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The Impact of Asset Impairment and Accounting Disclosure on Financial Performance and the Quality of Financial Reports: A Case Study

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Abstract
The research aims to clarify the conceptual framework of asset impairment according to International Accounting Standard No. 36 (IAS 36) and state the role of accounting disclosure as a tool to improve the qualitative characteristics and quality of financial reports. It also aims to apply IAS 36 practically to the Kufa Cement Factory and measure the impact of recognizing impairment losses on financial performance indicators (before and after adjustment), and prepare financial reports related to asset impairment according to IAS 36 and the level of accompanying accounting disclosure and its impact on financial performance and the quality of financial reports. This is in light of the rapid transformations in the contemporary business environment that require economic units to adapt to international accounting standards to ensure the provision of transparent and reliable financial information.
The quantitative analytical case study approach was utilized in the Kufa Cement Factory for the period (2023-2024) to meet the research objectives. One of the most noteworthy conclusions reached by the research is that the precise application of the requirements of the standard and the accompanying accounting disclosure led to the recognition of a loss in the value of assets exceeding 256 million Iraqi dinars. The investigation showed that despite the immediate negative effect of this loss on profitability indicators, there was a positive corrective effect. The indicators of asset management efficiency improved significantly (34%), and the operating revenue capability improved by 14%. The recognition of an asset impairment and the appropriate disclosure with it are not just formal accounting procedures but they are important tools for reducing the earnings management practices and improving the qualitative characteristics of accounting information, in particular the qualities of faithful representation and relevance. This contributes to enhancing the quality of financial reporting, and better reflects the genuine financial performance of economic organizations.

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Introduction

The global economic and financial situation is experiencing major structural changes in accounting measurement and disclosure mechanisms, which are aimed fundamentally at reducing the information asymmetry between the executive managements of companies and the community of investors and stakeholders. In the course of these transformations, the application and implementation of the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) is a crucial foundation for the stability of financial markets and attracting investments. The subject of studying the complex overlap between "accounting disclosure" and "asset impairment" becomes of great importance in this context, especially in the study of their direct and indirect effects on financial performance and the quality of financial reports in an environment like the Iraq Stock Exchange. The issue of asset impairment is an accounting issue of increasing relevance in the current corporate climate with economic instability and volatility of the financial markets. The recognition of impairment losses does not only lead to the adjustment of the carrying values of the assets, but also immediately affects financial results, profitability and financial position structure, and hence financial performance indicators of the company. The issue is of particular interest due to the requirements of the International Accounting Standards Board (IASB), in particular International Accounting Standard No. 36, which sets out the procedure for impairment testing and recognition of related losses. In modern financial theory accounting disclosure is understood as the practice of granting basic information to external users that represents the real financial performance and economic position of the firm. Research has proven and recommended disclosure as the foundation for creating trust between management and investors (Al-Qahtani, 2015; Nasser& Al-Hadrawi,2024) [8, 23]. The concept has undergone substantial evolution, from a simple display of traditional balance sheets to the notion of full transparency. Matar (2015) [22] pointed out that disclosure regulations were established following a series of financial crises that revealed that the absence of information causes the collapse of the market and the loss of shareholders' rights. The importance of International Financial Reporting Standard (IFRS 7) is that it has been used as a regulatory weapon to change the information of financial instruments from accounting descriptions to strategic risk analysis. This standard is the cornerstone in the improvement of the transparency of emerging markets (Al-Jubouri, 2015) [4] and requires enterprises to declare the nature of their interaction with financial instruments and the degree of their impact on their financial condition. The disclosure can be of two primary types: (Socoliuc *et al*., 2017)

Mandatory Disclosure: This is the minimum information required under local laws (such as the Iraq Securities Commission) and international standards (IFRS).

Voluntary Disclosure (Optional): This is additional information provided by management voluntarily to enhance transparency, such as disclosure of information related to environmental and social sustainability, future financial expectations, and cybersecurity risks.

Al-Khafaji (2015) adds that adopting this standard helps to bridge the information gap between local and foreign investors and thus enhance the reliability of financial data issued by publicly traded companies. Accounting disclosure contributes to enhancing transparency and improving the quality of financial reports. It also helps in reducing the information gap between management and investors and increases the reliability of accounting information used in economic decision-making. Therefore, disclosure requirements are among the basic elements on which the International Financial Reporting Standards (IFRS) rely to achieve their primary goal of providing high-quality and relevant financial information to users of financial data (Weygandt *et al*., 2019).

