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The Extent of Applicability International Accounting Standard No. (36) "Impairment of Long-Term Assets" by the Jordanian Industrial Public Shareholding Companies Listed in Amman Financial Market

Mohammad Ebrahim Nawaiseh
Corresponding Author, Associate, Department of Accounting
Faculty of Economics and Administrative Sciences
Al-Zaytoonah University of Jordan, Amman – Jordan
E-mail: Nawaisehmohd@yahoo.com

Mousa Ibrahim Al-nawaiseh
Assistant, Department of Accounting, Faculty of Business
University of Jordan, Aqaba - Jordan

Zeyad Soliman Almatarneh
Scholar Student, Department of Accounting
University of Jenan, Lebanon

Abstract

This paper entitled " The Extent of Applicability IAS No. (36) "Impairment of Long-Term Assets " by Jordanian Industrial Public Shareholding Companies, aims to identify impairment of noncurrent assets as to what extent that Jordanian Industrial public shareholding Companies apply IAS 36 , for attaining this purpose, a questionnaire consisting of 30 items was designed and circulated by hand to a sample of Industrial Public Shareholding Companies listed in Amman financial market in 2010 ;only 20 questionnaires were considered usable for analysis purposes, descriptive statistical techniques were used in analyzing data and testing the hypotheses such as one–sample t-test and one way ANOVA, a set of recommendations have been addressed to make this study benefit.

Keywords: Noncurrent Assets , International Accounting Standards, Impairment test. IAS No. (36).

Introduction

Adoption of IAS no.36 on large basis and future directions of Jordan public share holding companies can deeply modify the way companies actually use to account for noncurrent assets, IAS 36 seems to adopt a Discounted Cash Flow (DCF) approach, since it states that value-in-use must be calculated estimating the future cash inflows and outflows deriving from the asset, and applying the appropriate discount rate to these future flows, adoption of IAS no.36 should represent a sort of accounting revolution for most companies In particular, IAS related to noncurrent assets, and the concepts of value-in use, fair value and impairment test are due to attract relevant attention because of the growing interest towards this concept .

A growing literature in finance, strategy and decision-making, nevertheless, has identified the pitfalls of DCF approach, which are caused prevalently by the calculation of the risk-adjusted interest rate used to discount cash flows. The purpose of this paper is to identify the extent of applicability and disclosure of IASno.36 for the impairment test of noncurrent assets More specifically.

Study Problems

This paper is devoted to answer the following questions:

1) Can impairment of noncurrent assets be applied, and adequately disclosed by Jordanian public shareholding companies to determine value-in-use?
2) Can impairment of noncurrent assets be realized by Jordanian companies according to some demographic variables for respondents (specialty, age, educational level, occupation) ?

Study Objectives

The study aims to:

1) **To identify** impairment of noncurrent assets whether be applied by Jordanian public shareholding companies to determine value-in-use or not as per IAS No. (36)?
2) **To identify** impairment of noncurrent assets whether be disclosed by Jordanian public shareholding companies to determine value-in-use or not accordance with requirements of IAS No. (36)**?**
3) **To identify whether** impairment of noncurrent assets be realized by Jordanian companies according to some demographic variables for respondents (specialty, age, educational level, occupation)or not

Importance of the Study

IAS 36 states that, in order to calculate value-in-use, a company should determine a discount rate that must reflect the current market assessments of the time value of money, and the risk specific to the asset, for which the future cash flow estimates have not been adjusted . the discount rate can be estimated by using techniques such as Capital Asset Pricing Model (CAPM) , Moreover, IAS 36 (paragraph 26) makes it clear that the risk can be reflected either as an adjustments to the future cash flows or adjustments to the discount rate.

IAS 36 formulation is centered on the concept of fair value that is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction, fair value is formed on an active market, which is a market where all the items traded within the market are similar, Willing buyers and sellers can normally be found at any time; and Prices are available to the public.

This study try to enable the users of financial statements to take rational and relevant decision through the value added resulting from relevancy , objectivity , to cope with IAS 36 guidelines and to encourage companies applying this standard .

Hypotheses

H1: Impairment of noncurrent assets according to IAS 36 be applied by Jordanian industrial public shareholding companies ?

