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The impact of corporate surplus disclosure on financial reporting quality and its reflection in investor decisions: Evidence from Iraqi banks

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Abstract
The research intends to analyze the impact of corporate excess disclosure on the quality of financial reporting and its reflection in investor decisions in the local environment of Iraqi banks. The research objective was pursued through the implementation of an experimental approach, with data being gathered via informational content analysis of reports derived from the annual financial statements of a sample of 12 banks listed in the Iraq Stock Exchange for the period of 2012 to 2021. A checklist was employed to gather data on corporate excess declaration, while profits quality was utilized to assess the accuracy and reliability of financial reports. Additionally, earnings multiples were employed to suggest investment decisions targeting the banks in the research sample. The research yielded various findings, with the most significant being that the disclosure of corporate surplus in accounting has a favorable impact on enhancing the quality of financial reporting. Furthermore, this disclosure greatly increases the appeal of the institutions in the research sample to potential investors. The findings also validated that the disclosure of company excess would have a more significant impact on investor decision-making when financial reporting quality acts as a mediator.

Keywords: Corporate surplus disclosure, corporate surplus management, financial reporting quality, investor decisions

Introduction

Efficiently handling excess resources and transparently reporting the associated financial information are crucial factors in emphasizing the favorable parts of a company's performance. These features are directly represented in financial reports, which may boost their quality. Since the accounting figure in these reports is critical in evaluating corporate performance, accounting disclosure, whether obligatory or voluntary, is essential for an efficient capital market. Investors may have apprehension if there is a lack of disclosure and a scarcity of information about the company. Investors require information on corporate surplus and its management, as it significantly influences the decision-making process. Accounting disclosure of corporate surplus, along with other forms of discretionary disclosures, is crucial in mitigating information asymmetry and promoting market efficiency. Although there is a growing focus on enhancing the standard of financial reporting, the extent of disclosure remains contingent upon the policies implemented by the company's management and their choices regarding the regulation of the information released, including its volume and level of openness. Managers may employ creative accounting techniques to manipulate receivables and profit surplus, so distorting the genuine performance of organizations. This behavior is supported by significant evidence of earnings management. Under these circumstances, shareholders may lack the ability to make well-informed decisions and accurately assess their investments. This is particularly relevant because agency theory suggests that corporate disclosure policies are influenced by management's motives, such as their incentive contracts, tax objectives, stock price stability, maximizing market value, and improving competitive position. Several research studies have examined the correlation between disclosure expansion and the quality of financial reporting, (Jaber *et al.*, 2022) [29], (Abubakar *et al.*, 2017) [30], as well as its impact on investor decision-making (Al-Tamimi & Al-Nafai, 2022) [31], (Al-Safadi, 2015) [11], (Ben Rahmoun, 2019) [12].

These studies have verified that increasing the level of disclosure has a direct and indirect impact on improving the quality of financial reporting and making investor decisions more efficient.
The occurrence of global crises, such as the COVID-19 pandemic in 2020, and local crises, such the security crisis in Iraq in 2014, together with their long-lasting consequences, have resulted in a decrease in the effectiveness and profitability of organizations. This has had detrimental consequences on several Iraqi industrial and financial enterprises. As a result, these organizations may employ various methods, both appropriate and inappropriate, to lessen the impact of these impacts. One of the most crucial methods is related to the management of corporate surplus. However, the existence of additional accounting transparency in general, and specifically about corporate surplus, may provide a clearer picture of companies' performance inside financial reports. This approach has the potential to improve the caliber of those reports. Since extending disclosure reduces information asymmetry, reporting corporate surplus may have the same effect in strengthening investor decisions. Furthermore, the inclusion of financial reporting quality in the causal connection between corporate excess disclosure and investor decisions has the potential to enhance the influence of disclosure on investor decisions.
The research holds great significance, both in terms of scientific and practical implications, due to several elements and assertions. First and foremost, this study is a continuation of prior research that examines the connection between accounting disclosure and the quality of financial reporting. The main objective is to investigate how this disclosure contributes to achieving high standards. Furthermore, it emphasizes the significance of revealing excess corporate funds as a means of limiting the exploitation of these funds by management for their own gain, particularly in the context of opportunistic conduct. Moreover, the present study aims to clarify the elements that affect investor decisions, such as the extent of information disclosure and the quality of financial reporting. It also examines how these aspects combine to enhance their impact.
Hence, the primary aim of this study is to examine the magnitude of the influence of corporate surplus disclosure on the quality of financial reporting and its subsequent effect on improving investor decision-making, with financial reporting quality acting as an intermediary variable. This research will offer empirical evidence from the Iraqi business context. The research focused on a sample of 12 banks that were listed on the Iraq Stock Exchange, which served as the geographical borders. The study encompassed a decade-long timeframe, specifically from 2012 to 2021. In order to accomplish the research goal, the study was partitioned into five distinct components. The initial section presented the research, whereas the subsequent section concentrated on establishing a theoretical framework for the research variables and their anticipated associations by examining pertinent prior studies and proposing hypotheses. The third section focused on the study technique, the fourth section examined the research findings and validated its assumptions, and the fifth and final piece evaluated the key conclusions drawn from both the theoretical and practical components of the research.

Literature Review and Hypothesis Development

Surplus Concept and Surplus Management

Managers commonly employ profit surplus management to accomplish their business goals, which may be categorized into actions pertaining to the management of accumulated profits and activities pertaining to the management of actual earnings. Accrued profit management encompasses the utilization of diverse accounting techniques, whereas real profit management involves the manipulation of tangible business operations. Irrespective of the specific method employed for profit management, it will exert a substantial influence on the overall worth of the organization. Engaging in strategic actions can result in profit manipulation, which involves influencing factors, economic consequences, and the decisions made by managers about managing profit-based activities and actual operations to manipulate surplus management (Gao & Gao, 2016: 189) [24].
From an accounting standpoint, surplus is defined as the net increase in a company's assets compared to its obligations and capital stock. Corporate surplus fulfills three financial functions: (1) providing funds for capital expansion, (2) acting as a safeguard against business hazards, and (3) serving as a foundation for distributing dividends (Van Arsdell, 1940: 322) [26].
Surplus can also be described as accounting methods employed by management to generate financial statements that might misrepresent the true operating outcomes. There is a contention that modifications in accounting rules can impact financial outcomes, but they do not have an impact on the company's operational outcomes. Nevertheless, engaging in the manipulation of operating results carries greater risks for the company, as it may result in the company prioritizing short-term advantages at the expense of long-term interests (Abdulhamid & Bakr, 2022: 596) [8] as cited by (Kliestik *et al*., 2021: 1453) [32].
Management of surplus refers to the process by which management adopts transactions or accounting choices to alter financial reports in order to deceive users of accounting information (Yang, 2023: 245) [27].
It can be said that the concept of surplus refers to the undistributed profits of the company, meaning the remaining balance of earnings after paying dividends to shareholders and all other expenses.
Managing surplus activities are relatively common legal behaviors regarding market value management in companies. Managers can manipulate the operational performance of the company through managing accrued surplus and managing real surplus according to management's preference, and they can be distinguished from each other (Li *et al*., 2022: 3) [18].

