

## AN ANALYSIS OF INCOME SMOOTHING POLICIES' EFFECTS ON THE QUALITY OF ACCOUNTING INFORMATION IN KURDISTAN BANKS

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#### ABSTRACT

The main purpose of the study is to examine income smoothing policies' effects on the quality of Kurdistan banks' accounting information. A single regression model was used to analyse income smoothing policies' effects on the quality of accounting information using 50 financial managers, accounts managers, internal audit managers, administration managers, internal auditors, accountants and general managers' responses. The findings showed that banks engaging in income smoothing policies stand a huge chance to offer high-quality accounting information. It was further observed that income smoothing policies are a notable determining element of accounting information quality and aid in explaining fluctuations in accounting quality throughout the banking sector. This study also hints that income smoothing policies can positively affect accounting information reliability and credibility, as stakeholders and investors are more likely to trust predictable and stable financial statements. As such, the results have profound theoretical implications for accounting reporting theories, as they indicate that income smoothing policies are a crucial tool for banks to employ to boost the quality and credibility of their financial statements.

## **1. Introduction**

The importance of the banking sector in any economy cannot be downplayed as it contributes towards improving economic growth (Daly & Frikha, 2016) by providing financial services to individuals, governments and businesses (Iwanicz et al., 2019). As such, it is imperative that banks operate efficiently and effectively, and one of the key strategies through which such outcomes can be achieved is by making rational decisions. It is a standard norm that rational decisions are made on the premise of high-quality information. Hence, the quality of information produced is vital for aiding banks to make rational decisions. Various techniques and policies can be used to achieve income smoothing. Examples include income shifting, smoothed reserves, capitalizing expenses, creative revenue recognition, timing of revenue recognition, accelerated depreciation, cookie jar reserves and big bath provision (Al-Habaiti & Al-Saqqa, 2003; Kenton, 2021).

Meanwhile, it is to the researcher's knowledge that there is a growing increase in the adoption and utilisation of income-smoothing policies in Kurdistan's banks. However, there are nascent ideas as to how the adoption of income-smoothing policies affects Kurdistan banks. Besides, Gao and Zhang (2015) contend that income smoothing policies are designed to enhance the stability of a company's income-earning streams. The resultant effects of such exercises tend to accord stakeholders with a reliable view of a company's financial performance. Despite these observations denoting the impact of income smoothing policies on the quality of accounting information used by stakeholders to make rational decisions, not much has been done to explore these effects in detail.

Apart from limited income smoothing policies examinations, ideas directed to Kurdistan banks are limited. Despite ideas having been drawn from countries such as South Africa (Ozil & Outa, 2018), the United States of America (Abou El Sood, 2012) and European bans (Peterson & Arun, 2018), not much empirical ground has been covered regarding income smoothing policies' effects on accounting information. As such, a key number of studies focus on analysing income smoothing policies' effects on conservatism (Al-Taie, Flayyih & Talab, 2017) and managerial incentives (Tsitinidis

& Duru, 2013). Consequently, this study's primary focus is on addressing such a problem in the context of Kurdistan banks whose quality of information is widely affected by income smoothing policies, but related studies are widely concentrated in areas such as roles of ownership and economic fluctuations (Ozili & Outa, 2018), loan loss provision (Abou El Sood, 2012) and managerial incentives (Tsitinidis & Duru, 2013). Therefore, it remains to be determined further as to how the quality of banks' accounting information responds to changes in income smoothing policies. The other problem relates to examinations denoting that income smoothing policies' effects are most cases difficult to rectify, especially when they affect earnings management quality (Kostono, Roziq & Nanggala, 2021). This can place Kurdish banks at a huge disadvantage in having to seek effective ways of addressing the adverse effects of income-smoothing policies' effects. With no related examinations having covered such issues, the study's novelty centres on finding effective ways banks can use to address the adverse effects of income smoothing policies' effects and boost the quality of their accounting information. Amid these challenges, the study aims to examine income smoothing policies' effects on the quality of banks' accounting information. In doing so, the study answers the following questions:

- 1) What is the effect of income smoothing policies on the quality of banks' accounting information?
- 2) What recommendations can be given to banks to effectively deal with the adverse effects of income smoothing policies' effects and boost the quality of their accounting information?

The findings showed that banks engaging in income smoothing policies stand a huge chance to offer high-quality accounting information. Practically, this impacts stakeholders like regulators, creditors and investors relying on high-quality accounting information to make informed decisions. It was further observed that income smoothing policies are a notable determining element of accounting information quality and aid in explaining fluctuations in accounting quality throughout the banking sector. Such findings are consistent with prior investigations that proposed that income smoothing policies tend to enhance accounting information quality by lessening noise in informed earnings and making them highly foreseeable. Furthermore, this study also hints that income smoothing policies can

positively affect accounting information reliability and credibility, as stakeholders and investors are more likely to trust predictable and stable financial statements. Such results have profound theoretical implications for accounting reporting theories, as they indicate that income smoothing policies are a crucial tool for banks to employ to boost the quality and credibility of their financial statements. The next section of the study proceeds to examine the underlining theoretical and empirical ideas linking income smoothing policies with the quality of banks' accounting information.

