



IMPACT OF PUBLIC JOINT STOCK COMPANIES USING THE INCOME SMOOTHING METHOD ON SHARE'S MARKET VALUE: COMPARATIVE RESEARCH OF INDUSTRIAL AND SERVICE COMPANIES LISTED ON THE PALESTINE AND ABU DHABI STOCK EXCHANGES (2020)

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ABSTRACT

The research aimed to know to what extent the public companies use income smoothing techniques and its impact on the market value of industrial and service companies listed on the Palestine and Abu Dhabi Stock Exchanges. The research also aimed to test the relationship between the type of sector the company belongs to and the practice of income smoothing. The research relied on the descriptive analytical method in conducting the research. The data used in this research was obtained from the income records of 57 companies listed on the Palestine and Abu Dhabi stock exchanges (26 companies listed on the Palestine Stock Exchange and 31 companies listed on the Abu Dhabi Stock Exchange) during the period from (2010-2019). The research used Eckel's (1981) model to classify companies into smoothing or non-smoothing for their income, and four measures of income were used: gross income, net operating income, income before tax, and net income. The data were analyzed using descriptive tests and the Statistical Package for Social Sciences (SPSS), while to test the research hypotheses, t-test and multiple regression analysis were used.

The research found that some Emirati and Palestinian companies practice the income smoothing technique, as income smoothing appeared in all four measures of income in the two markets in different proportions. Further, the research found that there is a statistically significant effect of the income smoothing behavior on the market value.

The research found that there are statistically significant differences between industrial and service companies in the behavior of income smoothing using different income measures.

Keywords: Smoothing Income, Market Value, Income Measures, Sector Type.

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1. PREFACE

Income is one of the most important elements of financial reports that external users focus on to evaluate the company's performance and the performance of its departments. For this reason, corporate management often seeks to show income in the best possible way to achieve its goals by using accounting methods and methods that lead to showing income in a way that reflects a positive image among users of financial reports.

Therefore, the so-called income smoothing appeared, through which the management seeks to achieve many goals, such as influencing investors and shareholders and gaining their confidence, or influencing taxes due, but one of the most important motives of the management to smooth the income is its desire to avoid showing the discrepancy in the company's business results from one period to another. This desire comes because users of financial reports use the degree of variation of periodic income as a measure of the risk to which the company is exposed. Undoubtedly, a high degree of risk leads to a higher cost of capital, which leads to a negative impact on the company's ability to save money, and this, in turn, leads to a negative impact on the company's ability to prospects for expansion.

From the above, it can be said that the goals pursued by the company in order to pave the income is to reduce the risks perceived by investors as well as maximize the market value of the company, which also shows the good and stable image of the company in front of several different parties, which leads to prolonging the reign of the company's management and achieving its goals.

2. THE METHODOLOGICAL FRAMEWORK OF THE RESEARCH:

The methodological framework of this research is:

2.1. Problem Statement:

It is known that the management aims to smooth the income to achieve many goals, perhaps the most important of which is its desire to avoid showing the discrepancy in the results of companies 'business from one period to another as a result of the use by financial analysts and investors of the degree of variation of periodic income as a measure of the risk to which the company is exposed. Therefore, smoothing the income is a kind of blurring the facts or hiding them temporarily from stakeholders, within the legally permitted framework in order to achieve the objectives of management. This leads to reducing the risks of the company listed by the market and reducing investors' estimates of the company's bankruptcy probabilities and therefore the company's market value may be affected by this behavior.

Therefore, it is necessary to find out the extent to which joint stock companies listed on the Palestine and Abu Dhabi stock exchanges for the industrial and services sectors use the method of income smoothing to influence the market value. So, the research problem can be formulated in the following questions:

- Do listed companies on the Palestine and Abu Dhabi stock exchanges use the income smoothing method to influence the disclosed information?
- Is there an impact of income smoothing on the market value of listed companies on the Palestine and Abu Dhabi stock exchanges?
- Is there a relationship between the type of sector to which the company belongs and the use of income smoothing in influencing the market value?

2.2. Significance of the Research:

The importance of the research lies in the scientific and practical interest as follows:

The scientific importance of the research comes from the fact that it deals with an important and modern topic and is considered one of the few studies that link income smoothing with market value in two different environments, such as the Palestine Exchange and the Abu Dhabi Stock Exchange, in addition to applying the research to Public Joint Stock Companies in the industrial and services sectors, which represents an addition to scientific knowledge in the literature of the income smoothing process and its impact on the market value of Joint Stock Companies. The practical importance of the research lies in the fact that it provides information and indicators to users that inform them about the extent of income smoothing practice and to what extent this affects and is reflected in the market value of industrial and service business companies on the Palestine and Abu Dhabi stock exchanges.

2.3. Research Objectives:

The research aims to achieve the following:

1. Identify the income level of industrial and service companies listed on the Palestine and Abu Dhabi stock exchanges.
2. Find out the impact of income smoothing on the market value of industrial and service companies listed on the Palestine and Abu Dhabi stock exchanges.
3. Find out the relationship between the type of sector to which the company belongs on the Palestine and Abu Dhabi stock exchanges and the use of income smoothing to influence the market value.

2.4. Research Hypotheses:

This research attempts to test the following hypotheses:

1. Companies listed on the Palestine and Abu Dhabi stock exchanges do not practice the income smoothing method to influence the disclosed information.
2. There is no effect of income smoothing on the market value of companies listed on the Palestine and Abu Dhabi stock exchanges.
3. There is no correlation between the type of sector a company belongs to on the Palestine and Abu Dhabi stock exchanges and the use of income smoothing in influencing market value.

2.5. Research Variables:

Through this research, the relationship of the following variables is tested:

First: the independent variable: income smoothing:

It is management use for several means in the income statement that are allowed by accounting in order to maintain an almost constant level of income for the company that appears before shareholders, investors, and related persons.

Second: modified variables: the type of sector to which the company belongs:

This refers to the sector under which business companies fall on the Palestine and Abu Dhabi stock exchanges, as it contains several sectors: industry, services, insurance, banking, and investment. The research here focuses on two of them; industry and services.