H2: Impairment of noncurrent assets according to IAS 36 be adequately disclosed by Jordanian industrial public shareholding companies ?

H3: There are some significant differences in the respondents' perceptions toward the importance of IAS (36) application

Literature Review

To deal with the studies that addressed the effect of applying IAS (36) , one of them is study (Xiang , 2009) , examined the relationship between the accounting treatment for loss decrease in the value of long-term assets , and planning deals to get rid of these assets, and found that the Chinese companies registered in the financial market is ready for a custom configuration for the loss of the lack of value of long-term assets in the current period , and if the planned to get rid of this long-term assets in the following years, they will custom any losses stemming from the lack of value of these assets, if the company is suffering from losses in subsequent periods , it can convert the loss associated with the assets of long-term discharges into profits, the study recommends that the authorities strengthen control over the behavior of collection losses lack of long-term value of the assets and the development of new accounting rules to address them., but (Shang & Jun 2009), which aims to identify the factors affecting the value of the lack of long-term assets, where they studied the listed companies in the financial market in China during the period (2001-2006), and found that the main factor affecting the lack of value of long-term assets is the lack of impact on the internal factors of the company, and control of the events causing this shortage, both within the company or the industry in which they operate or in economic environment influenced by motivated management , in addition to above , (Qi-Feng et al , 2007) study which aims to identify the impact of Chinese companies registered in the financial market during the period (2001-2004) to an impairment loss of long-term assets, found that half of these companies are contrary to the loss of shortage in the value of assets, long-term, and the profits of all companies decreased by (40%) , and (17%) of the profits of these companies turn to losses if not reflecting the loss of these deficiencies in subsequent years, firms with low profits, which recognized a loss of the lack of value of assets long-term losses turned into profits, and prompted the departments of these companies to increase earnings by reversing the current decline in the value of the loss of long-term assets , on the Arabian side , (Rishani ,2007) study , which aims to identify the concepts of accountability lack of value of long-term assets in the accounting standards of U.S. and international one , with their application in Syria, this study included a sample of (60) persons whom the practitioners of the auditing profession, and practitioners of the profession of accounting firms in both public and private sectors in Syria, and found that there are differences between American standard and international accounting standard , also found that the public and private sectors do not apply any of these criteria, the researcher therefore recommends the application of international accounting standards in Syria , another study is (Ming et al, 2005), which aims to identify the behavior of an ad hoc loss of the lack of value of long-term assets in small-sized enterprises, where he studied factors causing the loss of the lack of value of long-term assets and their impact on corporate earnings of listed companies in the financial market in China during the period (2001-2003), and found that the economic factors such as inadequate conditions facing the industry and corporate influence in the loss of the lack of value of the assets of these companies , and (Yuetang et al, 2005), which aims to study the effect of the devaluation of the long-term assets of listed companies in the financial market in China on the profitability of these companies in the future, and found that the application of this standard reflect the real value of these assets in these companies.

From the above it can be said that most previous studies addressed the effect of applying IAS (36) and the lack of value of long-term assets on corporate earnings, or the study of the factors causing such a shortage, and the effect of reversing this shortage (loss) in the years following the gains of these companies , with the exception of study Rishani (2007), which found that the Syrian companies do not apply this standard, and what distinguishes the current study is that the area of application is the industrial companies listed in Jordanian financial market, as it measures in part, applied financial impact resulting from a decline in the value of long-term asset or not.

Study Terms

1) Book value of the asset (carrying amount): represents the amount that was recognized for the Long- lived asset in the balance sheet after the exclusion of accumulated depreciation and the loss of its value.
2) Fair value of the asset (Fair Value): represents the fair value of the asset amount which can be obtained upon the sale of long-term asset in an active market, and in the barter deal between two parties to have the knowledge and the desire to exchange.
3) Recoverable amount: Represents the value of recoverable net fair value (fair value less selling expenses directly) or long-term value of the asset in use, whichever is greater.
4) Decrease in asset value (impairment): lack of long-term value of the asset that occurs when less than the book value of the asset's recoverable amount.
5) value of the asset in the long-term use (value in use): Is the present value of discounted cash flows within the expected consequences of the use of the asset or a long-term implications of the disposal of the original long-term at the end of its life.
6) cash-generating unit: Smallest group of long-term assets that generate distinctive future cash flows from the use of these assets (IAS 36.6)

IAS (36) requires the measurement of the value of long-term assets , and to make sure that is reported in financial statements the value of not less than the recoverable amount for these assets, and to identify how to access this value, so the same standard applied to the land and buildings, machinery and equipment, investments and property that has been reportable on the basis of the cost of acquisition , and intangible assets and investments in subsidiaries, investments in associates and joint ventures, and long-term assets that was recorded in the books on the basis of the amounts re-evaluated in accordance with the requirements of IAS No. (16) and (38).