## **2. Literature review**

### **2.1 Theoretical framework: The definition and concept of income smoothing**

Foremost, the study centres its theoretical arguments on the decision-making theory. According to Waldman et al. (2019), the decision-making theory is a theory of how rational individuals should behave under risk and uncertainty. As a result, the theory contends that decision-making means the adoption and application of rational choice for the management of a private, business, or governmental organization in an efficient manner. In that regard, the adoption of income smoothing policies and the application of rational choice using quality accounting information for the management of banks becomes this study's focus. Hence, the decision to apply the decision-making theory is to explain how income-smoothing policies and the use of high-quality accounting information allow banks to make rational choices.

Meanwhile, income smoothing is a form of profit management that maximises income, reduces income, cleans financial statements and smoothes income (Mehtar, 2017). Kolowsvari and Da Silva Macedo (2018) defined income smoothing as an attempt by managers to deliver a message expressing stability in the development of their business to all those dealing with the organization without sudden differences, as this practice is to "reduce the discrepancy of profits." Fedawi (2014) contends that the goal of income smoothing is to announce a regular profit growth curve, which is necessary for the institution to achieve large profits that enable it to organize its flows according to its needs. There is a common agreement among studies that an income smoothing policy is a policy resulting from the gaps in the accounting standards that enabled the managers to exploit them to achieve certain goals regardless of their

results, if they were in favour of the institution or their favour, as it does not reflect the real performance of the institution (Fedawi, 2014; Mehar, 2017).

Numerous studies dealt with the entrances to smoothing income from different angles. For instance, the traditional approach focuses on the relationship between income smoothing methods and the quality of financial statements (Kliestik et al., 2021). However, the presence of artificial smoothing is not studied due to the lack of data in the design of the research and some criticize it because it relies on the method of expectation in determining the level of profits that are considered normal for the company (Asiri, 2001 ). This is because it focuses on one variable and that may result in distorted and inaccurate results. Additionally, these academic studies take into account the effect of the boosting variable in only one period and ignore the temporary effects. Such a study was criticized for not using the behavioural model to explain the boosting behaviour and to predict the timing of its occurrence (Cecchi, Braim, S. J., & Mohammed, R. B. 2022).

The bilateral economic approach as established by Bellaoui (1984), postulates that companies depend on the nature of the economic system in the state to smooth the income. As a result, this approach faced several criticisms and the most important observation being the inability to classify companies closely according to the nature of the economic system because of the multiplicity of activities of some companies, which is reflected in the quality of the financial statements.

Yanti (2017) explored the relationship between fluctuations in cash inflows and sales revenue. The approach was introduced to aid in separating management behaviour in artificial or intentional smoothing from the effects of real smoothing and natural smoothing of income (Al-Jahmani, 2001). This was made possible because of the presence of artificial smoothing behaviour and is accomplished by comparing the normal income deviation with the sales deviation. However, Eckel's method differed from Yanti's approach in that Imhoff did not exclude companies that show low volatility in sales from his sample (Yanti, 2017). Net income values were used as a measure of income (Al-Jahmani, 2001).

## **2.2 The concept of quality of accounting information**

According to Hamdi and Bashir (2011), the quality of the information is related to a set of characteristics that make the accounting information of high quality and help users in rationalizing their decisions, which are called the qualitative characteristics of the accounting information. As such, all organizations need information, data, planning, management, daily business direction, and evaluation of the past. Meanwhile, accounting is considered the language of business because it seeks to measure the outcome of the economic unit's operations for a certain period. Additionally, it portrays the company's financial position on a specific date and then appropriately communicates the financial information to the parties concerned (Saeed & Miqdad, 2019). Data is seen as the primary raw material for information as it is processed, hidden and classified within the information system to obtain information from it. In the sense that the data, if left as it is, will not add anything to the knowledge of its users about what affects their behaviour in decision-making, and it may be in the form of an invoice, document, numbers, or other means capable of describing and expressing a specific thing or event.

Essa et al. (2017) assert that accuracy is a notable measure of information quality when the secondary aspects influencing the quality of accounting information are incorporated. This entails that the adoption of income-smoothing policies must work towards enhancing the quality of reported financial information. Furthermore, aspects such as utility are also vital measures of information quality. To reinforce this notion, Hamdi and Bashir (2011) argued that utility benefit consists of two elements, (1) the validity of the information and (2) its ease of use. Thus, by implication the adoption of income smoothing policies should serve to enhance Formal utility, Time benefits, Spatial benefit, and Evaluative and corrective utility if conclusions are to be reached that the produced information is of high quality. other measures such as effectiveness, Prediction abilities and Efficiency can also serve as crucial measures of information quality ((Essa et al., 2017; Hamdi & Bashir, 2011; Saeed & Miqdad, 2019). Waldman et al. (2019) opine that the adoption of income-smoothing policies should serve to enhance the quality of the banks' accounting information to allow banks and other stakeholders to make rational choices as postulated by the decision-making theory. However, the major challenge is that examinations linking the adoption of

income smoothing policies to the quality of the banks' accounting information through the decision-making theory are limited. In that regard, the current study's theoretical contributions are engraved in this attempt. Given the nascency of ideas in this regard, the next section of the study is dedicated to the examination of the underlying empirical studies.