Third: the dependent variable: the market value of the company:

It is the value of the company based on the total value of all its shares traded according to the equation (shares traded \times share value = market value). It is a good indicator of investor interest or aversion to that company.

3. LITERATURE REVIEW AND PREVIOUS STUDIES

3.1. Income Smoothing:

Although Financial Accounting Standards oblige entities to use specific accounting principles and methods in processing financial statement items, there is sometimes flexibility in processing some items of assets, liabilities, income, and expenses the company can choose from them, which allows management to exploit this flexibility to affect the company's income, and this is called the phenomenon of income smoothing¹.

On the other hand, according to Aya & Sunder (2003), Executives resort to this to meet the expectations of shareholders and financial analysts about the company's performance in order to maximize its market share price and thus maximize the rewards it receives. According to Athanhaskon & Walker (2009) management uses profit management as a means of informing users of published financial statements about its own forecasts of the company's future cash flows, in the light of which the expected market value of the company is determined. Makee (2005) believes that by practicing income smoothing, management seeks to reduce the size of fluctuations that occur in periodic income in order to reduce the element of risk surrounding the opportunities to achieve these profits in the future and in such a way as to provide the company's profits with a Continuity feature that is positively reflected on the quality of these profits and then on its share price in the market².

3.1.1. The Concept of Income Smoothing:

There are many definitions of the concept of "income smoothing:"

It has been said that income smoothing is "the practices carried out by accountants to mislead the data reader for any purpose, whether to promote market share, maximize executive board bonuses or others"³.

From the point of view of academic accountants, they consider income accounting to be a manipulation and an illegal act, as it "consists in distorting financial accounting figures from what they really are to what the preparers want by exploiting or taking advantage of existing standards⁴. It also stated that income smoothing is an undisclosed policy practiced by management to control the amount and type of information desired to be disclosed in financial reports, and following this policy depends largely on management exploiting the flexibility available to it in choosing accounting methods and policies to reduce income fluctuations over consecutive accounting periods⁵.

Income smoothing is the use of optional means used by management to reduce profit fluctuations resulting from the difference between actual income and expected or required income, by applying accounting standards based on the flexibility available in the applicable accounting standards⁶.

Through the previous definitions, it can be said that the concept of income smoothing is the behavior followed by management in exploiting the flexibility in the accounting procedures in force in order to manipulate the elements of financial statements in order to reduce fluctuations in profit levels, maintain a stable level of income for several consecutive accounting periods, and in order to demonstrate management efficiency and make the best use of available resources, gain investor satisfaction, and increase investment opportunities in these companies. It is also clear that the definitions mentioned a set of concepts related to income preparation that fall under the names of profit management or creative accounting.

3.1.2. Goals and Motives of Income Smoothing:

The primary goal of income smoothing may be to create a desired impression that differs from the truth in users of financial statements. These goals are in several points, the most important of which are: ⁷

- 1 Achieve self-benefits for management, such as reaching the maximum limit of bonus privileges, supporting their career positions, increasing the company's longterm value or job security.
- 2 Avoiding the terms of credit contracts (reducing the costs of obtaining credit).
- 3 Improving the outlook in the money market.
- 4 Achieve tax savings.
- 5 Avoid political costs.
- 6 Mitigate income fluctuations.
- 7 The ownership structure of the company.

3.1.3. Types of Income Smoothing:

There are several different types of income smoothing⁸:

1. Normal Smoothing: results from the natural process of generating profits in the company without having any abnormal effect on it. This is due to the monopolistic or semi-monopolistic nature of the activities of these companies, which causes a relative balance between supply and demand in the markets of their goods, without any direct influence from the management, by indicating the nature of the company's business, which in this case is characterized by stability as the profits of companies that provide public services such as electricity, water, and telecommunications.

2. Intentional accounting smoothing: an intentional intervention process of management and it takes two dimensions:

A. Real smoothing: a real boot represents management's actions taken to reduce profit volatility by changing operating decisions to affect cash flows and profits for a certain period, such as credit facility terms to increase sales. It is considered a direct intervention of Management in the structure of operational, investment, or financing activities.

P. Fictitious income smoothing: defined by Eckel, 1981 as an accounting manipulation carried out by management to income smoothing income, and this manipulation is the transfer of costs or revenues from one accounting period to another. This also confirmed the statement that the preface is the result of accounting decisions taken by management related to the application of a set of accounting methods and procedures that would transfer some elements of expenses and income in a way that contributes to the preface of income.

3.1.4. Factors that facilitated the practice of income smoothing:

There are many factors that are considered to help the practice of income smoothing, including:

1. Flexibility in the application of accounting principles: flexibility is a natural and acceptable thing, what works in one environment may not be suitable to be applied in another environment.
2. Weak external audit: weak external audit, whether the office or its employees, leads to encouraging management to practice income smoothing behavior. The compliance of the Audit Office with the rules of Professional Conduct and audit quality standards prevents management from taking a step in the direction of income preparation.
3. Corporate profitability: Income-smoothing behavior cannot be followed when low and weak profitability exists. Companies with successive losses over the years have poor performance and low profits, so it is difficult to find means and tools to boot, as management often resorts to accelerating or postponing some expenses such as scientific research and training expenses, the higher the company's profitability, the more likely it is to follow the income-smoothing.
4. Tax and contractual benefits: income smoothing plays an important role in enabling companies to obtain many benefits, the most important of which are tax benefits or contractual benefits and bonus contracts for management, in addition to exploiting tax reduction by looking at tax liability.