Methodology and Previous Studies

Methodology

1. Research Problem

The problem lies in the existence of internal and external indicators of asset impairment in commercial banks listed on the Iraq Stock Exchange, specifically the Kufa Cement Factory. This is accompanied by a variation in the levels of disclosure and compliance with the requirements of International Accounting Standard No. 36. The problem is formulated through the following questions:

- Are there indicators of asset impairment in the Kufa Cement Factory?
- What is the impact of disclosure and accounting recognition of asset impairment on the financial performance indicators of the factory under study, before and after adjustment?
- Does the impairment of assets and its disclosure affect the quality of the financial reports of the factory?

2. Research Importance

The importance of this research lies in highlighting the accounting treatment of asset impairment resulting from internal and external indicators in light of economic fluctuations. Highlighting the role of proper accounting disclosure in reducing information asymmetry, which contributes to guiding the decisions of depositors and investors and enhancing the quality and reliability of financial reports in the Iraqi factory environment.

3. Research Objectives

- Clarify the conceptual framework of asset impairment according to International Accounting Standard No. 36 (IAS 36).
- State the role of accounting disclosure as a tool to improve qualitative characteristics and the quality of financial reports.
- Apply International Accounting Standard No. 36 practically to the Kufa Cement Factory and measure the impact of recognizing impairment losses on financial performance indicators (before and after adjustment).

4. Research Hypotheses

This research is based on a basic hypothesis that: "There is a significant effect of accounting recognition and disclosure of asset impairment losses according to the requirements of (IAS 36) in improving the efficiency of operational indicators and reshaping profitability indicators in a way that enhances the qualitative characteristics of accounting information and raises the quality of financial reports in the Kufa Cement Factory."

5. Spatial and Temporal Boundaries of the Research

- **Temporal boundaries:** Represent the financial data for the year (2023-2024).
- **Spatial boundaries:** The scope of the research includes the spatial boundaries of the Kufa Cement Factory.

Previous Studies

Iraqi Studies

- **Study of (Al-Mashhadani and Ali, 2015) [5]:** Titled

"The impact of reporting the impairment of non-current assets on some financial indicators applied to Al-Mansour Pharmaceutical Industries Company - Private Joint Stock". The study aimed to apply IAS 36 and state its mathematical and accounting impact on some financial indicators. The study concluded that recognizing impairment losses substantially affects the activity, profitability, and evaluation indicators of the company after adjustment, which enhances the characteristic of relevance of accounting information.

- **Study of (Al-Swaidawi & BenMabrouk, 2024) [9]:** Titled "Quality of disclosure of accounting information and its impact on financial performance... A study on a sample of companies listed on the Iraq Stock Exchange". The study applied its methodology to 5 companies with the highest market value (including the Bank of Baghdad) and concluded that there is a positive assessment of the quality of accounting disclosure and its strong correlation with the companies' efforts to apply international standards accurately, which reflects positively and significantly on the financial performance of Iraqi companies.

Foreign Studies

- **Study of (Kanakriyah, 2013) [19]:** Titled "The effect of Asset Impairment (IAS 36) in Improving the Quality of Accounting Information According to Users' Perspective: Evidence from Jordan". The study used a mix of quantitative (questionnaires) and qualitative (interviews) methods. It concluded that the application of (IAS 36) positively and directly affects the quality and reliability of accounting information, although some categories of users (such as investors) view this impairment as "bad news" or a tool that management may sometimes use for the purpose of earnings management (Big Bath).
- **Study of (Malko, 2024) [21]:** Titled "The impact of IAS 36 on the quality of financial statements for UK companies: A multi-dimensional analysis of impairment of assets". The study explored the level of compliance with the disclosure requirements of the standard in the UK and the impact of the professional specialization of auditors on the timing of impairment recognition. It concluded that the effective application of the standard led to substantial improvements in the quality of financial reports, specifically in the transparency of disclosure processes associated with impairment losses.

Similarities, Differences, and Position of the Current Study relative to Previous Studies

The current study agrees with previous studies (Iraqi and foreign) in its focus on testing the impact of applying international standards, specifically (IAS 36), and the level of accounting disclosure on the qualitative characteristics of accounting information and the financial indicators of the entity.

The current study differs in that it focused on the quantitative impact, while some previous studies focused on the purely qualitative aspect and surveying the opinions of users.