Accrued Surplus Management: This refers to the procedure of choosing the suitable accounting rules and estimates to improve the financial performance of the organization, while operating within the boundaries set by the existing accounting system and standards. Accrued excess management does not modify the tangible operational activity of the corporation.

Real Surplus Management: This refers to the company's

management actively manipulating accounting information by creating, modifying, or intentionally changing it at the proper time in various activities such as operations, investments, and finance. Effective surplus management can enhance accounting profits by engaging in increased transactions with affiliated entities, boosting production, minimizing expenses, and utilizing various manipulation strategies that impact cash flow. Both the practice of managing accrued surplus and real surplus can effectively mitigate financial constraints faced by firms, provided they are utilized in a manner that benefits the company and its shareholders.

Therefore, disclosing surplus management means disclosing all opportunistic behaviors by management to control the company's surplus in pursuit of personal and self-interests of the managers, aiming to deceive users of accounting information by presenting misleading financial reports (Zhao & Ziang, 2022: 167) [28].

Motives, Means, and Incentives for Management Manipulation of Corporate Surplus

a) Due to the inherent risks in stock-based compensation incentives, profit management by executives is driven by a desire to gain personal benefits at the expense of shareholders. Managers with high equity-based incentives are more likely to report profits that meet or exceed analysts' expectations, as incentives derived from stock-based compensations motivate managers to engage in profit management.
b) A primary motivation for profit management is the pressure on managers to deliver short-term performance, which is used in contracting and company evaluations. Managerial concerns about current performance motivate them to engage in manipulating current period profits at the expense of future profits.
c) Profit management and accounting fraud vary based on different motives and reasons for altering financial information, ranging from meeting regulatory boundaries and analyst expectations to facilitating executive compensation and achieving desired stock valuations in capital markets.
d) Direct financial gain is not the primary motivator for financial managers to engage in profit manipulation. Rather, financial officers are likely subject to strong pressures from CEOs to manipulate financial data. Companies manipulate earnings by exploiting the flexibility of accounting rules to temporarily conceal the true performance of the company.
e) To deceive information users and build a gradual deviation from actual normal business operations to achieve their goals, managers will reduce spending on research and development to boost short-term company performance. When income targets are not met, managers can increase current profits by selling fixed assets and securities.
f) To achieve short-term goals, managers manipulate current period profits by reducing research and development expenses, advertising expenses, and maintenance costs, and by deferring new projects. Managers use research and development spending to buy back stocks to avoid diluted earnings per share.
g) Managers can manipulate cost of goods sold (COGS) in any period by increasing production to spread fixed overhead costs over a larger number of units as long as the reduction in unit cost is not offset by holding costs or any increase in marginal costs in the current period.

The aforementioned indicates that there are three aspects to achieving management objectives in manipulating surplus management

a) By manipulating sales, such as (Easing sales restrictions, credit terms, increasing sales, discounts, etc.).
b) By manipulating production (Such as using economies of scale ordering to reduce unit product costs).
c) By manipulating estimated expenses (Such as narrowing research and development costs, advertising costs, maintenance costs, etc.).

These three methods can be measured through abnormal cash flow from operating activities, abnormal product costs, and abnormal estimated expenses.

Concept of Corporate Surplus Disclosure

Accounting transparency constitutes one of the key responsibilities of corporations in this day. In the past, business entities would disclose their accounting information in a reasonable manner to ensure that stakeholders were well-informed about the financial performance of the firms. Stakeholders have become more knowledgeable and expect disclosure of companies' financial performance to ensure good returns on their investments. In addition, governments around the world have implemented legislation that require mandatory accounting transparency. Aside from the disclosure of financial performance, corporations are also required to disclose some non-financial characteristics. Accounting disclosure contributes to transparency in accounting processes followed by accountants, minimizing the scope of fraudulent techniques such as account manipulation, expense inflation, and revenue concealment (Alslihat *et al.*, 2017: 105) [13].

Disclosure refers to the action of divulging all crucial facts pertaining to the actions of an economic body. Financial statement users are able to comprehend the entity's financial status and obtain comprehensive information that facilitates the ability to forecast and assess the economic unit's historical performance (Abdulrahman, 2007: 146) [6].

Corporate surplus generally stems from the practice of holding profits rather than utilizing them. Accountants categorize surplus using different criteria, typically emphasizing its origins and occasionally considering the permissibility of distributing stock dividends. Nevertheless, it is essential to categorize surplus according to its financial functions in order to comprehend its distinct and societal effects. Surplus operates as a comprehensive cover for various business reasons, encompassing not just profit generation but also serving other diversified tasks. Additionally, it is regarded as a hospitable indication by the administration and showcases its capacity to allure investors. The presence of excess enables the corporation to adhere to a strategy of providing set dividends, even during years when profits are insufficient. Moreover, a surplus serves as a buffer to withstand economic shocks and

disasters. A corporation with a substantial surplus may effectively endure fluctuations in the economic cycle and uncertainty in the market, providing a valuable addition to long-term corporate sustainability.

Concept of Financial Reporting Quality and Measurement Approaches

The concept of "quality of accounting information" is known by various terms, with the most comprehensive ones being financial reporting quality and accounting quality. Financial reports are considered to be of high quality when organizations effectively reduce profit surplus and accurately recognize losses, resulting in information that is more appropriate for users. Financial reporting quality refers to the degree to which the accounting information in the reports adheres to preparation standards and is well-suited for managers to make decisions. It should be timely, beneficial to users, and accurately represent the financial position of the companies.

Preparers and users of financial reports may have different definitions and notions about financial reporting quality and measurement methodologies. Financial reporting accuracy refers to the level of precision in conveying relevant and suitable information about a company's operations to users, allowing them to anticipate future cash flows. This definition is consistent with the Statement of Financial Accounting Concepts No. 8 (SFAC) issued by the Financial Accounting Standards Board (FASB) in 2010. According to SFAC No. 8, the main purpose of financial reporting is to furnish current and potential investors with information that aids in forming future expectations and making prudent investment choices (Wakid *et al*., 2023: 120) [33].