The companies at the date of the financial statements should examine all of its assets to find any circumstances which indicate an lack of inventory value that may exceed the recoverable amount, where recoverable amount represents the highest value of the net value of the fair (market) of the asset and its value in use. IAS No. (36) includes a List of the circumstances or internal and external factors that indicate a deficiency in the value of long-term assets, which requires calculating the company's loss decrease in the value of assets (IAS 36.9), and most important of these indicators (IAS 36.12) as follows:

7) External factors: the decline in market value of long-term assets, changes in the technological level, or in the markets, or in the economy, or in the law, and the increase in market rates of interest.
8) Internal factors: obsolescence of long-term assets, and erosion of natural resources , and disposal of these assets due to restructuring, and poor economic performance larger than expected. This list is not inclusive for all the events or circumstances affecting the lack of value of long-term assets, and must be borne in mind that the impact of these factors must be material (IAS 36.13), the basic principle is a long-term, which exposes the lack of a value at the end of its useful life (IAS 36.17).

Determining the recoverable amount of the long-term asset through finding the net fair value (fair value of the asset less costs to sell) , and its value in use, which represents the largest value among the preceding two values (IAS 36.19), and sometimes difficult to determine fair value, so the value of the asset long-term in use becomes the amount recoverable (IAS 36.20), As for the asset to be disposed of, the net fair value becomes the amount that can be recovered from the asset (IAS 36.21), if there is an agreement between the parties to the sale , the net fair value represents the fair value less costs to sell the asset (IAS 36.25), and if there is an active market , the market value of the asset less costs to sell it represents the net fair value, as the market value means the bid price being, if available, otherwise the price is the price of transactions will be ongoing (IAS 36.26), and if there is no active market, the company for estimating the expected net selling price of the asset (IAS 36.27), and the costs of disposal or sale (IAS 36.28), and calculate the value of the asset long-term requires the estimation of cash flows within the future the company expects obtained from the use of that asset, and expectations about possible changes in the amount or timing of these future flows, and the time value of money, and interest rate free of risk at current market, in addition , other factors such as illiquidity (IAS 36.30), cash flow forecasts should be based on reasonable assumptions and reasoned (IAS 36.33), and based on over five years at most (IAS 36.35), and on the management test reasons for the discrepancy between the estimated cash flows before, and actual cash flows (IAS 36.34), and must estimate the future cash flows expected to be obtained from the original long-term in its current condition, and should not include these flows estimated expected to be obtained from future restructuring that did not comply with an established yet, and capital flows, the future that will improve or increase the value of this origin, beyond the level of performance originally (IAS 36.44) , and should not include estimates of future cash flows cash ; inflows or outflows from financing activities, or payments or receipts for income tax or from (IAS 36.50), and measuring the value of the asset long-term use requires the use of the discount rate by calculating the income tax, which reflects the time value of money , and the specific risk associated with that asset (IAS 36.55) must be equal to the average rate of return that investors seek to get it, if they choose investments generate cash flows equivalent to those flows expected to be obtained from the asset (IAS 36.56), and in the case of a shortfall in the value of each asset long-term or group of assets, the discount rate is the rate that can be paid by the company in a deal market are under way to borrow money to buy this or group of assets, If the discount rate is not available in the market, you must use the rate of replacement reflects the time value of money over the life of the original, and reflect the currency exchange risk and price risk, the risk of cash flows, and must in determining this rate, taking into account the cost of capital weighted to the company, and the rate of borrowing Additional to the company, and any other rates for borrowing (IAS 36.57),and must recognize the loss of the lack of value of the asset long-term when the book value is higher than its recoverable amount (IAS 36.59) . Loss of value of the asset long term represent an allowance bears to the income statement - unless it is linked to re-evaluate the original long-term and recognized directly in equity - (IAS 36.60), and must modify the depreciation expense in future periods (IAS 36.63).In general, determining the recoverable amount of each asset separately it is necessary, unless it is impracticable, in which case the amount is determined to recover the cash-generating unit (IAS 36.66).