3.1.5. Methods and Tools of Managing Smoothing Income:

There are several ways and methods that the management of companies can practice to follow the income smoothing policy¹⁰:

1. Timing: by resorting to the management to choose the time of occurrence of operations, transactions and financial events in which the fluctuations of the declared income can be reduced over time, such as: choosing the time of occurrence of expenses, and the time of recognition of these expenses.
2. Allocation: that is, the ability of the company's management to smooth income by determining the accounting periods affected by certain events and the size of this effect, such as the distribution of income expenses extending for more than one accounting period so as to reduce the disparity in income, for example, the company's management's choice of the type of depreciation premiums of assets or amortization of a certain expense, or a change in the methods of assessing commodity inventory, as well as revaluation of assets and estimating their useful life.
3. Classification: that is, the classification of some items of non-recurring expenses into ordinary items and extraordinary items such as maintenance expenses and huge advertising expenses, in order to affect income levels, when classifying non-recurring income and expenses into ordinary and extraordinary, they affect the net ordinary income before the extraordinary items in order to show the income paved for the users of the income statement, so the classification of extraordinary income into ordinary income and classification of ordinary expenses into extraordinary expenses increases the net ordinary income before the extraordinary items.

3.1.6. Ethical perspective of income smoothing:

There is an ongoing debate about the ethical perspective of practicing an income smoothing policy, whether the practice of income smoothing is considered acceptable or not, the goals of management may be an improvement at times, and it may be a deception for some parties at other times, but deception needs to be justified. Business ethics in the field of income preparation is represented by a set of generally accepted accounting rules and principles that the company's management must adhere to when practicing its activities, but there may be some work that requires the use of the principle of balance, which is based on two axes: technical judgment and ethical thought.

The furthest step in considering the smoothing of income as an immoral act is represented in the following cases¹¹:

1. That business organizations have the ability to avoid income smoothing and have not done so.
2. That business organizations have a potential possibility to avoid smoothing income and did not try to do this.
3. Business organizations should be able to reduce income fluctuations and have not made the required effort for this.
4. That business organizations have the opportunity to avoid or reduce income fluctuations and have not done so.
5. The business organizations avoid smoothing income in one country and do not avoid it in another country due to the presence or absence of regulations and laws that punish for this.
6. Business organizations should not seek to develop a clear strategy to counteract and reduce income smoothing.

3.2. Market value of public companies' shares:

The market value of a share represents the cash value paid by the continuous at any given moment in time and is an indicator that is taken into account for making buying and selling decisions and evaluating companies and reflects the profits and losses achieved by companies and their progress and growth.¹²

The main goal of the company's management by maximizing the market value of the share is to maximize the wealth of the owners and shareholders within the company in the sense of increasing profits and achieving the expected returns that any investor is looking for. Market value is used as a tool to attract investment and increase the number of investors in the company because it is the decision-making point by the current or expected investor, it is the most reliable indicator of the company's performance, helps the company's management to plan and achieve the highest level of competition in the market¹³.

3.2.1. Market Value Concept:

There are several concepts of market value, the most important of which are:

Market value is defined as "the price that is traded in the financial market, and this value is characterized by variability and instability due to the multiplicity and variability of factors that affect the determination of market value, and the result of the interaction of demand and supply forces in the market"¹⁴.

Other defines market value as "the value with which he deals in the securities market, which is highly volatile and rapidly changing, influenced by supply, demand and many factors from within the company or the financial market"¹⁵.

Market value is also defined as "the standard used to measure the performance and development of companies at the end of the period after reaching their value by calculating the average of their shares multiplied by the total number of listed shares, or the number of acquired shares multiplied by their prices"¹⁶.

Others define it as "the price at which a share is sold or bought on the stock market, and there are several factors affecting the market value, namely, future expectations of profitability, distributions, company growth, as well as other economic factors"

From the above, the researchers believe that the market value of a stock is the value determined by the market for the stock as a result of the interaction of demand and supply forces, which is very volatile and changing and influenced by several factors, including future distributions and company growth expectations.

3.2.2. Importance of Market Value:

The market value is one of the most important indicators to measure the efficiency of the market and the development of its activity, and many observers, analysts, and financial investors rely on this indicator, as the rise in the stock market value index indicates efficiency and an increase in the volume of transactions in the financial markets¹⁸.

Therefore, it can be said that the market value is of great importance for companies, the higher the market value, the higher the company's value, and it indicates the success of the company and its superiority, which leads to attracting investors to buy its shares.

3.2.3 Factors Affecting Market Value:

The market value of a share is influenced by a set of factors, among which¹⁹:

Factors related to the capital market and the economic situation: include the tendency of securities prices to rise and fall, the competition of other attractive markets for capital owners, and large international movements of capital.

Factors related to the financial paper: include the level of return, the importance of savings, and the increase in capital in kind.

Technical factors related to the exchange's working mechanisms: including the degree of market expansion, the number of securities holders, and futures operations.

In addition, it is necessary to take into account the number of securities required and offered and the best and appropriate way to determine the value of the paper, the researchers also believe that the market value is influenced by three factors related to the capital market, the economic situation, factors related to the Securities and technical factors related to the mechanisms of the stock exchange.

3.2.4 Financial Decisions Affecting Market Value:

Market value is influenced by three types of financial decisions, namely 20:

Investment decisions: they relate to investing funds in fixed and current assets, and investing in fixed assets for a long time to ensure the survival of funds for a longer period, and the current return can be expected in investing in current assets, and the capital budget and working capital management are among the investment decisions, and investment decisions are affected by future profits and possible distributions in the future.

Financing decisions: they relate to the financing of business activities, and these decisions help in planning the balance of the financing structure between Owned Capital and borrowed capital.

Distribution decisions: they relate to how to dispose of profits and focus attention on distributions through the distribution of part of the profits to shareholders, and the dividend distribution policy is influenced by the Capital owned in the corporate structure.

It is clear that financial decisions that affect the market value of investment decisions, financing decisions, and profit distribution decisions are among the most important factors that significantly affect the market value of the company.

3.2.5 Functions Affecting Market Value:

Four functions affect the market value of the share, which are ²¹:

The relationship between the market value of a share and the profitability of a share:

The market value of a share is affected by the expected net income after tax. When investors predict that there will be a rise in the rate of net income after tax as a result of effective management of funds, they purchase and acquire shares, which leads to an increase in the market value of the share.

This relationship represents a direct linear relationship between an increase in net income after Tax and an increase in market value with the constancy of other factors that the company cannot control.

The relationship between the market value of a share and the time of profit realization:

The relationship between the market value of a stock and the time of profit realization is an inverse relationship, meaning that if investors expect that the distribution of profits will be immediate, the market value of the stock will be greater than if it was distributed after a period.