Financial reporting quality refers to the degree of precision in financial reports that effectively communicate information regarding a company's operations, particularly anticipated cash flows, to provide guidance to stock investors. This definition is consistent with the Statement of Financial Accounting Concepts No. 1 (1978), which asserts that one of the goals of financial reporting is to provide information to current and potential investors so that they can make informed investment decisions and evaluate the anticipated cash flows of the company (Biddle *et al*., 2009: 3) [15].

Financial reporting quality refers to the level of precision in financial reports that accurately represent the economic condition and performance of a company. It also refers to the extent to which these reports provide relevant information to help stakeholders make advantageous decisions (Buday, 2017: 13) [34].

Financial reports provide a structured method for corporations to present their accounting information. Nevertheless, the growing intricacy of accounting regulations and the ambiguous terminology used in corporate financial reporting have sparked worries regarding the effective communication of information to shareholders. Multiple research provide evidence that intricate financial data have a negative impact on the information environment. Specifically, more intricate financial data decrease investment efficiency and heighten uncertainty. The quality of reports can be greatly influenced by corporate governance, with companies that have governance issues being more likely to be categorized as misleading or lacking transparency in their financial reporting (Guay *et al*., 2016: 1) [16].

Approaches and Indicators for Measuring Financial Reporting Quality

There is a lack of consensus on a standardized criterion or indicator to evaluate the quality of financial reporting. However, past studies have put out other suggested measures. The existence of many measures is justified by the inability of any single measure to fully include or address all aspects of financial reporting quality. Moreover, employing numerous measurements enhances the potential for generalizing the findings. Furthermore, implementing alternative measures decreases the probability of including extraneous elements into the findings of a single measure, which are irrelevant to the quality of financial reporting. These considerations support the existence of three distinct measures used to evaluate the quality of financial reporting. Subsequently, these measurements are combined to form a composite measure or index that represents the level of excellence in financial reporting. The following are the references cited by Al-Sayegh and Abdel-Majeed in 2015 [1] (Al-Sayegh & Abdel-Majeed, 21: 2015) [1]:

Accruals Persistence Index (Earnings Persistence)

Accruals refer to the non-cash portion listed in the income statement resulting from the application of the accrual basis of accounting. It is measured by the following equation (Hope *et al*. 2012; Chen *et al*. 2011; Givoly *et al*. 2010) [35, 36, 37]:

$$OIit = \alpha 0 + \alpha 1 \ Accrit\text{-}1 + \alpha 2 \ OCFit\text{-}1 + \varepsilon it \qquad (1)$$

In this equation, where \(i\) represents the corporation, \(t \) denotes the specific year, \(OI \) indicates Operating Income after Depreciation. If the value is absent from the financial reports of the studied company, Net Profit before Taxes is utilized as a substitute. The term \(Accr \) denotes the component of earnings known as accruals, which is determined by subtracting operational cash flows from operating income. The variable \(OCF \) denotes the Operating Cash Flows, whereas \(ε_{it} \) denotes the residuals or error term in the regression equation. The accruals persistence, which indicates the reliability of financial reporting based on this metric, is quantified by the residual value of equation (1) mentioned earlier. This can be accomplished by utilizing either the unadjusted residual values or by employing the standard deviation of these residuals for each organization separately during the duration of the study. In addition, the residual values are multiplied by (-1) to ensure that higher values correspond to better financial reporting quality, and vice versa. This measure is very intelligible and widely regarded as the most persuasive by both readers of financial reports and standard setters.

Optional Accruals Indicator (Accrual Quality)

Optional accruals refer to items that offer multiple alternatives and possibilities for determining their value from an accounting standpoint. The company's management has the option to pick amongst various possibilities, which allows them the freedom and flexibility to determine the

valuations of these goods. Accruals that are optional are distinct from accruals that are non-optional. Non-optional accruals are comprised of items where there are no other options available to establish their value. As a result, the company's management has no control over how these items are valued. Their measurement can be determined using the equation provided by Kothari *et al*. (2005) [38]:

$$TA_{i,t} / A_{i,t-1} = a + \beta 1 (1/ A_{i,t-1}) + \beta 2\{(\Delta REV_{i,t} - \Delta REC_{i,t}) / A_{i,t-1}\} + \beta 3 (PPE_{i,t} / A_{i,t-1}) + \beta 4 (ROA_{i,t} + E_{i,t}) \quad (2)$$

TA denotes Total Accruals, which are calculated as the discrepancy between operational income and operating cash flows. Assets refers to the aggregate value of all assets at the conclusion of the fiscal year. Rev denotes the variation in sales. PPE stands for property, plant, and equipment over the course of the year. Lastly, ROA indicates the ratio of return on assets. The measurement of optional accruals, which indicates the financial reporting quality in this context, is determined by the residual value of the regression equation. This residual value is then multiplied by (-1), similar to the first measure.

Optional Revenue Indicator

Optional revenue is the difference between the anticipated change in receivables and the actual change. This implies the presence of unusually high or low figures, which suggests a higher level of manipulation of revenue and subsequently impacts the integrity of financial reporting. The measurement is determined in the following manner: The references cited are Stubben (2010) [42], Dechow and Dichev (2002) [43].

$$\Delta AR_{it} = \alpha 0 + \alpha 1 \Delta Rev_{it} + \varepsilon_{it} \quad (3)$$

AR stands for accounts receivable, which is the total amount of money owed to a company by its debtors and the value of bills that have yet to be paid. Rev is an abbreviation for the term "revenues". The residual value of the regression equation, which is multiplied by (-1) in the first and second measures, represents the optional revenues that reflect the financial reporting quality under this measure. The optional revenue measure exhibits a notable reduction in measurement errors and bias when compared to the optional accruals measure. Furthermore, certain accrual categories, such as depreciation, have a strong connection to investments, leading to a correlation between investments and discretionary accruals. Moreover, discretionary revenues are intricately connected to investment choices as the increase in demand for corporate goods is correlated with revenue expansion. Revenue manipulation is the predominant method of earnings management, and it is a major factor contributing to the decrease in the quality of financial reporting.

Composite Index for Measuring Financial Reporting Quality

The composite index for assessing financial reporting quality combines the three aforementioned metrics into a unified scale that represents the level of excellence in financial reporting, with its influence evaluated in terms of the effectiveness of investment choices. The rationale behind consolidating these three measures into a single scale is to mitigate any potential bias that may arise from utilizing each measure individually. The composite index for measuring financial reporting quality is calculated as the standardized average value for each variable among the three previous variables.