The company should at the date of its financial statements to assess the presence of other indicators reveal a decline in the loss of the lack of the value of its long-term, if achieved, it shall re-calculate the recoverable amount of these assets (IAS 36.110), and if there is no increase in the discount rates, it will not there is a reversal of the loss decrease in the value of these assets (IAS 36.116), and is contrary to the recognition of the loss of the lack of long-term value of the asset in the income statement as income (IAS 36.119), and must modify the expense Consumption of this asset in future periods (IAS 36.121).

Disclosure in Financial Statements

IAS no. (36) impose on the companies to disclose the following:

1) loss decrease in the value of long-term assets or involve this loss in the income statement (IAS 36. 126)).
2) disclosure of the shortages of material loss in value of the asset long-term (or involve this loss (IAS 36. 130) ;
   (2.1) events and circumstances affecting the loss of the lack of value of the asset.
   (2.2) decrease the amount of loss in the value of the asset.
   (2.3) long-term assets which had fallen its value as individual assets or cash-generating unit that are related to these assets.
   (2.4) cash-generating unit: in terms of its description, and the amount of loss in the value of assets.

(2.5) Basis of determining the fair value of the asset, if its recoverable amount equivalent to the net fair value.

(2.6) if the discount rate, the recoverable amount of the long-term asset equivalent to its value in use.

(2.7) estimates the value of the long-term asset in use, if you specify a value in use discounted cash flows expected .

3) the types of long-term assets, which has been the lack of material value, and the main events or circumstances that cause it (IAS 36.131).

Methodology

The study is based on a descriptive approach, where the survey was conducted for studies and research that is similar , the study is based on the method of field analytical, and through a questionnaire developed for the same purpose, which aims to answer the questions of the study, and testing of hypotheses.

1. Scope

The study population consists of all Jordanian Industrial Companies registered in Amman Financial Market, and ranked in the Guide to Jordanian companies as among the industrial companies, (93) companies in 2010, has been taken as random sample of (30%) represented by (28) for the staff involved in the finance departments in these companies that was randomly selected and introduced in the study, (24) questionnaires were collected, and found that among these questionnaires (4) are invalid, and thus the number of questionnaires are valid for purposes of the study is (20), which represents (71.4%) of questionnaires distributed.

2. Tool

After reviewing the previous studies on the application of Accounting Standard No. (36), and those that discussed the effect of applying this standard to benefit the management, the purpose of collecting data that will help in testing the hypotheses of the study, where researchers developed a questionnaire consists of two parts, Part (I) measures personal characteristics (demographic) and Part (II) contains the paragraphs of measuring procedures for the application of this standard, the disclosure of the impairment of value of long-term assets, and the number of paragraphs of this Part (30) items measuring the variables of the study questions and hypotheses, Five Likert scale has been used to determine the weights of the paragraphs , that are as follows: strongly agree, agree, neutral, disagree, and strongly disagree, Reliability testing for the questionnaire was based on Cronbach's alpha, and found that the Reliability coefficient 0.9521

3. Statistical Methods

The following statistical methods have been applied in this study :

(3.1) measures of descriptive statistics based on the statistical package (SPSS) to describe the characteristics of the study.

(3.2) (One Sample T - test) to compare the averages calculated with the tabulated average applied in this study.

(3.3) test of variance to identify differences with statistical significance in the perceptions of respondents of the importance of the application of International Accounting Standard No. (36) "Impairment of long-term assets," which can be attributed to the variables of demographics (specialty, age, educational level, job).