The relationship between the market value of a share and liquidity:

The relationship between the market value of the stock and liquidity is a direct relationship, the higher the liquidity, the higher the market value as a result of the company entering into a new investment project where it generates a profit, so the market value rises.

The relationship between the market value of a share and the ability to fulfill obligations:

To know the relationship between the market value and the liabilities of the company, it is necessary to research this relationship and the possibility of extracting it from the accounting data and extracting financial ratios such as the ratio of total assets to indebtedness, i.e. the expected rate of return to indebtedness, the higher the expected rate of return, the higher the market value of the share.

3.2.6. Methods of Measuring Market Value:

There are three indicators measuring the market value of a share, namely ²²:

The prevailing market value index: it reflects the price that investors are willing to pay as the price of the company's assets, which measures the price of the company's shares actually traded on the stock exchange at the end of the year, and is measured by the closing price at the end of the financial period.

Market value to book value index: it is measured by dividing the closing price of a share on the end of the financial period by the equity to the number of issued shares. If the ratio is more than one, the investment is profitable and leads to an increase in the value of the company; that is, the market value of the company is higher than the book value of the company.

The (Tobin's q) index: it is a method used by Tobin's James in 1969 to predict the market value of a company and its future performance, and is measured by dividing the market value (its closing prices \times the number of shares of the company at the end of the year by the replacement value of the assets, if the value of Tobin's q is less than one, the market value is less than the value of the company's assets, i.e. the company is undervalued, and on the other hand, if the value of Tobin's q is greater than one, the market value is greater than the cost of replacing its assets, which means that there are better investment opportunities and an indicator of good management performance.

3.2.7. Income Smoothing and Market Value:

Since the financial statements are the primary source for obtaining the necessary accounting information related to the financial position of companies, which indicates the efficiency of Management in earning profits and market returns, the credibility here is represented by the degree of confidence and security enjoyed by the financial statements through the characteristics that must be available in the financial statements, that is, they are free from income Hence the high market value.

3.3. Previous studies:

Previous studies related to income smoothing and its relationship to market value are very few, especially in the Arab world. The following are some of the previous studies that the researchers were able to obtain:

1. Abdullah and Hasnawi (2006)²³:

The first explains the nature of the company as a set of contracts that govern the relations between the parties interested in it, and that the determination of those contracts is based on their ability to reduce the conflict of interests between the different parties and resist the evasion of some from fulfilling their specific obligations, and focuses mainly on the role of accounting figures in determining those contracts. According to this point of view, income smoothing represents an opportunistic behavior by management to take advantage of the flexibility available to it to intervene in the measurement and financial reporting process, with the aim of obtaining private gain at the expense of other interested parties and evading fulfillment of its contractual obligations.

The second focuses on the role of accounting as an information system in helping decision-makers make their decisions properly by improving the ability of accounting figures announced in the financial statements to predict the future income of the company. This point of view believes that income preparation is a management means to communicate information and expectations related to the future income of the company to information users and avoid the costs resulting from the expansion of disclosure. The behavior of income smoothing is also the result of the interaction of a set of conflicting motives in terms of their impact on the behavior of management, including contractual motives (explicit contracts and implicit contracts) or management's desire to communicate information about the future income of the company.

The previous research looked at the motives of behavior and did not look at the impact of that behavior, while the current research examines the relationship between the process of income smoothing and the market value of the company.

2. Abu Hilal (2010)²⁴:

This research examined the phenomenon of income smoothing and the negative impact of this phenomenon on the national economy in general and investors in particular. The aim of this research was to determine the existence of the phenomenon of income smoothing in Palestine and to build a model to reduce this phenomenon, so a sample of public shareholding companies in the Palestinian market of 27 companies was selected. The Eckel model was used to examine the companies that are eligible for income from companies that are not eligible for income.

The results of the application of the model to the financial statements were that 12 companies had practiced income preparation, and 15 companies had not practiced income preparation. The researcher concluded that it is necessary to work on updating the laws and regulations related to the measurement of income for Public Joint Stock Companies in Palestine, as well as applying modern transparent corporate governance principles and adhering to them, reducing the allowed accounting alternatives, as well as stability in estimates and accounting policies.

The current research is distinguished from this research by the fact that it deals with the research of the relationship of income smoothing to the market value of Joint Stock Companies in the presence of the modified variable, the type of sector to which the company belongs, as well as the choice of the Abu Dhabi market, while the previous research looked at finding a model to reduce income smoothing in the Palestine market and took the Malaysia model as a reference.

3. Khoury and Shakhatra (2014)²⁵:

The research aimed to investigate whether service companies listed on the Amman financial market practice an income smoothing policy using a sample of 45 listed service companies during the period between (2005-2009). The research divided the companies into paved and unpaved based on the Eckel model and using income levels, namely: net operating income, net income before tax, net income, and profitability per share, and also aimed to investigate the impact of company characteristics on the extent of practicing income smoothing policy, if any.

The research found that there is no statistically significant relationship between the company's profitability factor, the profit distribution factor, and the income smoothing policy using all income levels. The research showed a statistically significant relationship between both the indebtedness factor and tax payments and the income smoothing policy on the level of net income. It shows a statistically significant relationship between the capital intensity factor and the income smoothing policy at both the net income level and the level of earnings per share. With regard to the classification of the Audit Bureau, a statistically significant inverse relationship was found using all four income levels.

The previous research looked at the extent of income smoothing practice and did not look at the impact of income smoothing on market value. The current research is also distinguished in that it deals with the industry and services sector, while the previous research focused on the services sector only.

4. Al-Shammari (2016)²⁶:

The research aimed to demonstrate the impact of income smoothing on financial performance, as an applied research on the Housing Bank for Trade and Finance in Jordan by referring to its data during the period 2010-2014. To achieve the objectives of the research, the researcher adopted the descriptive analytical method and the de Angelo model, 1986 to reach the results of this research. The researcher also used the Eviews software to analyze the financial data of the research sample in addition to some descriptive statistical methods, arithmetic mean and standard deviation, and after conducting the analysis of the research data and testing its hypotheses using simple regression analysis.