Concept of Investor Decisions and the Importance of Accounting Information in Them

Financial reports, as a result of accounting information, aid investors in making decisions on both day-to-day operations and long-term strategies. Financial reports are a customary procedure for all organizations, meticulously produced for the board of directors who oversee accounting information. Furthermore, financial reports must be meticulously crafted and contain extensive transparency, embracing both financial and non-financial information within and beyond the financial statements. Hence, the main objective of financial reports is to furnish dependable information regarding the genuine and current financial status of a business venture, thereby aiding investors in formulating their investment choices (Saleh, Alghusain, 2018: 21) [21].

The Institute of Chartered Accountants in England and Wales (ICAEW) contends that even if corporations offer more general risk information rather than specific company-related information, there are two conflicting assumptions. The first point acknowledges that this generic information can enable investors to make inferences about management' perspectives and priorities. The second argument posits that this kind of information has the potential to mislead investors into forming inaccurate conclusions, such as disregarding undisclosed risks by managers (Elshandidy *et al*., 2022:2) [22].

Accounting information has two crucial functions in market-based economies: firstly, it allows capital providers (Shareholders and creditors) to evaluate the prospective profitability of investment possibilities (the anticipatory or evaluative role of accounting information). Furthermore, accounting information enables capital providers to oversee the utilization of their invested capital after making the commitment, serving as a subsequent or supervisory function of accounting information. Hence, external shareholders require accounting information primarily to address the information asymmetry between capital providers and business operators, which arises due to the valuation problem and the supervision problem caused by the separation of ownership and management. Accounting information, as shown by the quality of financial reporting, plays a substantial role in addressing valuation and oversight challenges in organizations (Beyer *et al*., 2010: 297) [14].

The investment decision is contingent upon the accessibility, significance, and excellence of accounting information. Multiple investment concepts can be differentiated, as outlined by Al-Sayegh and Abdul Majeed (2015, p. 6) [1].

Concept of Investment: It refers to the acquisition or holding of assets or a specific element with the purpose of benefiting from it in generating future income or reselling it at a higher price in the future. Therefore, investment aims to

purchase fixed assets or financial investments such as stocks and bonds.

Investment Decisions: These are capital investment decisions related to acquiring (or disposing of) fixed assets and long-term investments. These decisions are represented in the cash flow statement prepared at the end of the financial year.

Efficiency of Investment Decisions: It refers to companies executing investment projects with a positive net present value (NPV) in the absence of frictions. Frictions refer to constraints and market problems imposed by the nature of financial markets, making it difficult to fully achieve targeted outcomes, involving time, effort, cost, tax burdens, and governmental policies.

The Relationship between Corporate Surplus Disclosure, Financial Reporting Quality, and Investor Decisions

The company's surplus is a crucial factor in accurately displaying the company's true image and reflecting its actual performance. The surplus can be utilized either favorably or negatively, depending on the chosen technique. Regarding the management of this surplus, there are two approaches: the first includes managing the surplus, and the second is exposing the surplus (Which is the topic of the current research). In the initial approach, the manipulation of the company's surplus can be achieved by manipulating profit and return calculation processes or by adopting management practices or accounting options to alter financial reports in order to deceive users of accounting information. Surplus management is dependent on the contradiction between agency theory and information asymmetry, which arises from the separation between management and ownership as well as the secrecy surrounding research and development activities. An examination of business practices in managing surplus is regarded as a method of manipulating profits and distorting accounting data, so undermining the long-term growth of companies. In 2001, Enron engaged in profit manipulation and risk concealment through covert surplus management in order to establish a strong presence in competitive capital markets. This ultimately led to Enron becoming the largest bankruptcy in the history of the United States. Companies prioritize the management of excess by focusing on substantial expenses, particularly those related to costly research and development operations. Companies involved in research and development will be responsible for managing excess resources for actual research and development purposes. Thus, the more firms manage their actual surpluses, the less they will spend on research and development. The corporation will implement a more cautious approach to innovation. Furthermore, when the proportion of ownership rights dedicated to significant shareholders rises, there is an accompanying increase in the extent of excess management, while the availability of funds for research and development investment decreases. Conversely, when the degree of excess management diminishes due to transparency of disclosure and excellent corporate governance, financial risks, agency problems, and funding constraints are minimized. Companies may greatly enhance their innovation habit. The manipulation of information quality can have an impact on the future performance of the company. This manipulation is driven by surplus management, which can be viewed from two perspectives. Firstly, from an agency theory perspective, conflicts of interest between the manager and the principal may cause the management to manipulate the surplus in order to maximize their own interests. The manipulation of expenses by management for profit Managers may be motivated by opportunism, specifically to maximize their personal interests. The greater the actual upward profit management by managers who falsely cut inventive expenses, the lower the profits. In terms of information on innovation, it is widely recognized that innovation serves as the primary driver of a company's competitive advantage. Companies provide stable funding support to foster technological innovation. Research and development expenses refer to the costs that a firm incurs in order to improve its long-term future prospects and increase its overall value. Decreasing investment in research and development will partially erode the company's edge in innovation, so harming its profitability and future market competitiveness. This conduct will deceive stakeholders' decision-making process, consequently impairing the company's performance and investor confidence.

Regarding the second strategy, which is revealing the company's excess funds, it can improve transparency in financial statements and decrease agency expenses and information imbalances. Management that demonstrates greater receptiveness to such information tends to garner higher levels of trust in its policies and practices for efficiently, effectively, and ethically managing the organization. Moreover, revealing the company's excess will augment the caliber of accounting information and so raise the quality of financial reports. Multiple studies have highlighted the significance of increasing transparency regarding the quality of financial reports. For instance, conducted a study to examine the influence of companies' disclosure of comprehensive income on the caliber of financial reports in Egyptian enterprises. A recent study conducted by Jaber *et al.* (2022) [29] discovered that the voluntary disclosure of risks has a positive effect on enhancing the predictability, value relevance, and neutrality of financial reports. Consequently, this leads to an improvement in the overall quality of financial reports for companies listed on the Palestine Stock Exchange. Furthermore, a study conducted by Abu Bakr *et al.* (2017) [44] confirmed that the act of willingly providing information in reports improves the accuracy and reliability of accounting information. This ultimately leads to an enhancement in the substance of financial reports, thereby improving the overall quality of financial reports.