### **2.3 Related studies and hypothesis development**

Attempts to uncover issues surrounding the effects of income-smoothing policies have always been at the centre of the debate. For instance, Tsitinidis and Duru (2013) highlight that income smoothing activities' effects on earnings management is possibly transmitted through bank managers' loan loss provisions under both International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP). This leaves significant voids that demand further attention as to how the quality of earnings information provided influences earnings management that in their respective nature is a reflection of the quality of provided accounting information.

Gao and Zhang (2015) extended firms' earnings smoothing examinations to corporate social responsibility and valuation. Their goal was to ascertain whether corporate social responsibility affects the informational property of smoothed earnings. To further cloud accounting information judgements, their findings denoted that smoothing is related to unknown managerial incentives and business strategies and hence, earnings informativeness' effects on corporate outsiders are mixed. This entails that what constitutes quality information to certain corporate parties might not necessarily have the same implications for other corporate parties. As a result, it can be upheld that there is a lack of consensus concerning income-smoothing policy debates that demand contemporary academic solutions.

Al-Taie, Flayyih and Talab (2017) conducted a systematic literature review aimed at assessing the measurement of income smoothing and its effect on the Iraqi stock exchange-listed companies' accounting conservatism. Their findings uphold that the effects of practising smoothing income are observable through changes in both the exercise income smoothing and accounting conservatism experience. however, it remained to be explored further as to what exact effects exist between the effects of

practising smoothing income and the exercise income smoothing and accounting conservatism experience. Such limitations can cloud opinions about how the effects of practising smoothing income affect the quality of accounting information. Therefore, studies are called for to address these issues.

Peterson and Arun (2018) conducted a study aimed at analysing income smoothing among European systemic and non-systemic banks. As such, it was discovered that banks experience greater income smoothing when they engage in forward-looking loan-loss provisioning, can either exceed or meet minimum regulatory capital ratios during recessionary periods and have several non-performing loans. Though these findings are important for fostering bank stability (Gao & Zhang, 2015), it is vital to uncover all the possible ways through which income smoothing effects impact banks. Consequently, this shifts attention to the current study's objective to examine income smoothing policies' effects on the quality of accounting information.

In their study on bank income smoothing in South Africa, Ozili and Outa (2018), established that it is ineffective or inappropriate for banks to apply income smoothing policies when they do not have adequate ownership concentration, have several non-performing loans and are under-capitalised. This, therefore, implies that the adoption of income smoothing policies by Kurdistan banks reflects their profitability, capitalization and ownership concentration levels. As a result, attempts to contribute to this literature will be made possible by extending these examinations to the quality of the banks' accounting information.

Ogundajo et al. (2021) examined the effects of income smoothing and earnings management on Nigerian manufacturing companies' accounting information credibility. Their findings uncovered that earnings management and income smoothing positively and significantly affect manufacturing companies' accounting information credibility. Hence, this study anticipates that similar effects are observable when applied in the context of banks.

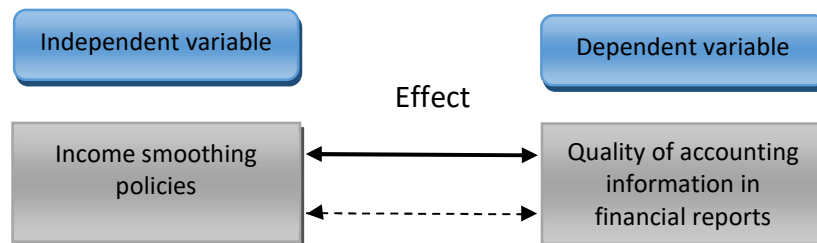
Using a sample of 130 Indonesian manufacturing companies, Kustono, Roziq and Nanggala (2021) discovered positive interaction spanning from independent commissioners to income smoothing and negative effects spanning from institutional ownership to income smoothing. However, they noted that independent commissioners have a positive effect on earnings quality and that income smoothing



can affect the quality of efficient earnings. Such findings do not provide a determinant insight into the nature of the relationship between income smoothing and the quality of efficient earnings. However, suggestions provided in this section (Abed et al., 2022; Gao & Zhang, 2015; Ogundajo et al., 2021; Peterson & Arun, 2018) do portray that income smoothing policies are related to the quality of accounting information, which compounds problems concerning the lack of clarity regarding such interactive connections. Besides, Abed et al.'s (2022) systematic literature review shows that creative accounting determinants like Income smoothing activities have a desirable positive effect on financial reporting quality. As a result, this study seeks to enhance clarity about the interactive connection between income smoothing and the quality of accounting information. Therefore, the following hypotheses were formulated:

- **Hypothesis 1:** There is a relationship between income smoothing practices and the quality of accounting information.
- **Hypothesis 2:** Income smoothing policies have a significant positive effect on the quality of accounting information.
- 

The above-formulated hypotheses were integrated to graphically illustrate their underlying connections linking income smoothing policies with accounting information quality using a conceptual framework provided in Figure 1.