The research found a statistically significant effect at the significance level ($\alpha \leq 0.05$) on both return on assets, return on equity, and return on equity.

The research examined the impact of income smoothing on financial performance in general and did not look at how to contribute to reducing the practice of income smoothing, and only examined the relationship between an independent variable income smoothing and a dependent variable: return on assets, return on equity, return on equity.

The current research is looking at reducing the practice of income smoothing and the impact of this on the market value of the company.

5. Hamad and Abu Nassar (2018)²⁷:

The research aimed to define the impact of income smoothing on the market returns of industrial and service companies listed on the ASE, and to test the impact of company size and sector type on the income smoothing process. The research included a sample of (70) companies listed on the ASE, represented by (44) industrial companies, and (26) service companies for the period (1996-2005). The model (Eckel, 1981) was used to classify companies into income smoothing and non-smoothing, and four income measures were used, represented by total income, net operating income, income before tax, net income, and three volume measures were used: average sales, average total assets, and average total market value.

Descriptive tests were used in addition to testing the research hypotheses using several statistical methods, including the t-test, the Pearson test, and multiple regression analysis.

The research found that some Jordanian companies practice income smoothing, as income smoothing appeared in all four income measures in the two sectors and in different proportions. It was found that there are no statistically significant differences between industrial enterprises and service companies in income smoothing behavior using various income measures except for total income as a smoothing measure, there are also no statistically significant differences between the size of income smoothing and non-smoothing companies using the three size measures, except for the difference between the size of smoothed and non-smoothed companies in the case of using average sales as a measure of company size when testing both sectors together, while there was found to be a statistically significant effect of income smoothing behavior on extraordinary market returns.

The previous research was similar to the current one in dealing with the four income smoothing measures, while they differed in the nature of the adjusted variables, as well as the previous research was conducted in one environment for all the research variables. While the current research took two different environments for all the research variables.

6. Qazal et al. (2019)²⁸:

The research aimed to find out the relationship of accounting reservation practice with income reduction practices, most often these practices are for the purpose of income smoothing in order to make the income chain stable, especially after years of applying the financial accounting system SCF, which in turn provides losses that can be used in income smoothing practices, and to achieve the objectives of the research the Eckel model, 1981 was used to measure income smoothing, and to measure the level of accounting reservation the research used the accrual ratio scale for accounting profits before unusual items Jain and Rezaee, 2004, the research included a sample consisting of 47 Joint-Stock Companies for the period from 2011-2015.

The research found that there is a high level of accounting reservation in addition to the existence of the phenomenon of income smoothing, and also found when there is a correlation or a significant effect of accounting reservation on the level of income smoothing practice. The current research was distinguished from the previous one in linking the income smoothing process with the market value of the company.

7. Sha'at research (2019)²⁹:

The research aimed to research the impact of income smoothing on the market return of companies listed on the Palestine exchange and the Amman Stock Exchange. The research population consisted of all Jordanian industrial and service public shareholding companies listed on the Amman Stock Exchange and included 149 companies, for which the necessary financial data were fully available. As well as industrial and service companies in the Palestine Securities Exchange, there were 32 companies for which the necessary financial statements were fully available for the years 2012-2017. The descriptive-analytical approach was used, and the Eckel model, 1981 was used to indicate which companies of the research sample are paved or unpaved for income, in addition to using multiple regression.

The research has reached a set of results: the research proved that most of the companies in the sample of the research practice an income smoothing policy through the four measures of market return: total income, operating income, income before tax, net income, so it was found that there is an impact of the practice of income smoothing method on the market return of industrial and service companies listed on the Palestine and Amman Stock Exchanges.

The research examined the existence of a direct impact between the income smoothing and the market return of public shareholding companies in the Palestine and Amman Stock Exchanges. The current research differs in the variables it examined as well as the environment in which the research is conducted.

4. FIELD RESEARCH PROCEDURES

The research followed the scientific steps and established research procedures to reach results that can be generalized to society and similar situations. These actions can be listed in the following:

4.1. Research Method:

The research relied on the descriptive analytical method because it is one of the most used methods in the research of social and human phenomena and because it fits the phenomenon subject of research and is used in all previous studies similar to this research.

4.2. Research Population and Sample:

The research population is represented by Public Joint Stock Companies operating on both the Palestine Exchange and the Abu Dhabi Stock Exchange. When it was difficult to research the research population as a whole, the research was limited to public joint stock companies operating in the industrial and service sectors because of the importance and vitality of these sectors.

The number of industrial and service companies registered during the period (2010-2019) was (33) companies on the Palestine Exchange and (41) companies on the Abu Dhabi Stock Exchange. After researching the data and excluding companies that do not meet the conditions, (7) companies were excluded from the Palestine Exchange and (10) companies from the Abu Dhabi Stock Exchange depending on the availability of the following conditions:

Trading in its shares was carried out during the research period and for at least ten years.

The company should not have unusual events during the research period, such as a merger, distribution of free shares, or fragmentation of the share value, because of the impact of these operations on the calculation of the research variables.

Must not have stopped working for a period of time during the research period or be newly enrolled

Regular publication of financial statements, and availability of accounting data.

The following table shows the percentage of the sample from the research population at the Palestine Exchange and Abu Dhabi market:

Table (1) Percentage of the Sample from the Research Population

Company	Palestine Exchange		Abu Dhabi Stock Exchange	
	Number	Ratio	Number	Ratio
Registered	33	% 100	41	% 100
Excluded	7	% 21	10	% 24.4
Research sample	26	% 79	31	% 75.6
Sample percentage	%54.4		45.6%	

Source: Prepared by the researchers based on the analysis of data for companies from 2010-2019
As for the distribution of the sample by the type of sector to which the company belongs, table No. (2) Shows that:

Table (2) Number of companies by sector type in both the Palestine Exchange and Abu Dhabi

Sector type / Exchange	Palestine Stock Exchange	Abu Dhabi Stock Exchange	Total
Industry	15	19	34
Service	11	12	23
Total	26	31	57

Source: Prepared by the researchers based on the analysis of data for companies from 2010-2019

It is noted in Table No. (2) According to the sample of the research, it is clear that the companies registered within the industrial sector at the Palestine exchange amounted to 15 companies, and in the services sector 11 companies (45.6%), while the companies registered within the industrial sector at the Abu Dhabi Stock Exchange amounted to 19 companies, and the services sector 12 companies.) %54.4(

4.4. Source of Research Data:

This research was based directly on the secondary data of public shareholding companies for the industry and services sector registered on the Palestine and Abu Dhabi stock exchanges during the period from 2010 to 2019. These are the published financial statements from which the relevant financial figures are obtained such as sales volume, gross income, operating income, income before tax, and net income.