Based on the foregoing, it can be stated that publishing the company's surplus may positively effect boosting the quality of financial reports. Therefore, the first hypothesis might be expressed as follows:

(H_1): The quality of financial reports is significantly affected by exposing the company's surplus.

Furthermore, the disclosure of accounting information can impact investment decisions by altering the imbalance of information between managers and investors (as well as other stakeholders like shareholders and debt holders) in two distinct manners. Financial reporting can enhance

investment decisions by mitigating information asymmetry among managers and investors, as well as among investors themselves. This can help reduce adverse investment costs and thus lower the cost of external capital. Furthermore, accounting information has the potential to impact investment decisions by modifying the expenses associated with ethical concerns that arise from conflicts of interest between different stakeholders inside the organization. Financial reporting can have a dual effect on investment efficiency. On one hand, it can reduce the costs associated with ethical concerns, hence improving investment efficiency. On the other hand, it might provide incentives for managers to prioritize short-term investment decisions, which can decrease investment efficiency (Roychowdhury *et al*., 2019) [20]. In addition, a study conducted by Al-Safadi (2015) [11] found that increasing the amount of information disclosed can greatly assist in justifying investor choices in the business setting of Jordan. This finding aligns with a similar study conducted by Ben Rahmoun (2019) [12] in the Algerian business context.

Based on the above, it can be argued that disclosing the company's surplus may positively impact rationalizing investor decisions. Therefore, the second hypothesis can be formulated as follows.

(H2): There is a statistically significant impact of disclosing the company's surplus on investor decisions.

However, the quality of the financial reports plays a key role in deciding the company's creditability, giving a green signal to the creditors, financial analysts, and investors. Many researches has proved the relationship between investor decisions and financial reporting and its significant role in investors decision-making process, specifically when the quality of financial reports increases investor decision-making. Al-Majid (2015) conducted a study to examine the impact of the quality of financial reports on investment decision-making effectiveness. As well, the study examined what influences this relationship. These factors include bank financing, profit management incentives and liquidity. The data was collected by totally 438 observations from the annual financial statements of 41 non-financial companies listed on the Egyptian Stock Market over the period of 1998-2013. The study found out that higher quality of financial reports was reflected in lower cases of underinvestment and the increase of investment. However, a research study by Biddle et al. (2009) also explores how well the financial reports are prepared and how they affect the quality of the investment decisions.

As the information contained in the quality financial reports can be used to make more logical choices about the investments, it can be concluded that this is the reason to improve the quality of financial statements. Therefore, the third hypothesis can be formulated as follows: Therefore, the third hypothesis can be formulated as follows:

(H3): According to the results, there is a statistically significant relationship between financial report's quality and the decisions of the investors.

Besides this, the critical component of financial reporting includes the improved quality of disclosure, which has far-reaching effects on the business environment and corporate performance. The disclosure standard level is an important factor in the decision making process of stakeholders as they would have more information about the company's past performance, and hence, can forecast the future. It facilitates direct and indirect decisions made by stakeholders on a general level, as well as investors who are directly present. Studies have shown that transparency is influential in the effectiveness of financial statements reporting and as well the individuals who make choices in the financial sector. Al-Tamimi and Al-Nafie in their study of 2022 analyzed the impact of voluntary disclosure on the quality of financial statements and the effects on investors' decision making. The researchers concluded that proactive transparency generates a more qualitative financial reports leading to a positive impact on investors' decisions.

Expanding disclosure can improve the quality of financial reports and enhance investor decisions through the following channels: Expanding disclosure can improve the quality of financial reports and enhance investor decisions through the following channels.

Firstly, by providing more abilities to learn from other sources of information, such as stock market prices and report by analysts, and also by diminishing uncertainty regarding accounting debts.

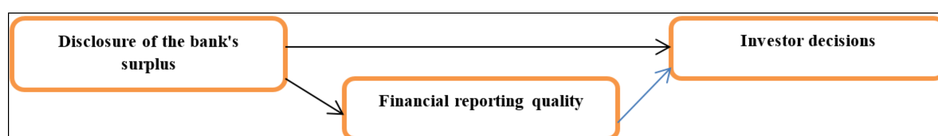
In the process, financial reports might unconsciously determine investments under the influence of market coordination as the latter. Financial reports quality also gets to allocation function of the assets by channeling information about the company as well as reducing uncertainty at what specific level in which investment outcomes that are accepted.

Eventually, the company's reports would, through accounting measurement, change the character of the investment opportunity by affecting its characteristics when they exercise fair value sales or disposal at the end of the fiscal year (Ferracuti et al., 2019).

Based on the above, it can be said that the positive impact of disclosing a company's surplus on investors' decisions can be enhanced by the presence of financial report quality as a mediator. Therefore, the fourth hypothesis is as follows:

(H_4): The impact of disclosing the company's surplus on investors' decisions increases when financial report quality is used as a mediator.

Therefore, the research includes three variables: the independent variable representing the disclosure of the company's surplus, the dependent variable representing investors' decisions, and the mediating variable representing financial report quality. Figure (1) illustrates the research model.



***Source*:** Figure prepared by the researchers

Fig 1: Research Model

Based on the information provided, it can be concluded that there is a notable correlation between the disclosure of business surplus, the quality of financial reporting, and the decisions made by investors. Accounting disclosure of corporate surplus improves the significance of accounting information, thereby directly enhancing the quality of financial reports. Furthermore, this revelation aids in diminishing the imbalance of information and ambiguity, so greatly improving the process of investor decision-making. Financial reporting quality is impacted by disclosure and has an impact on investor decision-making. The inclusion of financial reporting quality as a mediator can strengthen the cause-and-effect relationship between disclosing business surplus and investor decisions.

Methodology of the Research

Data Collection and Sample Determination

The research field centers on the banking sector owing to its significance in fostering local economies and its pertinence to the primary research issue, excess. The research community consists of all the banks that are listed on the Iraq Stock Exchange. The research sample comprises 12 banks that were purposefully selected based on two criteria: firstly, their data availability over the entire ten-year research period from 2012 to 2021 without any gaps, and secondly, the availability of the required data to measure the research variables. Hence, the total number of observations amounted to 12 (year/bank). Table (1) presents the research sample.

Table 1: Research Population and Sample

S	Bank Name	S	Bank Name
1	Iraqi Commercial Bank	7	United Investment Bank
2	Commercial Bank of the Gulf	8	Bank of Baghdad
3	Iraqi Investment Bank	9	Middle East Bank
4	Ashur Investment Bank	10	Mansour Investment Bank
5	Sumer Commercial Bank	11	Iraqi Credit Bank
6	Mosul Investment Bank	12	North Bank for Finance

***Source*:** The table was prepared by the researchers based on (www.isx-iq.).

The researchers utilized the method of content analysis to collect the necessary research data for measuring its variables from the reality of 12 banks, which constituted the research sample, over a period of 10 years from 2012 to 2021 as a specified period within the research sample.