Results and Analysis
1. Characteristics of the Study

Table 1: Demographic characteristics of the respondents

Characteristic	Title	Frequency	Percentages
Specialization	Accounting	15	75 %
	Others	5	25 %
Age	20 - 30	3	15 %
	31 - 40	8	40 %
	Above 40	9	45 %
Educational Level	High secondary	4	20 %
	Undergraduate	9	45 %
	Graduate	7	35 %
Post Ranks	Accountant	10	50%
	Financial Manager	9	45%
	Internal Auditor	1	5%

Table (1) shows that (75%) of the staff are accounting qualified , percentage (15%) of staff aged between 20 and 30 years old, (80%) of them university or higher, and (50%) of them works as an accountant in the company, this means that (80%) of them are university alumnus, and because the teaching of accounting standards recently introduced in the curriculum of universities, it can be said that the rate of (15%) = 3 ÷ 20 almost of the respondents who have studied accounting have information on international accounting standards of their universities, (85%) = 17 ÷ 20 of these standards have not been studied before, and this requires the admission in the courses or workshops dealing with teaching and application of these standards.

2. Analysis of the Study Questions

First question: Are the Jordanian Industrial Companies apply International Accounting Standard No. (36) "Impairment of long-term assets?

Averages and standard deviations for the answers to employees' questions (1-20) have been calculated, which measure the extent of application of Jordanian Industrial Companies to comply with International Accounting Standard No. (36), the results were as in table (2), which suggests that the average to all paragraphs stands at (2.705) which is lower than (3) normal average (3), this result means that the Jordanian industrial companies do not apply this standard.

Table 2: Averages , Standard Deviations , (T) test and the value of Significance

No.	Question	Average	S.D	T	Sig.
1	We compute the decrease in the value of long-term assets , if there is a physical decline in its market value	2.150	1.137	3.344	0.003
2	We compute the decrease in the value of long-term assets , if there is a rapid physical obsolescence	2.800	1.240	0.721	0.479
3	We compute the decrease in the value of long-term assets, if it is affected by the rapid changes in economic conditions	2.800	1.400	0.639	0.530
4	We compute the decrease in the value of long-term assets, if the value is affected materially by increase in market interest rates	2.900	1.071	0.418	0.681
5	We compute the decrease in the value of long-term assets, if there is a natural erosion of assets	2.200	1.152	3.107	0.006
6	We compute the decrease in the value of long-term assets, if its economic performance becomes bad and larger-than-expected	2.650	1.137	1.377	0.185
7	we compute the net fair value of each asset at the date of financial statements	2.850	1.268	0.529	0.603

Table 2: Averages , Standard Deviations , (T) test and the value of Significance - continue

8	We compute the value of each plant asset in use at the date of the financial statements	2.600	1.429	1.252	0.226
9	We estimate the future cash flows that we expect to be obtained from the use of long-term asset in its status quo.	2.900	1.071	0.418	0.681
10	for discounted cash flow, we rely on discount rate free of risk and pre-tax	2.850	1.089	0.616	0.545
11	We compute the decrease in the value of intangible assets, and other long-term assets that was recorded in the books based on the amount of re-evaluation	2.850	1.349	0.497	0.625
12	We compute the decrease in the value of long-term assets for the business that has long useful life	2.550	1.276	1.577	0.625
13	We apply the criterion of impairment of value on the tangible long-term assets that are reported on the basis of cost	2.700	1.031	1.3.1	0.131
14	If there is a discrepancy in the value of long-term assets, we re-calculate the residual value of each of them at the end of its useful life and adjust them	2.700	1.174	1.143	0.267
15	If there is a discrepancy in the value of long-term assets, we re-calculate the depreciation	3.200	1.293	0.865	0.398
16	If the loss could not be calculated for the value of each long-term assets, we re-compute the decrease in the value of each on the basis of cash-generating unit	2.600	0.995	1798	0.088
17	Management ensures that long-term assets presented with an amount not less than the recoverable value	2.500	1.277	1.751	0.096
18	Impairment loss should be closed into income summary	2.550	1.317	1.528	0.143
19	If the loss associated with the impairment from re-evaluation of the asset , then should be adjusted with equity	2.950	1.234	0.181	0.858
20	If found at the end of each accounting period, any decrease in the loss of value, we reflect this decrease in accounting records	2.700	1.218	1.101	0.285
	Total	**2.703**	**0.7798**	**1.706**	**0.104**

Second question: Do Jordanian Industrial Public Shareholding Companies disclose impairment in accordance with the IAS no.(36) requirements ?

