7%
- Between 40 and 50 years old	119	39.7 %
- Between 50 and 60 years old	81	27 %
Educational level		
- Preparatory school	1	0.3%
- Technical diploma	14	4.7%
- Bachelor degree	237	79%
- Higher diploma	19	6.3%
- Master degree	3	1%

- Ph.D	3	1 %
- Chartered accountant	23	7.7%
Years of experience		
- Less than 5 years	39	13%
- Between 5 and 10 years	48	16 %
- Between 10 and 15 years	102	34 %
- More than 15 years	111	37 %
-		
Speciality		
- Accounting	200	66.7%
- Administration	39	13%
- Economy	33	11%
- Finance	13	4.3%
- Others	15	5%

RESULTS

We use the Cronbach's alpha to analyze reliability of scales. The results reported in table 1 indicate that all Cronbach's Alpha coefficients are more than 0.7 which proves the internal consistency of items in the survey.

Table 1: Reliability of the questionnaire

Axis	Number of Statements	Cronbach's Alpha
Accounting treatment	10	0.854**
Project completion	10	0.831**
Government accounting system	10	0.926**

After analyzing the reliability of the questionnaire, we begin the testing of the research hypotheses using simple linear regression.

The first research hypothesis stipulates that there is a significant relationship between accounting treatment and project completion. Results displayed in table 2 show that the R-squared equals 0.115 suggesting that the changes in accounting treatment explain only 11.5% of the changes in project completion. This indicates that there are several other explaining factors of project completion. The Fisher statistic stands at 38.776 with a p-value of 0.000 which indicates that the model is significant. The coefficient of the accounting treatment equals 0.417 with a p-value of 0.000 suggesting that an enhancement of the accounting treatment by one unit leads to an increase of project completion by 0.417 units. Thus, the hypothesis suggesting a significant relationship between accounting treatment and project completion is accepted.

Table 2. Relationship between project completion and accounting treatment

	Coefficient	Standard Error	T statistic	p-value
Intercept	2.406	.282	8.525	.000

Accounting treatment	.417	.067	6.227	.000
R-squared: 0.115 F- statistic 38.776				.000

The second hypothesis states that accounting treatment of contractors' dues has a significant effect on government accounting system. The regression results displayed in table 3 reveal that the coefficient of the accounting treatment equals 0.882 with a p-value equals zero. This evidence suggests that accounting treatment turns out to have a significant positive association with government accounting system. As can be seen in table 3, an improvement of the accounting treatment by one unit generates an enhancement of the government accounting system by 0.882 units. The R-squared of the model equals 0.500 suggesting that 50% of the change in government accounting system results from the change in the accounting treatment. The Fisher statistic equals 297.708 with a p-value of 0.000, which indicates that the model is globally significant.

Table 3. Relationship between government accounting system and accounting treatment

	Coefficient	Standard Error	T statistic	p-value
Intercept	0.491	.214	2.301	.000
Accounting treatment	.882	.051	17.254	.000
R-squared: 0.500 F- statistic: 297.708				.000

The third hypothesis posits that there is a statistically significant relationship between the government accounting system and project completion. The results of the simple linear regression are reported in table 5. The R-square equals 0.469 suggesting that 46.9% of the change in the government accounting system can be explained by the project completion. The Fisher value, standing at 263.51, is statistically significant since p-value equals 0.000. The project completion has a coefficient of 0.675 which indicates that an increase in the project completion by one unit contributes by 0.675 units in the improvement of government accounting.

Table 4. Relationship between government accounting system and project completion

	Coefficient	Standard Error	T statistic	p-value
Intercept	1.326	.175	7.567	.000
Project completion	.675	.042	16.233	.000
R-squared: 0.469 F- statistic: 263.51				.000

After examining the relationships between accounting treatment, project completion and government accounting system taken two by two, we chose to study the direct and indirect relationships. Of course, what is meant by the direct effect is the effect of the accounting treatment in the government accounting system without mediating the completion of projects, while the indirect effect is the effect of the accounting treatment in the government accounting system by mediating the completion of projects. Thus, we developed a hypothesis which states that "The accounting treatment affects government accounting through project completion". To test this hypothesis, we used the SPSS Amos program. The results obtained are reported in tables 5 and 6. As can be seen, the indirect effect of the accounting treatment on the government accounting system is greater than its direct effect. To determine the significance of the mediating effect of the quality of project completion, the Sobel, Aroion, and Goodman test was conducted based on the standard errors. The results align with the hypothesis suggesting that the effect of accounting treatment on government accounting system increases through the completion of projects. The R-square reaches 0.539, which means that the regression model of accounting treatment by mediating of the completion of projects is able to explain 53.9% of the change occurring in the government accounting system.