4.5. Statistical Methods Used in the Analysis:

For the purposes of analysis and hypothesis testing, the research used the following statistical methods:

1. Eviews Program: the research relied mainly on the Eviews program, which is one of the advanced programs used in conducting standard analysis, conducting the necessary analyses of the data, describing them, testing the research hypotheses, and extracting the results of data analysis.
2. Binomial Test: Based on this test, the following decision rules are used to launch the neutral judgment:
 - If the Binomial test Sig. is > %5, the hypothesis H0 will be accepted (there is no practice of income smoothing).
 - If the Binomial test Sig. is <= %5, hypothesis H1 will be accepted (there is a practice of income smoothing).
3. Linear regression: to achieve the purpose of the research, a multiple linear regression model was used, represented by the following equation:

$$\text{Market value} = \alpha + \beta_1 + \beta_2 + \beta_3 + \beta_4 + e \text{ Whereas:}$$

- β_1 : income smoothing through aggregate income.
- β_2 : income smoothing through operating income.
- β_3 : income smoothing through income before taxes.
- β_4 : income smoothing through net income.
- e: expresses the random error.
- α : Constant.

5. ANALYSIS AND DISCUSSION

This research aimed to find out the extent to which public shareholding companies listed on the Palestine and Abu Dhabi Securities Exchanges practice income smoothing and the impact of this practice on the market value of the shares of these companies. It was on it that a test of the research hypotheses was carried out to reach this goal. The hypotheses tested are as follows:

1. Testing the first hypothesis:

Companies listed on the Palestine and Abu Dhabi stock exchanges do not practice the income smoothing method to influence the disclosed information:

To test this hypothesis, iterations of income smoothing practices using various methods were used in addition to the Binomial test. In order to enhance obtaining results on the practice of the sample companies of the research in both the Palestine and Abu Dhabi stock exchanges for income smoothing, the sample companies were classified for practicing and non-practicing income smoothing according to the Eckel model during the research period, the company would have practiced income smoothing is given the number (1) and if not practicing income smoothing is given the number ((0), and each market was studied separately.

a. The practice of income smoothing according to the Eckel model:

Table No. (3) Below shows the occurrences of the income pre-index on the Palestine Securities Exchange:

Table (3) Frequencies of the income smoothing indicators on the Palestine exchange

Income smoothing method								
Companies	Gross Income		Operating Income		Income Before Tax		Net Income	
	No.	%	No.	%	No.	%	No.	%
Smoothed	151	0.58	179	0.69	200	0.77	190	0.73
Non-Smoothed	109	0.42	81	0.31	60	0.23	70	0.27

Source: Prepared by the researchers based on the analysis of data for companies from 2010-2019

It is clear from Table No. (3), that the practice of income smoothing phenomenon was very high at the Palestine Exchange, and it was more through the income before tax method, where the percentage of companies practicing income smoothing reached 77%, through the net income method, the percentage of companies practicing income smoothing reached 73%, through the operating income method, the percentage of companies practicing income smoothing reached 69%, and through the total income method, the percentage of companies practicing income smoothing reached 58%.

Table (4) Frequencies of the income smoothing indicators on the Abu Dhabi Securities Exchange

Income smoothing method								
Companies	Gross Income		Operating Income		Income Before Tax		Net Income	
	No.	%	No.	%	No.	%	No.	%
Smoothed	189	0.61	226	0.73	236	0.76	236	0.76
Non-Smoothed	121	0.39	84	0.27	74	0.24	74	0.24

Source: Prepared by the researchers based on the analysis of data for companies from 2010-2019

It is clear from Table No. (4) above, that the practice of income smoothing phenomenon was very high in the Abu Dhabi Securities Exchange, and it was more through the method of income before tax and net income, where the percentage of companies practicing income smoothing through the method of income before tax and net income reached 76%, and through the method of operating income the percentage of companies practicing income smoothing reached 73%, and through the method of total income the percentage of companies practicing income smoothing reached 61%.

According to the researchers, this is because the management strives to maintain the appearance of net income in a stable form, not steadily increasing or decreasing. This leads to increased confidence among all parties, especially owners and investors. Where income pre-tax and after-tax income is considered the least expensive types of accounting manipulations for companies and brings the desired results for management, after the income pre-tax is exhausted through the previous two methods, companies resort to pre-tax through the total income and operating income because it may entail a high cost for companies.

b. The use of (Binomial test) in detecting income smoothing:

The following table (5) shows the practice of income smoothing according to the (Binomial test) Test at the Palestine exchange:

Table (5) The practice of income preparation according to the binomial test at the Palestine Securities Exchange

Income Smoothing	Palestine Exchange
	Binomial test
Smoothing income by total income	0.00
Smoothing income through operating income	0.00
Smoothing income through pre-tax income	0.00
Smoothing income by net income	0.00

Source: Prepared by the researchers based on the analysis of data for companies from 2010-2019

It is noted from Table (5) that companies listed on the Palestine Securities Exchange have practiced income smoothing through various methods (income smoothing through total income, operating income, income before tax, and net income) during the research period from (2010 to 2019).