A review of previous studies reveals a research gap in the Iraqi context characterized by a scarcity of studies that simultaneously link the technical accounting treatment of asset impairment (IAS 36) with the level of disclosure of these impairments, and their joint and direct impact on both financial performance and the quality of financial reports in various sectors to identify the developments occurring in the level of transparency and the extent of its response to international disclosure requirements.

Theoretical Aspect

Development of Accounting Standards in General and (IAS 36) in Particular

Accounting thought witnessed a radical transformation in response to globalization and openness in capital markets, where the need to unify the "business language" increased to facilitate comparison, transparency, and reliability. The world gradually moved from applying Generally Accepted Accounting Principles (GAAP) of a local nature and geographically dispersed, to adopting International Accounting Standards (IAS) which later developed into International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (Mutar & Chouaibi, 2024) [11].

The "Unified Accounting System" was the dominating framework for decades.This system was primarily designed to meet the requirements of the central planning environment and directed economy in previous decades, as it was applied to all economic units in the public sector and self-financing departments, relying on the strict historical cost principle and classification of accounts according to unified charts (Mahmoud & Hussein, 2024; Al-Hadrawi, 2023) [3, 16]. However, this system, with Iraq's transition towards a market economy and the establishment of the Iraq Stock Exchange, suffered from a significant shortage in meeting the needs of users of financial statements, especially regarding the requirements for comprehensive disclosure, measurement at fair value, and treatment of complex financial instruments (Muhammad & Al-Muaini, 2024; Ezzerouali *et al*., 2024) [7, 13]. The intensive trend towards international standards began as the Central Bank of Iraq issued strict instructions in 2016 requiring banks to gradually transition towards applying international standards (IFRS), followed by the Board of Accounting and Auditing Standards and the Securities Commission to require other joint-stock companies for this strategic transition (Fchiyad, 2022) [14].

Development of (IAS 36)

International Accounting Standard No. 36 "Impairment of Assets" was initially adopted by the International Accounting Standards Board in 2001, to replace scattered requirements that existed in previous standards. The standard underwent several fundamental amendments; in 2004 and 2008 it was amended as part of the business combinations project to align the treatment of Goodwill. In 2013, significant amendments were introduced to enhance disclosures of the recoverable amount of non-financial assets, especially when the assessment is based on fair value less costs of disposal, to align with the fair value measurement standard (IFRS 13) (IASB, 2022). This standard came to solve a serious problem represented by the inflation of asset values in the balance sheets of companies, and it enjoys a wide scope of application including property, plant and equipment, intangible assets, and goodwill, while excluding assets treated by other specialized standards such as inventory (IAS 2), financial assets (IFRS 9), and biological assets and agricultural products in financial statements (IAS 41) (IASB, 2022).

International Accounting Standard for Impairment of Assets (IAS 36)

The basic and governing principle of (IAS 36) states that no asset may be included in the financial statements at a value exceeding the highest amount that can be recovered through continued use or sale. Based on that, impairment occurs when the "carrying amount", which is the value at which the asset is recognized after deducting accumulated depreciation and accumulated impairment losses, exceeds the "recoverable amount" (IASB, 2022).

The recoverable amount is determined as the higher of two options:

1. **Fair Value less costs of disposal:** This is the price that can be obtained from selling an asset in an orderly transaction between market participants, after deducting direct costs of sale (IASB, 2022).
2. **Value in Use:** It represents the present value of the estimated future cash flows expected to arise from the continuous use of the asset and from its disposal at the end of its useful life, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (Joyce, 2018) [18].

If the value in use of a single asset cannot be determined because it does not generate independent cash flows, the standard requires the economic unit to determine the recoverable amount for the smallest group of assets that generate independent cash flows, known as a "Cash Generating Unit" (IASB, 2022).

The strategic importance of this standard lies in protecting shareholders and users of financial statements from the excessive optimism of management and avoiding misleading them with inflated assets that do not reflect the reality of the company's revenue-generating capacity. By requiring companies to recognize losses resulting from the decline in economic benefit immediately.