Measurement of Variables

The research variables consist of three types of variables as follows:

1. Independent Variable (Disclosure of Company Surplus): The researchers prepared a checklist based on a study by Yaqub (2019) [46] to identify phrases representing company surplus for measuring the disclosure of company surplus (DCC), as shown in Table (2). The checklist included 30 phrases divided into four axes: the first axis (company strategy for surplus management) includes 11 phrases, the second axis (Financial forecasts of surplus) includes 10 phrases, the third axis (future information about surplus) includes 6 phrases, and finally, the fourth axis (information about current surplus) includes 3 phrases. Content analysis methodology was adopted to capture the information, and the captured information was expressed as a dummy variable taking the value (1) if the information was disclosed in the published financial reports, and (0) otherwise. The disclosure ratio of company surplus (bank) was measured as follows:

Disclosure Ratio of Company Surplus (Bank) = Number of Captured Information / Total Number of Information in the Checklist (30)

The higher the ratio, the higher the level of disclosure of company surplus (bank) within the sample banks.

Table 2: Checklist Model for Phrases of Company Surplus Disclosure

S	Dimensions of Company Surplus Disclosure	The number of terms in each group	The number of vocabulary items.
First	Company Strategy for Surplus Management	Company vision and objectives Company organizational structure Company development plan Management expectations for future business results Executed and future contracts Human resources development Applied accounting policy Future challenges Training courses and employee qualification program Number of securities issued by the company and owned by senior management Continuous company sustainability assurance.	11
Second	Future Financial Predictions of Surplus (Quantitative)	Financial impact of non-recurring operations Financial position and business results analysis Benefits with related parties Net income Future dividend distributions Changes in capital financial investments Research and development expenses	10

		Expected liabilities Financing structure Contingencies and significant events with negative impact on financial position.	
Third	Future Information about Surplus (Descriptive)	Disclosure appears separately in the financial statements. Disclosure is available on the company's marketed website. Information is updated periodically. Educational seminars, social media platforms, and other means encourage disclosure. Governance mechanisms information. Initiating mergers.	6
Fourth	Current Surplus Information	Retained earnings. Reserves. Provisions.	3
Total number of approved terms in the study			30

***Source*:** The table was prepared by the researchers

The second variable: Mediating variable (Financial Reporting Quality - FRQ) was measured using the quality of accruals based on the model by Kothari *et al.* (2005) [38], as in the study by Shuraki *et al.* (2020) [39] and Hanan (2016) [40], following the steps below:

Step 1: Total accruals are calculated using the following model:

$$TA_{it} = NI_{it} - CFO_{it}$$

Where:

TA_{it} = Total accruals for company (i) during period (t)

NI_{it} = Net income for company (i) during period (t)

CFO_{it} = Cash flow from operating activities for company (i) during period (t)

Step 2: Discretionary accruals, which represent part of the total accruals resulting from the normal activities of the company, are calculated by estimating the coefficients (4β, 3β, β1, β2) to calculate discretionary accruals using the following model, which relies on Return on Assets (ROA) as a measure of company performance:

$$TA_{i,t} / A_{i,t-1} = a + \beta 1\ (1/ A_{i,t-1}) + \beta 2\{(\Delta\ REV_{i,t} - \Delta\ REC_{i,t}) / A_{i,t-1}\} + \beta 3\ (PPE_{i,t} / A_{i,t-1}) + \beta 4\ (ROA_{i,t} + E_{i,t}).$$

Through the above model, the coefficients were estimated as shown in Table (3).

Table 3: Estimation of Coefficients

The parameters	α	β1	β2	β3	β4
The values	-0.082	0.000	0.279	0.058	-0.235

***Source*:** The table was prepared by the researchers based on the outputs of the SPSS program.

Next, the values of the slopes in the following model are compensated in order to calculate the non-discretionary accruals:

$$NDAt = \beta 1\ (1/A_{t-1}) + \beta 2\ (\Delta REV_t - \Delta REC_t) + \beta 3\ (PPE_t) + \beta 4\ (ROA_t).$$

In this step, discretionary accruals are calculated, which will determine whether companies have high or low quality financial reports, based on the following model:

$$DA_{i,t} = TA_{i,t} - NDA_{i,t}$$

Therefore, the magnitude of the discretionary accruals (non-routine) is calculated, and subsequently multiplied by (-1) to indicate the reliability of the accruals. A higher value of this parameter corresponds to a higher level of quality in the accruals, and consequently, in the financial reports. On the other hand, a decrease in value indicates a decrease in the quality of accruals and therefore a decrease in the quality of financial reporting.

The dependent variable (ID) representing investor decisions was measured using the Price Earnings Ratio (PER). This ratio is used to evaluate the market price of a stock by predicting its future price movement, making it one of the most important indicators in decision-making. It is calculated using the following equation (Magr, 2019) [41].

$$\text{Price Earnings Ratio (PER)} = \frac{\text{Market Price per Share}}{\text{Earnings per Share (EPS)}}$$

The Price-to-Earnings (P/E) ratio is a metric that quantifies the number of times the earnings per share (EPS) can sufficiently cover the stock price or the earnings yield. It is widely recognized that when the stock price rises but earnings stay constant, the P/E ratio increases, and conversely. Similarly, in the event that the earnings per share (EPS) declines but the stock price remains unchanged, the price-to-earnings (P/E) ratio will increase, and vice versa. A commonly accepted notion is that when the P/E ratio declines in comparison to another P/E ratio, it signifies a fall in earnings per share relative to the stock price.

The profitability multiplier is a metric that quantifies the number of times the stated profit has to be earned in order to recoup the investment in the stock or the stock price. It is a recognized fact that as the stock price rises with consistent earnings, the multiplier also grows, and conversely. In the same vein, when the profit per share declines but the price remains constant, the multiplier rises, and conversely. If the profitability multiplier lowers in comparison to another profitability multiplier, it is widely accepted.