**Figure 1:** Conceptual framework

### **3. Research methodology**

#### **3.1 Method**

In this research study, a quantitative approach was applied to analyze the effects of income smoothing policies on the quality of accounting information within banks operating in the Kurdistan region. Merriam and Tisdell (2015) define as collecting, classifying and computing numerical data for specific findings using a set of statistical methods applied in attaining the stated study objective. As such, the study used data collected from Kurdistan banks using questionnaires to analyse income smoothing policies' effects on the quality of accounting information produced by banks. This was accomplished by applying econometric modelling techniques involving the estimation of a regression model and the application of correlation coefficient tests to test the validity of the proposed hypotheses. The study investigated the data analysis procedures, population and sampling procedures, data collection and variable description components. The practical significance of this research lies in its potential to inform policymakers, regulators, and banking professionals in the Kurdistan region about the consequences of income smoothing policies on accounting quality.

#### **3.2 Data analysis procedures**

Following the developed conceptual framework, a regression model was estimated to determine the effects of Income Smoothing Policies (ISP) on the Quality of Accounting Information (QAI). The model was developed following the idea that changes in QAI are explained by variations in ISP and denoted by the following expression:

$$QAI = [ISP] \dots\dots\dots (1).$$

Model parameters in the form of  $\beta_0$  and  $\beta_1$ , and the error term,  $\mu$  were integrated into expression (1) resulting in a single model shown in expression (2) as follows:

$$QAI = \beta_0 + \beta_1 ISP + \mu \dots\dots\dots (2).$$

By applying a regression model, the study was able to verify the nature and extent to which ISP explains variations in QAI. As such, such represents the study's novel ideas and has not been established in the prior-related studies section (Abed et al., 2022; Gao & Zhang, 2015; Ogundajo et al., 2021; Peterson & Arun, 2018). Prior to estimating

the regression model, Cronbach’s alpha test was used to ascertain the reliability of the constructed model variables under the guideline that constructs with Cronbach’s alpha values of at least 0.70 have a higher internal consistency and are reliable (Bonett & Wright, 2015). The person correlation test was used to measure the strength and type of the relationship between two variables. ANOVA tests were further applied to test the significance of the regression model and the established hypotheses. All data analysis exercises were carried out using Statistical Package for Social Sciences (SPSS) version 24.

### 3.3 Population and sampling procedures

The study centres on the examination of Islamic banks in the Erbil City of Kurdistan. The researcher identified 13 banks that adopted income-smoothing policies and hence, their examinations served to provide insights into changes in the quality of their accounting information. However, 10 banks agreed to participate in the study and hence, questionnaires were distributed to 10 Islamic banks in the Erbil City of Kurdistan. A judgemental sample of 7 participants per each bank comprising of a financial manager, accounts manager, internal audit manager, administration manager, internal auditor, accountant and a general manager involved in the banks’ income smoothing policies and accounting information decision-making activities and programs was used to fulfil the study’s objectives.

**Table 1:** Description of the bank respondents

		Count	%
<b>Age</b>	<30	8	16.0%
	30-39	32	64.0%
	40-49	8	16.0%
	>=50	2	4.0%
<b>Total</b>		<b>50</b>	<b>100</b>
<b>Academic qualification</b>	Bachelor	43	86.0%
	Master	7	14.0%
	PhD	0	0.0%
<b>Total</b>		<b>50</b>	<b>100</b>

<b>Scientific specialization</b>	Accounting	21	42.0%
	Banking and Finance	15	30.0%
	Business Administration	14	28.0%
<b>Total</b>		<b>50</b>	<b>100</b>
<b>Job title</b>	Financial Manager	3	6.0%
	Accounts Manager	3	6.0%
	Internal Audit Manager	3	6.0%
	Administration Manager	3	6.0%
	Internal Auditor	8	16.0%
	Accountant	19	38.0%
	General Manager	11	22.0%
<b>Total</b>		<b>50</b>	<b>100</b>
<b>Years of Experience</b>	<5	11	22.0%
	5-10	25	50.0%
	11-20	13	26.0%
	>20	1	2.0%
<b>Total</b>		<b>50</b>	<b>100</b>

As a result, the study sample size was 70 financial managers, accounts managers, internal audit managers, administration managers, internal auditors, accountants and general managers involved in the banks' income smoothing policies and accounting information decision-making activities and programs. However, 20 bank respondents did not respond to the survey resulting in a response rate of 71.43%. Table 1 describes the study participants.

Out of the total respondents (n=50), 32 (64%) respondents were between the ages of 30-39 years old, 8 (16%) respondents were aged between 40 and 49 years old, and 2 respondents (4%) were at least 50 years old. Furthermore, a majority of the respondents had Master's degrees (14%) and Bachelor's degrees (86%). The respondents comprised 3 financial managers, 3 accounts managers, 3 internal audit managers, 3 administration managers, 8 internal auditors, 19 accountants and 11 general managers. 25 bank respondents had been working for the banks for 5 to 10 years, followed by 13 and 11 respondents who have been working for 11 to 20 years and less than 5 years, respectively.