Table (6) below shows the practice of income smoothing according to the binomial test in the Abu Dhabi Securities Exchange:

Table (6) The practice of income preparation according to the binomial test at the Abu Dhabi Securities Exchange

Income Smoothing	Palestine Exchange
	Binomial test
Smoothing income by total income	0.00
Smoothing income through operating income	0.00
Smoothing income through pre-tax income	0.00
Smoothing income by net income	0.00

Source: Prepared by the researchers based on the analysis of data for companies from 2010-2019

It is noted from Table (6) that companies listed on the Abu Dhabi Securities Exchange have practiced income smoothing through various methods (income smoothing through total income, operating income, income before tax, and income smoothing through net income) during the research period from (2010 to 2019).

C. Comparison between the Palestine Exchange and the Abu Dhabi Market in income smoothing practices:

A comparison between the Palestine Exchange and the Abu Dhabi Market in the practice of income smoothing process can be made as follows:

i. Companies that practiced income smoothing during the period (2010-2019)

The following table (7) shows a comparison between the companies listed on the Palestine Exchange and the Abu Dhabi market in the practice of income smoothing:

Table (7) The practice of income smoothing in comparison between the Palestine and Abu Dhabi Stock Exchanges

Companies	Gross income	Operating income	Income before tax	Net income
Palestine Exchange	151	179	200	190
Abu Dhabi Stock Exchange	189	226	236	236
Total	340	405	436	426

Source: Prepared by the researchers based on the analysis of data for companies from 2010-2019

It can be seen from Table No. (7) that the percentage of income smoothing through the income before tax method is the largest, as the percentage of income smoothing was recorded in the Abu Dhabi market at 54%, while the percentage in the Palestine market reached 46% for the same method, followed by the practice of income smoothing through net income at 55.4% in the Abu Dhabi market, while the percentage in the Palestine exchange reached 44.6%. As for the operating income method, the percentage of income exercised in the Abu Dhabi market reached 55.8%, while the percentage reached 44.2% in the Palestine exchange. The last and lowest level was the income smoothing using the total income method by 55.6% for the Abu Dhabi market and 44.4% for the Palestine exchange.

ii. Companies that did not practice income smoothing during the research period:

Concerning the companies that did not practice the income smoothing method during the period (2010-2019), table (8) below explains the comparison between the Palestine Exchange and the Abu Dhabi Market:

Table (8) A comparison of non-practicing income smoothing between the Palestine and Abu Dhabi Stock Exchanges

Companies	Gross income	Operating income	Income before tax	Net income
Palestine Exchange	109	81	60	70
Abu Dhabi Stock Exchange	121	84	74	74
Total	230	165	134	144

Source: Prepared by the researchers based on the analysis of data for companies from 2010-2019

According to Table (8), the lowest frequency of non-practice of income smoothing through the pre-tax income method appeared. The largest number of non-practicing income smoothing through the gross income method was in the Palestine and Abu Dhabi Stock Exchanges.

2. Testing the second hypothesis:

There is no effect of income smoothing on the market value of companies listed on the Palestine and Abu Dhabi Stock Exchanges:

Table (9) below shows the impact of the income smoothing method on the market value of industrial and service companies listed on the Palestine Exchange:

Table (9) Multiple linear regression analysis for companies listed on the Palestine Exchange

The independent variable	The dependent variable The market value of companies	
	Coefficient	Sig
Smoothing income by gross income	-0.72	0.06
Smoothing income through operating income	-0.64	0.20
Smoothing income through income before tax	2.33	0.00
Smoothing income by net income	-0.07	0.89
Sig	0.000	

Source: Prepared by the researchers based on the analysis of data for companies from 2010-2019

By noting the significance of the relationship value of the research model as shown in Table (9), it turns out that there is a statistically significant effect of income smoothing through income before market value tax in the research sample in period t, where the Sig. value was less than 5%. Accordingly, the alternative hypothesis is accepted which states that: there is a statistically significant effect at the level of ($\alpha \leq 0.05$) to smooth income through income before tax on the market value of companies listed in the Palestine Exchange.

Observing the significance of the relationship value of the research model as shown in Table (9), it turns out that there is no statistically significant effect of smoothing income through gross income, operating income, and net income on the market value in the research sample in period t, where the Sig value was greater than 5%. Accordingly, the nil hypothesis is accepted, which states that: there is no statistically significant effect of income smoothing through gross income, operating income, and net income at the level of ($\alpha \leq 0.05$) on the market value of companies listed on the Palestine Exchange.

The following table (10) shows the impact of the income smoothing method on the market value of industrial and service companies listed on the Abu Dhabi Securities Exchange:

Table (10) Multiple linear regression analysis for companies listed on the Abu Dhabi Securities Exchange

The independent variable	The dependent variable The market value of companies	
	Coefficient	Sig
Smoothing income by gross income	-0.82	0.00
Smoothing income through operating income	0.64	0.04
Smoothing income through income before tax	0.40	0.15
Sig	0.001	

Source: Prepared by the researchers based on the analysis of data for companies from 2010-2019

Observing the significance of the relationship value of the research model as shown in Table (10), it turns out that there is a statistically significant relationship between smoothing income through gross income and operating income on the market value in the research sample in period t, where the Sig values were less than 5%. Accordingly, the alternative hypothesis is accepted, which states that: there is a statistically significant effect at the level of ($\alpha \leq 0.05$) to income smoothing through gross income and operating income on the market value of companies listed on the Abu market Dhabi Securities.

Observing the significance of the correlation value for the growth of the research as shown in Table (10), it turns out that there is no statistically significant effect of income smoothing through income before tax in the market value in period t, since the Sig. value was greater than (5%). Accordingly, the nil hypothesis is accepted which states that: there is no statistically significant effect at the level of significance

($\alpha \leq 0.05$) for smoothing income through income before tax on the market value of companies listed on the Abu Dhabi Securities Exchange.