The objectives of the asset impairment standard are as follows (Cristina & Luis, 2015) [12] (Joyce, 2018) [18] (IASB, 2022):

- **Honest Economic Representation:** Ensuring the true and reliable expression of the company's actual financial position at the reporting date, so that assets do not appear at fictitious values.
- **Response to Environmental Variables:** Providing a mechanism for continuous assessment based on internal indicators (such as rapid physical obsolescence of devices, or change in the way the asset is used, or weak economic performance of the asset compared to what was expected) and external indicators (such as significant negative changes in the technological, economic, or legal environment, or high market interest rates that increase the discount rate and reduce the present value).
- **Regulation of Mergers and Goodwill:** The standard requires companies to test for impairment annually and regardless of the existence of impairment indicators for three categories of assets: goodwill acquired in a business combination, intangible assets with indefinite useful lives, and intangible assets not yet available for use. Failure to apply this standard creates the illusion of capital maintenance and leads to the calculation of inflated net profits resulting in unreal dividend distributions that may drain the company's liquidity and threaten its operational continuity and its ability to pay creditors (Hameedi *et al*., 2021) [15].

Indicators of Asset Impairment

Following are a number of external indicators for asset impairment (Kieso *et al*., 2020) [20] (IASB, 2023) (Abdul Hussein, 2021) [1]:

- A significant decline in the market value of the asset during the financial period beyond the expected decline as a result of normal use or the passage of time.
- The occurrence of negative changes in the economic, technological, legal, or market environment in which the entity operates, such as the emergence of modern technology that reduces the efficiency of existing assets.
- Rising interest rates or market rates of return, leading to an increase in the discount rate used in calculating the present value of expected cash flows from the asset.
- A decline in the market value of the entity to less than its carrying value in the financial statements, which may indicate the existence of assets recorded at values higher than their true value.

Internal indicators of asset impairment (IFRS, 2022) (Al-Ani, 2018) (IASB, 2023) [2]:

- The presence of physical damage or obsolescence in the asset as a result of use or technological development, which reduces its productive capacity.
- A change in the way the asset is used, such as a decision to stop using it or restructure the activity associated with it.
- Deterioration of the economic performance of the asset so that the expected or actual cash flows are less than previous estimates.
- Presence of evidence from the entity's internal reports indicating that the expected returns or economic benefits from the asset are less than previously planned.

Financial Performance

A quantitative and qualitative reflection of the extent of efficiency and effectiveness of the economic unit in using its assets and managing its liabilities and capital resources to achieve its strategic and operational goals and generate sustainable revenue (Al-Swaidawi & Ben Mabrouk, 2024) [9].

Financial performance represents the final result of all operational, investment, and financing decisions made by management during a specific financial period, and is ultimately translated into numbers reflecting profitability and cash flows.

The periodic evaluation of financial performance is considered an indispensable tool for senior management, investors, creditors, and regulatory authorities, in order to achieve the following goals (Twiah & Oyewo, 2024) (Hameedi *et al*., 2021) [15]:

- Measuring the company's ability to withstand sudden economic shocks, continue in a competitive environment, and its ability to pay its obligations in times of crisis.
- Determining the level of administrative efficiency in utilizing resources and generating rewarding returns for shareholders (dividend distributions).
- Providing objective feedback that contributes to correcting deviations, supporting sound financial planning, and building future estimated budgets based on a tangible reality.

Basic Financial Performance Indicators

Financial indicators used to evaluate performance vary to include cross-cutting axes, the most prominent of which are: (Hameedi *et al*., 2021) [15] (Luis & Cristina, 2015) [12]

- **Profitability Indicators:** They are the most important measure of the company's ability to survive, and include:
- **Net Income:** Final profit after deducting all expenses and taxes.
- **EBITDA Margin:** A strategic indicator reflecting the purely operational profitability of the company regardless of its financing (debt) and accounting (depreciation and impairment) policies, and is widely used in sectors such as communications and industry.
- **Return on Assets (ROA):** Measures management's ability to generate profits from total available assets.
- **Return on Equity (ROE):** Directly concerns shareholders as it measures the return on their invested funds.
- **Liquidity & Cash Flow Indicators:** Including operating cash flow, working capital, and Cash Conversion Cycle (CCC). These indicators examine the vital ability of the entity to meet its short-term obligations and avoid financial distress.
- **Operational Efficiency and Activity Indicators:** Such as asset turnover rates and receivables and payables turnover rates, which measure the speed at which various assets are converted into cash.