Averages and standard deviations for the following questions (21-30) shown in table (3) have been calculated , which measures the disclosure of industrial companies in Jordan for the disclosure of assets impairment according to the disclosure requirements in IAS (36), the results were as in Table (3), which indicates that the arithmetic mean of the year for all the paragraphs (2.680) in which is lower than the study average (3), this means that the Jordanian Industrial Companies do not disclose the impairment of their long-term assets according to the requirements of IAS (36).

Table 3: Averages , Standard Deviations , (T) test and the value of Significance

No.	Question	Average	S.D	T	Sig.
21	To disclose the method in which the calculation of the recoverable amount of assets is made	3.050	1.234	0.181	0.858
22	To disclose the loss of the long-term asset impairment in the financial statements	2.950	1.050	0.213	0.834
23	To disclose the reverse of loss resulting from asset impairment	2.600	1.046	1.710	0.104
24	To disclose the company's circumstances and events affecting the impairment of long-term assets	2.350	1.424	2.041	0.055
25	To disclose the amount of the loss from the impairment of long-term assets	2.950	1.276	0.175	0.863
26	To disclose the company's long-term assets, which decreased its value	2.550	1.050	1.917	0.070
27	To disclose the company's estimate of the assets in use if the deduction of discounted cash flows is made from these assets	2.400	1.143	2.349	0.030
28	To disclose the company's discount cash flows rate	2.700	1.380	0.972	0.343

Table 3: Averages , Standard Deviations , (T) test and the value of Significance - continue

29	To disclose the company's cash-generating units if the loss could not account for the impairment of each asset	2.800	1.196	0.748	0.464
30	To disclose the company impairment loss of long-term asset after the exclusion of accumulated depreciation in the balance sheet	2.450	1.146	2.146	0.045
	Total	**2.680**	**0.8672**	**1.649**	**0.116**

3. Hypotheses Testing

The Study seeks to test the following hypotheses:

First hypothesis: Jordanian industrial public shareholding companies **apply** IAS (36).

From analyzing the answers received by the respondents on items that measure this hypothesis depending on the One Sample T-Test (as in Table 2) , value of (t) was calculated (1.706) is lower than the tabular value of (2.093) at a confidence level (0.05) and degrees of freedom (19), accordingly, we reject the alternative hypothesis, this means that the respondents in these companies do not apply IAS (36).

Second hypothesis: Jordanian industrial companies **disclose** all long term assets impairment with the requirements of IAS no.(36).

From the analysis of items that measure this hypothesis depending on the test of One Sample T-Test (as in Table 3) , value of (t) was calculated (1.649) is lower than the tabular value of $ (2.093) with a confidence level (0.05) , degrees of freedom (19), therefore we reject the alternative hypothesis, this means that the Jordanian industrial companies do not disclose the long-term assets impairment in accordance with the requirements of IAS no.(36).

Third hypothesis: There are significant differences in the perceptions of respondents to the importance of applying IAS (36) attributed to Demographics variables.

Table 4: One-way ANOVA

Variable	Degrees freedom	F calculated	F tabulated	Sig.
Specialization	(18,1)	0.000	4.41	0.989
Age	(17,2)	1.321	3.59	0.302
Educational Level	(17,2)	0.209	3.59	0.814
Post Ranks	(17,2)	2.395	3.59	0.121

Table (4) indicates that calculated value (F) for each variable of the demographic variables is less than the value indexed at the degrees of freedom as in this table, the level of significance (0.05), this means that it did not show statistically significant differences in their perceptions of the importance of applying the accounting standard no. (36) can be attributed to demographic variables, the alternative hypothesis accordingly would be rejected .

Results

The study has reached the following results:

1) Industrial Companies in Jordan do not apply IAS (36)
2) Industrial companies do not disclose in its financial statements in accordance with the requirements of IAS (36)
3) Personal characteristics of the staff did not leave an impact on the results of the study.

Recommendations

The study recommends the Jordanian Industrial Public Shareholding Companies to the following:

1) Application of International Accounting Standard No. (36)
2) Disclosure in the financial statements accordance with requirements of IAS No. (36).
3) Introducing the staff in the financial management on the application of IAS by joining them with adequate training courses.

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