3. Testing the third hypothesis:

There is no relationship between the type of sector to which the company belongs on the Palestine and Abu Dhabi Stock Exchanges and the use of income smoothing in influencing the market value:

To test the third hypothesis, a simple linear regression method was used, and regression models were tested both at the sample level as a whole and at the sectoral level separately:

a. The relationship between the type of sector to which the company belongs and the practice of income smoothing at the Palestine Exchange:

For the Palestine Exchange, Table (11) shows the results of the linear regression to test the relationship between the type of sector and the practice of income smoothing:

Table (11) Multiple Linear Regression of Companies by Sector in Palestine Exchange

Independent variable	Dependent variable (market value) Adjusted variable:			
	industry sector		service sector	
	Coefficient	Sig	Coefficient	Sig
Smoothing income through gross income	0.17	0.76	-1.14	0.04
Smoothing income through operating income	-2.66	0.00	0.56	0.59
Smoothing income through pre-tax income	0.61	0.44	2.26	0.00
Smoothing income through net income	3.66	0.00	-2.63	0.00
Sig	0.000		0.000	

Source: Prepared by the researchers based on the analysis of data for companies from 2010-2019

Noting the significance of the relationship value of the research model as shown in Table (11), it turns out that there is a statistically significant effect of income smoothing through operating income and net income on the market value in the sample of industrial sector companies of the Palestine Exchange in the tested period, (sig values were less than 5%). It also turns out that there is no statistically significant effect of income smoothing through gross income and pre-tax income on the market value of industrial sector companies on Palestine Exchange in the tested period (sig values greater than 5%).

In addition, Table (11) shows that there is a statistically significant effect of income smoothing through gross income, income before tax, and income net income on the market value in the tested sample of service sector companies on the Palestine Exchange in the period under assessment (sig less than 5 %). It also turns out that there is no statistically significant effect of income smoothing through operating income on the market value in the tested sample of service sector companies on Palestine Exchange in the period under assessment (sig values greater than 5%).

Based on this, the alternative hypothesis is accepted, which states that: there is an impact of the type of sector (industrial / service) on the relationship of income smoothing through gross income, operating income, and income before tax with the market value of the company at the level of ($\alpha \leq 0.05$) on the Palestine Exchange.

On the other hand, the nil hypothesis is accepted, which states that: there is no effect of the type of sector (industrial / service) on the relationship of smoothing income through net income with the market value of the company at the level of ($\alpha \leq 0.05$) on the Palestine Exchange.

b. The relationship between the type of sector to which the company belongs and the practice of income smoothing on the Abu Dhabi Securities Exchange:

For the Abu Dhabi Securities Exchange (ADX), Table 12 shows the results of the linear regression to test the relationship between the type of sector and the income smoothing practice:

Table (12) Multiple Linear Regression of Companies by Sector in Abu Dhabi Securities Exchange

Independent variable	dependent variable (market value)			
	Adjusted variable:			
	industry sector		service sector	
	Coefficient	Sig	Coefficient	Sig
Smoothing income through gross income	-0.54	0.07	-1.06	0.03
Smoothing income through operating income	0.41	0.29	1.04	0.04
Smoothing income through pre-tax income	0.36	0.35	1.07	0.01
Sig	0.08		0.004	

Source: Prepared by the researchers based on the analysis of data for companies from 2010-2019

Table (12) shows that there is no statistically significant relationship between income smoothing through gross income, operating income, and income before tax and the market value in the tested sample of industrial sector companies in the period under assessment (Sig values greater than 5%). It also shows that there is a statistically significant effect of income smoothing through gross income, operating income, and income before tax and the market value in the tested sample of industrial sector companies in the period under assessment (Sig values less than 5%).

Accordingly, the alternative hypothesis is accepted, which states that: there is an effect of the type of sector (Service or Industrial) on the relationship of income smoothing through gross income, operating income, and income before tax with the market value of the company at the level of ($\alpha \leq 0.05$) on the Abu Dhabi Securities Exchange.

6. RESULTS, CONCLUSION, AND RECOMMENDATIONS

Through the conducted theoretical and applied research, the results, conclusion, and recommendations of the research can be reviewed as follows:

First: the results of the research:

1. Industrial and service companies listed on the Palestine Exchange and the Abu Dhabi Market practice income smoothing by different percentages in all income measures.
2. There is an effect of income smoothing through income before tax on the market value of Public Joint Stock companies listed on the Palestine Stock Exchange.
3. There is no effect of income smoothing through gross income, operating income, and net income on the market value of Public Joint Stock companies listed on the Palestine Exchange.
4. There is an effect of income smoothing through gross income and operating income on the market value of public shareholding companies listed on the Abu Dhabi Securities Exchange.
5. There is no effect of income smoothing through income before tax on the market value of Public Joint Stock companies listed on the Abu Dhabi Securities Exchange.
6. There is a relationship between the type of sector (Industrial / Service) and the method of income smoothing through gross income, operating income, and income before tax with the market value of Public Joint Stock companies listed on the Palestine Securities Exchange.
7. There is no relationship between the type of sector (Industrial / Service) and the method of income smoothing through net income with the market value of Public Joint Stock companies listed on the Palestine Securities Exchange.
8. There is a relationship between the type of sector (Industrial / Service) and the method of income smoothing through gross income, operating income, and income before tax with the market value of Public Joint Stock companies listed on the on the Abu Dhabi Securities Exchange.

Second: Recommendations:

In light of the research findings, the researchers recommend the following to the stakeholders, investors, financial analysts, government agencies, auditors and related parties:

1. Analysts and investors should not rely on the published financial statements as recognized figures for investment purposes and as stable companies in terms of profits, because this stability may be the result of smoothing income practice to meet the objectives of management at different levels.
2. The government entities represented specifically by the income tax office must ensure the accuracy of the financial statements submitted in order to calculate income tax.
3. Auditors should adhere to reasonable professional care at all stages of the audit, and the auditor should be vigilant and not turn a blind eye to any evidence of management manipulating profits in order to smooth income.
4. The supervisory authorities, as well as universities and academic centers, should make investors aware of the concepts, types, and methods of manipulating with accounts.
5. Researchers, financial analysts, graduate students, and those interested in financial reporting should conduct more studies on the phenomenon of income smoothing in other sectors, especially the financial sector.

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Impact of Public Joint Stock Companies Using the Income Smoothing Method on Share's Market Value: Comparative Research of Industrial and Service Companies Listed on The Palestine and Abu Dhabi Stock Exchanges (2020)

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