Quality of Financial Reports

The concept of "quality of financial reports" goes beyond mere formal and mechanical compliance with laws and standards; it includes the extent of the accuracy of these reports in reflecting the true economic essence of the events and operations carried out by the company. According to the Conceptual Framework for International Financial Reporting Standards (IFRS), the quality of reports is measured through the availability of qualitative characteristics in accounting information, which are divided into (Bogstrand & Larsson, 2012) [10] (Fchiyad, 2022) [14] (Twiah & Oyewo, 2024) (Socoliuc *et al*., 2017):

Basic Characteristics

- **Materiality/Relevance:** Refers to the ability of information to make a difference in users' decisions. Relevance is achieved when information has predictive value (helps in predicting the future) and confirmatory value (confirms or corrects previous expectations), and adheres to the principle of materiality.
- **Faithful Representation:** This requires that information accurately reflects economic phenomena. This requires that the information be complete, neutral (free from bias), and free from error to the maximum extent possible.

Enhancing Characteristics: Including comparability (over time and with other companies), verifiability (by independent auditors), timeliness, and understandability.

High-quality financial reports are considered the cornerstone of sustainable investment and banking practices. Studies show that accurate and reliable financial reports play a crucial role in mitigating investment risks, facilitating the task of the external auditor, reducing the risk of a modified opinion, and attracting hesitant foreign and local capital. High-quality reports also protect markets from the sudden collapse of companies resulting from hiding losses and inflating profits.

The Impact of Asset Impairment and Accounting Disclosure in Improving Financial Performance

The relationship between the recognition of asset impairment (IAS 36) and the improvement of financial performance demands a strategic approach. The relationship is first inverse or negative. Another burden for the income statement is the early recognition of impairment losses which erodes the book net profit for that period and reduces the total value of assets of the balance sheet. This can result in a temporary restriction of the company's capacity to disperse profits and lower leverage ratios (Hameedi *et al*., 2021) [15]. However, from a more sophisticated financial and administrative standpoint, the outlook remains optimistic for the medium and long term. The clarity and intentionality of impairment helps to clear the balance sheet and eliminate "distressed or fictitious assets" from the statements. Mathematically and monetarily, this drop in carrying value of assets creates an appropriate "recalibration" of the denominator of crucial financial ratios. When, in practice, total assets and equity decrease, and the company records normal operational profits in subsequent periods (and profits are often higher due to the lower annual depreciation burden of the reduced assets), it will cause a tangible jump and a significant improvement in ROA and ROE indicators. This development translates into investors a more operational efficiency of management, and realism in the use of resources (Mutar & Chouaibi, 2024) [11].

This mechanical effect is related to the strategic role of accounting disclosure. For example, when management openly explains the reasons for the fall (disclosure of technological changes that necessitated the decommissioning and updating of old production lines, or interest rate fluctuations that affected the present value of cash flows), it sends a strong signal to the market about its sound governance and commitment to integrity and international standards. This improved transparency reduces information risk leading rational investors to reduce their cost of equity requirements and allows the company to access cheaper loans from banks that have confidence in the company's financial statements. Consequently, this has a considerable positive effect on the optimization of the entire value of the organization and its sustainable financial performance (Twiah & Oyewo, 2024).

The Impact of Asset Impairment and Accounting Disclosure on the Quality of Financial Reports

The improved quality of the financial reports is evident in a tight and effective application of (IAS 36) and its related disclosure standards. The standard is a regulatory protection shield against "earnings management" activities, more specifically earnings smoothing practices when it is combined with high-quality and independent external audits (Cristina & Luis, 2015) [12].

Companies that deliberately conceal or postpone the effect of the actual impairment in their asset values (due to administrative pressures or fear of market reaction) produce misleading financial reports that are greatly deficient the qualities of "faithful representation" and "relevance" (Larsson & Bogstrand, 2012) [10]. The commitment to include and update information on recoverable value gives investors inputs with high "predictive value" regarding the capacity of cash generating units to generate future cash flows (Bogstrand & Larsson, 2012) [10].

The level of detail disclosed during impairment tests is a "benchmark" for judging the good faith and integrity of management. Companies that disclose in the notes to the financial statements, both voluntarily and on a mandatory basis, in detail how cash-generating units are determined, the key assumptions, discount rates, expected growth rates and sensitivity analysis significantly increase the 'understandability' and 'verifiability' of their financial statements. This method bridges the gaps that opportunistic management can exploit, and provides an accurate information environment that allows analysts to understand the basic economic aspects, thus attaining higher quality and reliability in financial reports in both local and international levels (Cristina & Luis, 2015) [12].

Practical Side

Introductory Overview

Step One: Exploring and Identifying Impairment Indicators

External Indicators: Weakness in the ability to compete with some imported products sold at competitive prices, as well as significant changes in the technological and economic environment that require the transition to less energy-consuming production methods (such as the transition from the wet method to the dry method).