The Research Model

The statistical analysis of the research sample involved calculating the means, standard deviations, and correlation coefficients for the variables. The research hypotheses were examined by the application of Ordinary Least Squares (OLS) regression analysis and structural equations, employing statistical tools such as SPSS Ver.22 and AMOS Ver.20. Based on the four hypotheses of the study, four

equations were formulated as follows:

Equation 1: ID t,i = β01 + β1 DCC t,i + ε

Equation 2: FRQ t,i = β02 + β2 DCC t,i + ε

Equation 3: ID t,i = β03 + β3 FRQ t,i + ε

Equation 4: ID t,i = β04 + β4 DCC t,i + β5 (β02 + β2 DCC t,i) + ε

Where $\text{DCC}_{t,i}$ represents the disclosure of bank surplus for year t and bank i, $\text{ID}_{t,i}$ refers to investor decisions, and $\text{FRQ}_{t,i}$ denotes the quality of financial reports. β indicates regression coefficients, and ε represents the error term in the regression equation.

Research Results

Descriptive Analysis Results

Table (4) presents the descriptive statistics of the three research variables for the sample banks, expressed as the mean over ten years for each bank. The mean was calculated using the statistical software (SPSS Ver. 22), as was the case for the subsequent statistical analysis in the research.

Table 4: Description of Research Variables by Sample Banks

S	"The bank"	Disclosure of Company Surplus (DCC)	Financial Report Quality (FRQ)	Investor Decisions (ID)
1	The Iraqi Commercial Bank	0.743	-0.063	10.242
2	Gulf Commercial Bank	0.750	-0.055	11.391
3	Iraqi Investment Bank	0.763	-0.049	13.672
4	Assur Investment Bank	0.770	-0.066	12.348
5	Sumer Commercial Bank	0.757	-0.032	17.939
6	Mosul Investment Bank	0.753	-0.067	12.263
7	United Investment Bank	0.757	-0.031	8.093
8	Baghdad Bank	0.750	-0.077	13.502
9	Middle East Bank	0.747	-0.043	17.714
10	Mansour Investment Bank	0.753	-0.078	16.673
11	Iraqi Credit Bank	0.747	-0.065	20.499
12	Northern Finance Bank	0.763	-0.080	12.558

The table was prepared by the researchers using the statistical software (SPSS)

Table (4) shows a consistent disclosure ratio of roughly 75% across the twelve sampled banks, with values ranging from 77% to 74.3%. This is the average value for these banks for a 10-year period from 2012 to 2021, as analyzed in the research sample. Assyria Bank had the greatest average disclosure ratio of 77%, but Iraqi Commercial Bank had the lowest average percentage of 74.3%. Based on the prior findings, the extent of surplus disclosure is moderately satisfactory. Financial reports for all banks improved, with United Bank having the best quality and North Bank having the lowest quality within the sample. Credit Bank excelled in justifying investor decisions and enticing investors, achieving the maximum level, whilst United Bank had the lowest level.

Table (5) presents the descriptive analysis of the three research variables based on the total sample.

Table 5: Descriptive Analysis of the Three Research Variables

The type of variable	The variable	The symbol	The arithmetic mean	Standard deviation	Minimum Value	Maximum Value	Coefficient of Variation	Skewness
The independent	Surplus Disclosure	DCC	0.755	0.088	0.667	0.900	11.6%	0.738
The intermediary	Financial Report Quality	FRQ	-0.058	0.061	-0.435	-0.001	-103.9%	-0.345
The dependent	Investor Decisions	ID	13.908	6.883	1.410	28.273	49.5%	0.383

The table was prepared by the researchers using statistical software (SPSS)

Table (5) shows a satisfactory amount of bank surplus disclosure, averaging at 75.5%. The minimum score recorded was 66.7%, showing that all banks maintained satisfactory levels of bank surplus disclosure at their lowest positions. Moreover, there is uniformity and little fluctuation in the data about bank excess disclosure, indicated by the reduction in standard deviation and coefficient of variation, which were significantly lower than the typical value of 50%. This outcome suggests that it is feasible to apply the average value broadly, demonstrating a satisfactory degree of transparency throughout the whole sample.

Additionally, the mean indicates a reasonably high degree of financial report quality, implying an improvement in the quality of responsibilities. Some observations showed very low values for financial report quality, with the lowest value being -0.435. This indicates significant variation in the observations, as supported by the large standard deviation and the coefficient of variation above the usual value of 50%. There is a notable variation in the data on financial report quality among the banks in the study, preventing the generalization of the mean result that showed a high level of financial report quality across all banks in the sample.

Furthermore, the mean of investor decisions suggests a high level of rationality in decision-making, which can be applied to the entire sample because of the consistency and low variability in the observations. This is supported by the decrease in standard deviation and coefficient of variation from the standard 50% value. This suggests the potential to use the mean value as a representation of the complete sample.

Data Normality Test: Researchers used the skewness coefficient value to determine the normality of data distribution and define statistical approaches as parametric or non-parametric for hypothesis testing in research. A

skewness coefficient between +1 and -1 indicates that the data is normally distributed. The estimated skewness coefficient in Table (5) is within the expected range. The data for the three variables in this study exhibit a normal distribution, enabling the use of parametric statistical methods and tools for assessing the research hypotheses.

Testing the Relationship between Variables

Prior to creating regression equations to test the research hypotheses, the association between the three research variables was examined using the Pearson correlation coefficient, as displayed in Table 6. This aids in establishing a basic comprehension of the nature of the relationship between these variables.

Table 6: Pearson Correlation Coefficients between the Three Research Variables

Variable Type	The Variable		Financial Report Quality (FRQ)	Investor Decisions (ID)
The independent	Surplus Disclosure (DCC)	Pearson	0.459**	0.361**
		Sig.	0.000	0.000
The dependent	Investor Decisions (ID)	Pearson	0.405**	1
		Sig.	0.000	

(*) Significant at the 5% significance level, (**) Significant at the 1% significance level

***Source*:** The table was prepared by the researchers using statistical software (SPSS).

Table (6) demonstrates a notable positive link between bank excess disclosure and financial reporting quality as well as investor decisions. An increase in bank excess disclosure level is associated with higher financial reporting quality and more rational investor decisions. The results are consistent with previous studies that explored research areas directly connected to the current study's focus. Both Jabr *et al*. (2022) [47] and Abu Bakr *et al*. (2017) [44] found a notable positive correlation between disclosure expansion and financial reporting quality. The study conducted by Al-Tamimi and Al-Nafaei (2022) [31] confirmed a notable positive correlation among disclosure expansion, financial reporting quality, and investor decisions. The current results contrast with those from prior investigations. Al-Faddawi (2023) [3] discovered a negative correlation between disclosure growth and financial reporting quality in Egyptian enterprises. Al-Faddawi's study concentrated on income-related disclosure expansion, but the current research prioritized bank surplus, which could explain the variance in results. Table (5) shows a notable positive association between financial reporting quality and investor decisions, implying that improving financial reporting quality will lead to more rational investment decisions. This discovery aligns with a study conducted by Al-Majid (2015) [45], which validated a notable positive correlation between financial reporting quality and investor choices in companies listed on the Egyptian Stock Exchange.