Table 5. The direction of relationships between accounting treatment, project completion, and the government accounting system

Variables		Estimate	Standard Error	Critical ratio	p-value	
Accounting treatment	→	Project completion	0.675	0.042	16.260	0.000
Project completion	→	Government accounting system	1.115	0.067	16.594	0.000
Accounting treatment	→	Government accounting system	-0.336	0.066	-5.070	0.000

Table 6. Influence relationship between accounting treatment and the government accounting system by mediating of project completion

Type of relationship	Coefficient	R-square
1 Direct impact of accounting treatment on the government accounting system	-0.273	0.54
2 Indirect impact of accounting treatment on the government accounting system	0.894	

The direct and indirect effect of the accounting treatment and the government accounting system can be illustrated in the following figure:

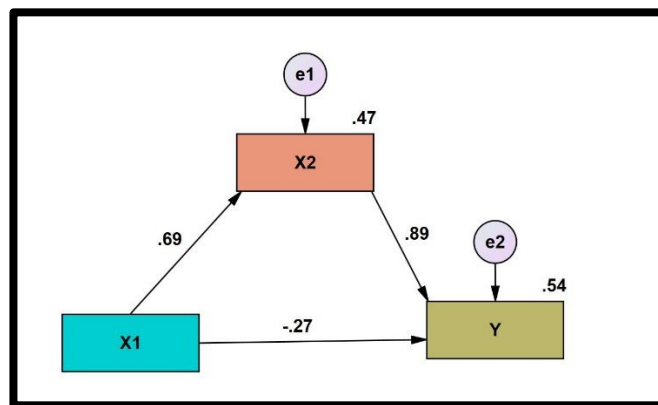


Figure 1. Relationships between accounting treatment, project completion and government accounting system

DISCUSSION

- The positive association between the accounting treatment of contractors' dues and the project completion corroborates the existing literature emphasizing the importance of the accounting treatment in contacting (Christensen et al. 2016).
- The significant relationship between accounting treatment and government accounting system aligns with theoretical and empirical literature which highlights the role of accounting treatment in in improving the financial reporting quality (Herath and Albarqi., 2017; Abushamsieh et al. 2013) as well as making the monitoring and auditing more effective (Baharud-din et al. 2014).

- Our findings highlight the importance of issuing a direct standard for accounting treatments in Iraqi governmental entities that conforms to international accounting standards. However, this standard should take into account the specificity of the Iraqi context since as argued by Ouda (2016) that there is difficult to find uniform Generally Accepted Accounting Principles that can be applied in different countries or to set standard procedures, which can serve all the countries in the same degree.

CONCLUSION

The study attempted to investigate the relationship between the accounting treatment of contractors' dues and the project completion and how this relationship can affect the government accounting system. We used data collected through a survey conducted among 300 employees in Iraqi government institutions. Using ANOVA for linear regression and Amos for Structural Equation Modeling (SEM), we provide evidence that the accounting treatment turns out to have significant direct and indirect effects on government accounting system. More precisely, we find that the main effect of accounting treatment on government accounting system comes through the project completion.

Despite the multiple methods of "accounting treatment" in the financial statements and the annual management report, the truth and fairness of the financial statements require the compliance with local rules and international standards, and the appropriate level of accounting treatment is determined by various factors such as tax laws and financial deductions for contractors' receivables. Building on our empirical results, it's recommended to banks to:

- The Iraqi Accounting and Regulatory Standards Board should issue a direct standard for disclosing extraordinary profits and losses.
- Enhance the effectiveness and role of project completion.
- Conduct training workshops and seminars for auditors and accountants to increase their experience on treatments in completing international accounting projects in general and particularly accounting treatment standards in order to raise the efficiency and experience of accountants and increase the ability and the qualifications of auditors to carry out the process of financial auditing and auditing of investments.
- The rules of accounting treatment must be expanded in a manner consistent with global market conditions to reduce the state of information asymmetry between the managers of companies implementing service projects and investors, so they can make rational decisions.
- Replace traditional accounting by modern accounting approaches such as lean accounting and throughput accounting (Myrelid, & Olhager, (2015).

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