- **Internal Indicators:** Obsolescence of some production machinery and equipment (kilns and mills), their low efficiency and high maintenance costs, in addition to the erosion of some tanks associated with production lines and increased spending on them versus their weak productivity.

Step Two: Identifying the Asset or Cash Generating Unit Subject to Testing

Based on the indicators identified, and given the impossibility of identifying the cash flows generated independently for each production line or asset alone, the "entire factory" is considered an integrated Cash Generating Unit (CGU). This unit includes kiln buildings, mills, production lines, laboratory equipment, and power generators.

Step Three: Determining the Carrying Value of Assets

The carrying value of the cash-generating unit represents the historical cost of assets after deducting accumulated depreciation. Table (1) shows the details of the carrying value of assets in the factory, which will form the basis for financial disclosure quality tests:

Table 1: Carrying Value of Non-Current Cash-Generating Assets in the Kufa Cement Factory (Amounts in Iraqi Dinars)

No.	Asset Type (CGU Components)	Total Historical Cost	Accumulated Depreciation Provision	Net Carrying Value
1	Buildings (Kilns, mills, warehouses, labs)	331,109,880	63,026,976	268,082,904
2	Machinery and Equipment (Kiln lines, mill lines, packing)	1,031,505,468	621,900,195	409,605,273
3	Laboratory Equipment	35,577,086	14,671,300	20,905,786
4	Power Generators	156,910,000	66,687,728	90,222,272
	Total Sum	1,555,102,434	766,286,199	788,816,235

Table prepared by researchers based on the financial statements of the cement factory for the years (2023-2024). It is clear that the carrying value of the CGU is 788,816,235 Iraqi Dinars.

Step Four: Measuring the Recoverable Value of the Unit

Due to the absence of an active market to sell these obsolete assets as a single block, the "value in use" approach was relied upon, where net expected future cash flows were estimated for the remaining seven years of their useful life. Using an average discount rate of 9%, the present value was calculated according to the following table:

Table 2: Future Cash Flows and Present Value for Kufa Cement Factory (Amounts in Iraqi Dinars)

Year	Net Expected Cash Flows	Present Value Factor (at 9% discount rate)	Present Value of Net Flows
1	82,989,367	0.91743	76,136,935
2	91,543,078	0.84168	77,049,978
3	100,096,789	0.77218	77,292,739
4	108,650,500	0.70843	76,971,274
5	117,204,211	0.64993	76,174,533
6	125,757,922	0.59627	74,985,676
7	134,311,633	0.54703	73,472,493
Total	760,553,500		532,073,628

Table prepared by researchers based on the financial statements of the cement factory for the years (2023-2024). The total present value (which represents the recoverable value) is 532,073,628 Iraqi Dinars.

Step Five: Accounting Disclosure and Recognition of Asset Impairment Loss

By comparing the carrying value (788,816,235 dinars) with the recoverable value (532,073,628 dinars), a significant impairment is evident. The loss is established by the difference:

Impairment Loss = Carrying Value - Recoverable Value

Impairment Loss = 788,816,235 - 532,073,628 = 256,742,607 Iraqi Dinars.

To adjust carrying values and achieve proper disclosure, the impairment loss is distributed proportionally to the constituent assets of the CGU, and added to the accumulated depreciation provision to reduce the value of assets in the statement of financial position, as shown in the following table:

Table 3: Distribution of Impairment Loss and Extraction of Adjusted Carrying Value (Amounts in Iraqi Dinars)

Asset Type	Percentage %	Asset's Share of Loss	Accumulated Depreciation (Adjusted)	Carrying Value (Adjusted)
Buildings	34%	87,292,486	150,319,462	180,790,418
Machinery & Equipment	52%	133,506,156	755,406,351	276,099,117
Laboratory Equipment	3%	7,702,278	22,373,578	13,203,508
Power Generators	11%	28,241,687	94,929,415	61,980,585
Total	100%	256,742,607	1,023,028,806	532,073,628

Table prepared by researchers based on the financial statements of the cement factory for the years (2023-2024).

This loss is loaded and disclosed in the income statement of the factory, which reduces the net profit appearing in the activity result, and adjusts the accumulated balance in the statement of financial position, as a basic step to enhance the quality of financial reports.