### **3.4 Data collection**

A questionnaire was used to collect the required primary data on income smoothing policies and the quality of accounting information. The questionnaire was designed using instruments designed from related previous studies (RT BANK (Region Trade Bank for Investment and Finance) ; IKB (International Kurdistan Bank) ; CB (Cihan Bank) ) and comprised 7 income smoothing policies and 5 quality of accounting information items that were measured on a 5-point Likert scale with values ranging from 1 (strongly disagree) to 5 (strongly agree). The period of the research was from the 1<sup>st</sup> of June 2022 to the 1<sup>st</sup> of January 2023. Facial validity tests together with focus groups (involving 1 auditor, an accountant and one general manager) were conducted to check whether the questionnaire was poised to solicit reliable and valid responses. Additionally, this was done to ensure that the questionnaire contained no errors. Upon successful verification, the researcher proceeded to distribute the questionnaires to the study participants.

### **3.5 Variable description**

This section is dedicated to describing the dimensions of income smoothing policies and the quality of accounting information. This was accomplished by analysing the frequencies, percentages, arithmetic mean, standard deviations, and percentages of the agreement for all study variables as shown in Table 2.

Table 2 shows the frequency distributions, percentages, arithmetic mean, standard deviations, and agreement levels for items X1 to X7 related to the research sample's point of view regarding income smoothing policies dimensions and reflects the arithmetic mean of 4.10. This indicates that the sample agreed about this domain, and this was confirmed by the percentage of agreement, as the total mean of the agreement reached 81.94% and was associated with a low standard deviation of 0.60. Among the most prominent items that contributed to enriching this dimension is item X4 (relying on income smoothing policies in accounting estimates, financial reports must be impartial) and with a high level of agreement. As a result, it was ranked first as supported by a high arithmetic mean of 4.72 and a percentage of agreement of 94.40% which was associated with a standard deviation of 0.497.

Item X2 (in the income smoothing policy, the financial statements should be disclosed adequately, appropriately and understandably, and communicated to all relevant parties) had a second high level of agreement of 91.60%, an arithmetic mean of 4.58 and a standard deviation of 0.538. Item X3 (in the income smoothing policy, timely disclosure of all data related to the bank's financial position) was associated with a high level of agreement and ranked third. This is supported by the arithmetic mean of 4.28, an 85.60% percentage of agreement and a standard deviation of 0.640.

Table 2 also shows the frequency distributions, percentages, arithmetic mean, standard deviations and agreement ratios for items Y1-Y5 related to the research sample's point of view regarding the quality of accounting information dimensions. Among the most prominent items that contributed to enriching this dimension is item Y1 (commitment to applying accounting and auditing standards contributes to enhancing the quality of financial reports through the consistency of accounting information and the lack of errors in financial information in banks). This item was ranked first with a high level of agreement of 92.80%, an arithmetic mean of 4.64 and a standard deviation of 0.485.

**Table 2:** The frequency distribution, the arithmetic mean, the standard deviation, and the percentage of agreement for the respondents' answers to dimensions of Income Smoothing Policies and Quality of Accounting Information (n = 50)

Dimensions	Variable	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Arithmetic mean	Standard Deviation	% of agreement
		Count	%	Count	%	Count	%	Count	%	Count	%			
Income Smoothing Policies	X1	0	0.0%	0	0.0%	5	10.0%	28	56.0%	17	34.0%	4.24	0.625	84.80%
	X2	0	0.0%	0	0.0%	1	2.0%	19	38.0%	30	60.0%	4.58	0.538	91.60%
	X3	0	0.0%	0	0.0%	5	10.0%	26	52.0%	19	38.0%	4.28	0.640	85.60%
	X4	0	0.0%	0	0.0%	1	2.0%	12	24.0%	37	74.0%	4.72	0.497	94.40%
	X5	0	0.0%	1	2.0%	7	14.0%	37	74.0%	5	10.0%	3.92	0.566	78.40%
	X6	0	0.0%	10	20.0%	32	64.0%	7	14.0%	1	2.0%	2.98	0.654	59.60%
	X7	0	0.0%	0	0.0%	12	24.0%	28	56.0%	10	20.0%	3.96	0.669	79.20%
<b>Total</b>												<b>4.10</b>	<b>0.60</b>	<b>81.94%</b>
Quality of Accounting Information	Y1	0	0.0%	0	0.0%	0	0.0%	18	36.0%	32	64.0%	4.64	0.485	92.80%
	Y2	0	0.0%	0	0.0%	3	6.0%	17	34.0%	30	60.0%	4.54	0.613	90.80%
	Y3	0	0.0%	0	0.0%	3	6.0%	24	48.0%	23	46.0%	4.40	0.606	88.00%
	Y4	0	0.0%	1	2.0%	3	6.0%	24	48.0%	22	44.0%	4.34	0.688	86.80%
	Y5	0	0.0%	0	0.0%	2	4.0%	23	46.0%	25	50.0%	4.46	0.579	89.20%
<b>Total</b>												<b>4.48</b>	<b>0.59</b>	<b>89.52%</b>

Item Y2 (accounting and auditing standards are the backbones and the main pillar in activating the governance of banks, and their application will contribute to making financial information useful) was ranked second. This is evidenced by a high level of agreement of 90.80% associated with an arithmetic mean value of 4.54 and a standard deviation of 0.613. item Y5 (presenting financial reports to investors gives credibility to accounting information and reliance on it when making decisions in banks) was ranked third. This is evidenced by a high level of agreement of 88.00% associated with an arithmetic mean value of 4.40 and a standard deviation of 0.606. Meanwhile, a high arithmetic mean of 4.48 portrays that the sample strongly agreed about this aspect and this is supported by a percentage of agreement of 89.52% with a standard deviation of 0.59.