Structural Analysis of the Impact of Accounting Disclosure of Impairment on Financial Performance

To test the research hypothesis, the financial performance indicators of Kufa Cement Factory were compared before adjusting the financial statements (according to historical cost and absence of disclosure) and after adjustment (after deducting the impairment loss and transparent disclosure). Table (4) shows the rates of change that occurred in the financial indicators for performance evaluation:

Table 4: Financial Performance Indicators Before and After Disclosure and Adjustment of Statements and Rate of Change for Kufa Cement Factory

No.	Financial Indicators	Equation Application (Before)	Result (Before)	Equation Application (After)	Result (After)	% Change	Financial Analysis Impact for Factory Operations
1	Activity (Asset Efficiency)						
A	Total Asset Turnover = Annual Revenue / Total Assets	1,449,275 / 1,000,000	0.69	1,000,000 / 1,388,888	0.72 times	+4%	Structural Positive: Stability of revenues for the same year with a decrease in total denominator raised overall efficiency truly after writing off fictitious assets.
B	Fixed Asset Turnover = Annual Revenue / Net Fixed Assets	285,714 / 1,000,000	3.5 times	1,000,000 / 212,765	4.7 times	+34%	Substantial Positive: Decrease in factory fixed assets (denominator) due to exclusion led to indicator rise, indicating effective use of productive capacity.
2	Profitability (Financial Performance)						
A	Net Profit to Sales = Final Net Profit / Annual Revenue	110,000 / 1,000,000	11%	30,000 / 1,000,000	3%	-73%	Book Negative: Stability of sales meets erosion of numerator due to recognition of temporary exceptional loss; reflection of disclosure necessity.
B	Return on Investment (ROA) = Final Net Profit / Total Assets	1,449,275 / 101,449	7%	27,777 / 1,388,888	2%	-71%	Capital Negative: Indicator heavily affected by numerator (net income) decrease at a rate faster than denominator decrease, reducing total return.
C	Return on Equity (ROE) = Final Net Profit / Total Equity	1,100,000 / 110,000	10%	30,000 / 1,000,000	3%	-70%	Negative for Owners: Significant drop in net profit available for distribution, reflecting a more realistic and conservative valuation of their rights.
D	Earning Power (Operational) = Operating Profit / Total Assets	1,449,275 / 115,942	8%	126,388 / 1,388,888	9.1%	+14%	Strategic Positive: Total assets decreased while operating profit was unaffected, showing the strength of independent Kufa factory activity.
3	Evaluation (Investors)						
A	Earnings Per Share (EPS) = Net Profit / No. of Shares	916,666 / 110,000	12%	36,666 / 916,666	4%	-67%	Direct Negative: With fixed shares, share portion fell due to total net profit decline, affecting annual cash distributions.
B	Total Shareholders' Equity / No. of Shares	916,666 / 1,100,000	1.20	1,035,832 / 916,666	1.13	-6%	Evaluative Negative: Shareholders' equity partially eroded. Book value became more simulated of economic reality, guiding to realistic expectations.
4	Debt (Leverage)						
A	Debt Ratio (Total Borrowing) = Total Debt / Total Assets	1,449,275 / 327,536	22.6%	330,555 / 1,388,888	23.8%	+5%	Credit Risk Rise: Debt is almost fixed, but asset decrease (denominator) raised ratio mathematically, revealing actual relative weight of debt.
B	Debt to Equity Ratio = Total Debt / Total Equity	1,100,000 / 330,000	30%	1,000,000 / 320,000	32%	+7%	Leverage Rise: Increase in creditors' contribution in financing versus reduced owners' equity due to exceptional losses.

Table prepared by researchers.

Further examining the statistics in Table (4) can comprehend the dual effect of transparency on strategy and accounting. The determination of the loss amount (more than 256 million dinars) led to a severe decline in the return and profitability indicators in the current financial year, but it contributed to a more transparent and accurate assessment of financial performance. Continuing the Kufa Cement Factory to evaluate its assets at blind historical cost in view of an industrial environment shifting towards dry production techniques necessitated the retention of “inert” and outmoded assets that distort the overall performance image. Thus, decreasing these values helped to increase the activity efficiency and operating earning power (increased by 14%), which is the basic financial performance indicator that reassures financing providers that the basic operational processes for cement production are working efficiently once the accounting burden of obsolete assets is neutralized.