## **4. Results and Discussion**

### **4.1 Reliability of the Questionnaire**

The reliability of the questionnaire variables (income smoothing policies and quality of accounting information) was examined using Cronbach's alpha test. It is through this test that variables with alpha values of at least 0.70 were considered as reliable. According to Table 3, it can be seen that income smoothing policies and quality of accounting information have alpha values of 0.703 and 0.782, respectively. Additionally, when combined, an overall reliability value of 0.743 is established. This entails that the variables are highly reliable in explaining the research issues at hand.

**Table 3:** Reliability test

<b>Variables</b>	<b>Cronbach's Alpha</b>	<b>No. of Items</b>
income smoothing policies	0.703	7
quality of accounting information	0.782	5
<b>Overall</b>	<b>0.743</b>	<b>12</b>

It can also be noted in Table 3 that the reliability values of all the questionnaire items are above 0.70 as shown in Table 3. This means that the items in the questionnaire are reliable.

#### 4.2 Correlation between the research variables

This section focuses on the verification of the first main hypothesis, which states that there is a statistically significant relationship between income-smoothing policies and the quality of accounting information. Table 4 shows that there is a highly significant (p-value = 0.000) positive correlation of 0.637 between income smoothing policies and the quality of accounting information. This can be explained by the fact that an increase in the adoption of income-smoothing policies causes an improvement in the quality of accounting information. This means that there is a strong and significant direct relationship between them. As a result, the first main hypothesis was accepted.

**Table 4:** Pearson correlation coefficient test

		Income Smoothing Policies	Quality of Accounting Information
Income Smoothing Policies	Pearson Correlation	1	0.637**
	Sig. (2-tailed)		<0.001
Quality of Accounting Information	Pearson Correlation	0.637**	1
	Sig. (2-tailed)	<0.001	

\*\*. Correlation is significant at the 0.01 level (2-tailed), n=50

#### 4.3 Regression analysis

After having validated the first hypothesis (Hypothesis 2: There is a statistically significant effect of income smoothing policies on the quality of accounting information), the study proceeded to test the second hypothesis with the aid of regression analysis. The presented findings indicate that income smoothing policies have a statically significant positive effect of 5.724 ( $p < 0.01$ ) and, hence, hypothesis 2 was accepted. These results are in contrast to Ogundajo et al.'s (2021) that depicted a significantly negative effect of 0.020 spanning from income smoothing policies to the credibility of information. This is possibly because they have been adjusted to deal with issues such as the provision of an inaccurate picture of security among stakeholders (Abed et al., 2022) and have an effect of reducing the informative nature of the reported financial information (Faraji et al., 2021). As a result, the study findings contribute to existing studies by key measures required in dealing with their adverse effects.



The estimated model had an explanatory power of 40.6% implying that 40.6% of the changes in the quality of the information are explained by income smoothing policies. The reported Table 4 findings also show that the estimated model has an F-statistic value of 32.761 which is significant at 1% ( $p=0.000$ ). this implies that the regression model is free from outliers (Murat, 2021) and is correctly specified.

**Table 5:** Regression analysis

Dependent Var. Independent Var.	Quality of Accounting Information			
	B0-Constant	B1	F	R2
Income Smoothing Policies	0.991 t(1.622) Sig.( 0.111)	0.851 t(5.724) p(0.000)**	32.761 p (0.000)**	40.6%

#### 4.4 Hypotheses testing

The independent sample t-test and the ANOVA test were used as part of the study’s initiatives to determine if the study participants’ demographic characteristics significantly caused differences in the banks’ income smoothing policies and the quality of accounting information. As such, the study upholds through Table 6 that academic qualifications have no significant influence on the banks’ income smoothing policies ( $t\text{-stast}=-1.888$ ;  $p>0.05$ ) and the quality of accounting information ( $t\text{-stast}=-0.395$ ;  $p>0.05$ ).

**Table 6:** The influence of academic qualification on ISP and QAI

Dimensions	Academic qualification	N	Mean	Std. Deviation	t-test	p*
Income smoothing policies	Bachelor	43	4.447	0.447	-1.888	$p>0.05$
	Master	7	4.657	0.341		
	<b>Total</b>	50	4.476	0.437		
quality of accounting information	Bachelor	43	4.090	0.340	-0.395	$p>0.05$
	Master	7	4.143	0.247		
	<b>Total</b>	50	4.097	0.327		

\* Used Independent Sample t-test

By applying the ANOVA test, the findings presented in Table 7 lead to inferences being made that academic qualifications significantly influence the banks' income smoothing policies (F-stast=7.889;  $p>0.001$ ). and the quality of accounting information (F-stast=7.142;  $p=0.002$ ) as depicted in Table 7.