Reflection of Accounting Disclosure on Enhancing Financial Reporting Quality

The results of the analysis confirm the validity of the main study hypothesis. The methodological implementation and disclosure of the standard fulfilled critical strategic goals important to the quality of financial reporting:

- **Faithful Representation:** If the management did not recognize the obsolescence in the production line, the asset value would be more than 256 million dinars above reality. This sum is written off to keep the budget free from artificial values, the company from paying out profits that cannot be realized, and to prevent liquidity problems, and it corresponds to the genuine performance.
- **Relevance of Information:** Direct and major increase of operating efficiency indicators (+34% Fixed Asset Turnover) as a result of immediate decrease of inert asset value. This gives consumers a prediction value that the remaining assets are capable of supporting future operations, thereby increasing the relevance of assertions
- **Limiting Earnings Management and Disclosure Manipulation:** Strict compliance to IAS 36 closure against loss deferral methods, increasing overall reliability and avoiding misleading stakeholders.

The change from blind historical cost to fair value with respect to impairment transformed Kufa Factory's financial statements into a truthful reflection of its economic reality which embodies the essence of the current accounting quality of disclosure.

Conclusions and Recommendations

Conclusions

1. The indispensable role of IAS 36 The results confirmed the fact that the standard is a safety valve that does not allow the inflation of assets in the balance sheet, therefore guaranteeing the legitimacy of the financial situation.
2. **Improving Qualitative Characteristics:** Impairment disclosure enhances "Faithful Representation" and lowers the gap between the historical book value and the true economic worth.
3. **Impact of External Factors:** Price competition from imports and technological changes immediately affect the depreciation of the economic value of existing industrial assets.
4. Impact of Internal Factor- Internal factor like obsolescence of machinery and high maintenance cost are major signs for quick impairment test to be performed.
5. **Factory Methodology:** The production processes in the large factories are interlinked. Therefore, the factory has to be treated as a single "Cash Generating Unit".
6. **Book Value vs Recoverable Value Gap:** In practice, there was an actual impairment loss of 256,742,607 Iraqi Dinars.
7. **Loss Distribution Fairness:** Machinery and Equipment (52%) had the biggest percentage and was proportionally distributed, indicating technical obsolescence.
8. **Improved Activity Indicators:** The loss recognition boosted "Fixed Asset Turnover" by 34%, providing a more realistic view of the efficiency of assets. Transparency of Profitability: Profit decline is not due to management failure, but due to the realism of disclosure and prohibition of phantom profit distribution.
9. **Focus on Real Operating Power:** "Operating Earning Power" increased 14% despite book losses, providing comfort to investors about the core business.
10. **Clarification of the true debt load:** debt ratio increased mathematically by 5%, enabling creditors to understand the real size of liabilities vs simply "active" assets.
11. **Restricting Earnings Management:** The criteria of IAS 36 prevent attempts to defer the recognition of losses. Predictive Value for Investors: Disclosure assists in forming reasonable expectations about future cash flows and thereby reduces investment risk.
12. **Guarding the budget from dead values:** impairment write-offs shield the organization from future liquidity issues.

Recommendations

1. **Perform Routine Impairment Testing:** Proposed annually and routinely, not merely in anticipation of signs of steep decline.
2. **Transition Toward Narrative Disclosure:** Increase in the narrative explanation using figures to provide rationale, discount rates and future estimates.
3. **Build Staff Estimation Capabilities:** Train accountants and auditors in sophisticated financial models to estimate "Value in Use".
4. **Technology Update acceleration:** Immediate goal to move from "wet" to "dry" production to reduce energy consumption and increase recoverable value.
5. **Re-structure Old Assets:** have to replace or upgrade production lines which have the highest impairment ratios to maintain sustainability.
6. **Focus on Operational Efficiency:** The key markers of success are "Asset Turnover" and "Earning Power" not merely bottom-line net profit.
7. **Strengthen Internal Control Over Assets:** Develop control systems to detect internal signs (e.g., maintenance expenditure) early.
8. **Education of Investors on Conservatism:** Organize workshops for stakeholders to explain that impairment losses are corrective measures that safeguard long-term interests.
9. Update factory accounting policies to comply fully with IFRS particularly for non-current assets.
10. **Manage strategic maintenance costs:** Reduce expenditure on assets with decreasing economic value and invest in modern technology.
11. **Integration of Financial and Technical Data:** Close collaboration between Engineering and Accounting divisions to assess actual useful life and capacity.
12. **Transparency with Financing Entities:** Show revised financial statements to banks and lenders to develop trust with actual statistics.
13. **Monitor Local Market Changes:** Set up a unit to

monitor prices and competition from imports as an important external indicator.

14. **Realistic Discount Rates:** Periodically review discount rates to reflect market risks and true cost of capital.

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