**Table 7:** The influence of scientific specialization on ISP and QAI

Dimensions	Scientific specialization	N	Mean	Std. Deviation	F-test	p*
income smoothing policies	Accounting	21	4.619	0.374	7.889	0.001**
	Banking and Finance	15	4.600	0.407		
	Business Administration	14	4.129	0.381		
	<b>Total</b>	50	4.476	0.437		
quality of accounting information	Accounting	21	4.204	0.291	7.142	0.002**
	Banking and Finance	15	4.181	0.244		
	Business Administration	14	3.847	0.338		
	<b>Total</b>	50	4.097	0.327		

Table 8 shows that it can be upheld that job title significantly influences the banks' income smoothing policies (F-stast=6.549;  $p>0.000$ ). and the quality of accounting information (F-stast=5.716;  $p=0.000$ ).

**Table 8:** The influence of job title on ISP and QAI

Dimensions	Job Title	N	Mean	Std. Deviation	F-test	p*
income smoothing policies	Financial Manager	3	5.000	0.000	6.549	0.000**
	Accounts Manager	3	5.000	0.000		
	Internal Audit Manager	3	4.133	0.115		
	Administration Manager	3	4.467	0.416		
	Internal Auditor	8	4.650	0.396		
	Accountant	19	4.547	0.358		

	Management	11	4.036	0.332		
	<b>Total</b>	50	4.476	0.437		
<b>Quality of accounting information</b>	Financial Manager	3	4.286	0.000	5.716	0.000**
	Accounts Manager	3	4.381	0.082		
	Internal Audit Manager	3	3.952	0.082		
	Administration Manager	3	4.286	0.286		
	Internal Auditor	8	4.268	0.247		
	Accountant	19	4.158	0.308		
	Management	11	3.727	0.243		
	<b>Total</b>	50	4.097	0.327		

\*\* Significant at 0.01 level

However, it was accepted that the bank respondents' years of experience had not significant influence on the banks' income smoothing policies (F-stast=1.146; p>0.05) and the quality of accounting information (F-stast=0.877; p=0.05) as shown in Table 9.

**Table 9:** The influence of years of experience on ISP and QAI

Dimensions	Years of Experience	N	Mean	Std. Deviation	F-test	p*
<b>income smoothing policies</b>	<5	11	4.382	0.303	1.146	p>0.05
	5-10	25	4.416	0.493		
	11-20	13	4.662	0.403		
	>20	1	4.600			
	<b>Total</b>	50	4.476	0.437		
<b>quality of accounting information</b>	<5	11	4.026	0.325	0.877	p>0.05
	5-10	25	4.103	0.351		
	11-20	13	4.110	0.281		
	>20	1	4.571			
	<b>Total</b>	50	4.097	0.327		

## **Conclusion**

Research ideas such as income smoothing policies on accounting information quality in finance have not been given enough attention by researchers, especially by related studies. However, they represent the basis on which current research can be based. In light of the research results and directions, the study infers creating the necessary information that contributes to raising banks' efficiency is of huge importance. As such, the study upholds that this helps in strengthening their management performance and addressing their shortcomings.

Further inferences established from the study indicate that there is a positive and statistically significant relationship between financial reports' income smoothing policies and the quality of accounting information. According to this study, the quality of accounting information is a very substantial dimension that banks can use to respond to any emergency that may arise in their environment. Hence, the study's practical implications call for finance managers to enact measures that promote the establishment of the provision of clear and concise communication, improvement in accuracy and completeness, enhancement of transparency and strong internal controls.

After analyzing the responses of the studied sample, the study concludes that income smoothing policies have a statistically significant effect on the quality of accounting information. This effect was based on the exploitation of changes in the banks' environment for the benefit of building and sustaining their financial stability. Upon analyzing the correlation and influence relationships between the research variables, we accepted the hypotheses we presented and proved their validity and suitability to the situation of the studied sample.

## **Practical and theoretical implications**

Alternatively, the findings suggest that banks engaging in income smoothing policies stand a huge chance to offer high-quality accounting information. Practically, this impacts banks' stakeholders like regulators, creditors and investors relying on high-quality accounting information to make informed decisions. In addition, the findings

may project adverse practical implications. For instance, regulators may be compelled to closely scrutinize banks engaging in income-smoothing practices to ensure that they are not using these practices to engage in fraudulent activities or hide negative financial results.

Given the impact of income smoothing policies on accounting quality, banks should prioritize transparent and comprehensive disclosure of their financial practices. This includes providing detailed explanations of the methods used for income smoothing, potential impacts on reported earnings, and their rationale behind employing such policies. Clear and transparent communication can foster trust with stakeholders. However, banks should review and strengthen their internal control mechanisms to prevent and detect instances of excessive income smoothing. This could involve implementing rigorous oversight procedures, conducting regular internal audits, and ensuring that financial managers adhere to ethical standards in financial reporting. Furthermore, this study also hints that income smoothing policies can positively affect accounting information reliability and credibility, as banks' stakeholders and investors are more likely to trust predictable and stable financial statements. Such results have profound theoretical implications for accounting reporting theories, as they indicate that income smoothing policies are a crucial tool for banks to employ to boost the quality and credibility of their financial statements.

**Suggestions for future studies**

- An applied aspect of the study was limited to banks operating in Erbil, Kurdistan Region of Iraq.
- The findings cannot be generalised to non-banking institutions as well as cities other than Erbil and other countries.
- To remedy such limitation, future studies can compare banks situated in two or more cities or conduct country-specific examinations involving at least two countries.

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## شیکارییه ک له کاریگه ریه کانی سیاسه تی ئاماده سازی ده رامه ت له سه ر کوالیتی زانیا ری ژمیریا ری له بانکه کانی کوردستان

پوخته:

ئهم تووژینه وهیه کاریگه ریه کانی سیاسه تی ئاماده سازی ده رامه ت له سه ر کوالیتی زانیا ری ژمیریا ری له بانکه کانی کوردستان ده کووژیتته وه. یه ک مووڈیلی پاشه کشه به کارهات بو شیکردنه وهی کاریگه ریه کانی سیاسه تی ئاماده سازی ده رامه ت له سه ر کوالیتی زانیا رییه کانی ژمیریا ری به به کارهینانی وه لامه کانی (۵۰) به رپوه به ری دارایی و به رپوه به ری ژمیریا ری و به رپوه به رانی وردبینی ناوخویی و به رپوه به رانی کارگپری و وردبینی ناوخویی و ژمیریاران و به رپوه به ره گشتیه کان. ئه نجامه کان ئه وه بیان ده رخست که ئه و بانکانه ی په رپوه ی له سیاسه تی ئاماده سازی ده رامه ت ده که ن ده رفه تیکی گه وره بیان هه یه بو پیشکه شکردنی زانیا ری ژمیریا ری کوالیتی به رز. هه روه ها تیبینی ئه وه کراوه سیاسه تی ئاماده سازی ده رامه ت توخمیکی دیاریکه ری دیاره بو دیاریکردنی کوالیتی زانیا ری ژمیریا ری و یارمه تیده ره له روونکردنه وهی هه لاوسان له کوالیتی ژمیریا ری له سه رانه ری که رتی بانکیدا. وه هه روه ها ئهم تووژینه وهیه ئاماژه به وه ده کات که سیاسه تی ئاماده سازی ده رامه ت ده توانیت کاریگه ری ئه رینی له سه ر متمانه ی زانیا ری ژمیریا ری هه بیت، چونکه خاوه ن پشکه کان و وه به رهینان ئه گه ری زیاتریان هه یه متمانه به به یاننامه داراییه پیشبینیکراو و جیگیره کان بکه ن. به م شیوه یه ئه نجامه کان کاریگه ریه کی تیوری قوولیان هه یه له سه ر بیردۆزه کانی راپورتکردنی ژمیریا ری، چونکه ئاماژه به وه ده که ن که سیاسه تی ئاماده سازی ده رامه ت ئامرازیکی گرنگه بو بانکه کان که به کاریهینن بو به رزکردنه وهی کوالیتی و متمانه پیکراوی به یاننامه داراییه کانیا ن.

## تحليل آثار سياسات تمهيد الدخل على جودة المعلومات المحاسبية في المصارف كردستان

### الملخص:

تبحث هذه الدراسة في آثار سياسات تمهيد الدخل على جودة المعلومات المحاسبية لمصارف كردستان. تم استخدام نموذج انحدار واحد لتحليل تأثيرات سياسات تمهيد الدخل على جودة المعلومات المحاسبية باستخدام استجابات (٥٠) مديرًا ماليًا ومديري حسابات ومديري التدقيق الداخلي ومديري الإدارة والمدققين الداخليين والمحاسبين والمديرين العاميين. أظهرت النتائج أن المصارف المنخرطة في سياسات تمهيد الدخل لديها فرصة كبيرة لتقديم معلومات محاسبية عالية الجودة. ولوحظ كذلك أن سياسات تمهيد الدخل هي عنصر محدد بارز لجودة المعلومات المحاسبية وتساعد في تفسير التقلبات في جودة المحاسبة في جميع أنحاء القطاع المصرفي. تشير هذه الدراسة أيضًا إلى أن سياسات تمهيد الدخل يمكن أن تؤثر بشكل إيجابي على موثوقية ومصداقية المعلومات المحاسبية، حيث من المرجح أن يثق أصحاب المصلحة والمستثمرون في البيانات المالية المستقرة والمتوقعة. على هذا النحو، فإن النتائج لها آثار نظرية عميقة على نظريات إعداد التقارير المحاسبية، لأنها تشير إلى أن سياسات تمهيد الدخل هي أداة حاسمة للمصارف لتوظيفها لتعزيز جودة ومصداقية بياناتها المال