The Total Effects Hypotheses Test

The paragraph includes three hypotheses as follows

(H1). There is a statistically significant effect of bank surplus disclosure on financial reporting quality.

To test this hypothesis, a simple linear regression equation was prepared to estimate financial reporting quality as a function of bank surplus disclosure, aiming to determine the extent of the latter's impact on financial reporting quality. Table (7) displays the results of this effect.

Table 7: Results of the Impact Test of Bank Surplus Disclosure on Financial Reporting Quality

The variables	R^2	Adjusted R^2	F	Sig.
Disclosure of Bank Surplus	0.211	0.204	31.545	0.000
	The constant factor (0β)	The Beta Regression Coefficient (β)	T	Sig.
	-0.299	0.319	5.616	0.000

***Source*:** The table was prepared by the researchers based on SPSS software.

The regression model's stability is confirmed by an F-value of 31.545 at a significance level of 5%, suggesting the potential to predict the quality of financial reports by revealing the bank excess. Moreover, a T-value of 5.616 at a 5% significance level demonstrates the impact's significance, and a positive Beta value (β) of 0.319 signifies the impact's positivity. An elevated level of transparency of the bank excess will result in an enhanced quality of financial reports in the selected banks. The coefficient of determination (R2) value of 0.211 suggests that revealing the bank surplus accounts for 21.1% of the variability in financial report quality. Hence, the initial supposition is confirmed. The results are consistent with studies conducted by Jabr *et al*. (2022) [47], Abubakar *et al*. (2017) [30], and Altamimi & Al-Nafie (2022) [31], which shown a notable favorable influence of disclosure expansion on the quality of financial reports in different Arab settings.

(H_2): There is a statistically significant effect of disclosing bank surplus on investors' decisions.

To test this hypothesis, a simple linear regression equation was prepared to estimate investors' decisions based on the disclosure of bank surplus, aiming to determine the extent of the latter's impact on investors' decisions. Table (8) presents the results of this impact.

Table 8: Results of the test on the impact of disclosing bank surplus on investors' decisions

The variables	R^2	Adjusted R^2	F	Sig.
Disclosure of bank surplus	0.131	0.123	17.726	0.000
	The constant coefficient (0β)	The Beta regression coefficient (β)	T	Sig.
	-7.453	28.312	4.210	0.000

***Source*:** The table was prepared by the researchers based on SPSS software.

Table (8) shows that the regression model is stable with an F-value of 17.726 at a 5% significance level, suggesting the potential to predict investors' decisions using information on bank excess. The T-value of 4.210 at a 5% significance level indicates the impact's importance, while the positive Beta value (β) of 28.312 represents the impact's positivity. An elevated level of disclosure of bank surplus will result in a heightened rationalization of investors' actions in the selected banks. The coefficient of determination (R2) of 0.131 suggests that revealing the bank surplus accounts for 13.1% of the variability in investors' decisions. Hence, the second hypothesis is confirmed. The results align with a study conducted by Altamimi & Al-Nafie (2022) [31], which revealed a notable favorable influence of transparency expansion on investors' choices in different Arab settings.

(H_3): There is a statistically significant effect of financial report quality on investors' decisions

To test this hypothesis, a simple linear regression equation was prepared to estimate investors' decisions based on financial report quality, aiming to determine the extent of the latter's impact on investors' decisions. Table (9) presents the results of this impact.

Table 9: Results of the test on the impact of financial report quality on investors' decisions

The variables	R^2	Adjusted R^2	F	Sig.
Financial report quality	0.164	0.157	23.198	0.000
	The constant coefficient (0β)	The Beta regression coefficient (β)	T	Sig.
	16.594	45.715	4.816	0.000

***Source*:** The table was prepared by the researchers based on SPSS software

The regression model's stability is confirmed by an F-value of 23.198 at a 5% significance level, suggesting the potential to predict investors' decisions using financial report quality. Moreover, the T-value of 4.816 at a 5% significance level indicates the impact's importance, and the positive Beta value (β) of 45.715 indicates the impact's positivity. An improvement in the financial report quality will result in a higher level of rationality in investors' selections inside the selected banks. The coefficient of determination (R2) of 0.164 suggests that financial report quality accounts for 16.4% of the variability in investors' decisions. Hence, the third hypothesis is confirmed. The results are consistent with a study conducted by Altamimi & Al-Nafie (2022) [31] and Al-Majid (2015) [45], which identified a substantial beneficial influence of financial report quality on investors' choices in different Arab settings.

Testing hypotheses of direct effects

Paragraph (H_4) included a single sentence as follows

(H_4): The impact of disclosing bank surplus on investors' decisions increases when mediating financial report quality.

Statistical software (AMOS: Ver. 20) was used to measure these direct and indirect effects between disclosing bank surplus and investors' decisions. To determine the significance level of the direct and indirect relationships between these variables, the Maximum Likelihood method was employed. The significance of the model was confirmed, as shown in the following Table (10).

Table 10: Indicators of Ethical Model for Direct Impact Relationships between Bank Surplus Disclosure and Investor Decisions.

Indicator	Benchmark	Calculated value
Statistical Significance of X2 (p-value)	< 0.05	0.000
Goodness of Fit Index (GFI)	>0,90	1.000
Square Root of Mean Residuals (RMR)	< 0,06	0.000
Comparative Fit Index (CFI)	> 0.90	1.000

***Source*:** The table was prepared by the researchers using the (AMOS) software

The table (10) indicates a decrease in the values of both CFI and the square root of the mean square residuals (which reached zero), indicating an increase in the strength and significance of the model. The results also show an increase in the value of the Goodness of Fit Index (GFI) above the minimum threshold (0.90), reaching (1). Additionally, the results indicate an increase in the Comparative Fit Index (CFI) above the minimum threshold (0.90), reaching (1), suggesting that the indices surpassed the specified standards. This confirms an elevated quality of the model.

Here is a presentation of the statistical analysis results for testing this hypothesis, according to the proposed model for direct and indirect impact relationships between bank surplus disclosure and investor decisions. Table (11) illustrates the results of these relationships when controlling for financial report quality.

Table 11: Results of the Analysis of Direct and Indirect Effects of Bank Surplus Disclosure on Investor Decisions when Controlling for Financial Report Quality.

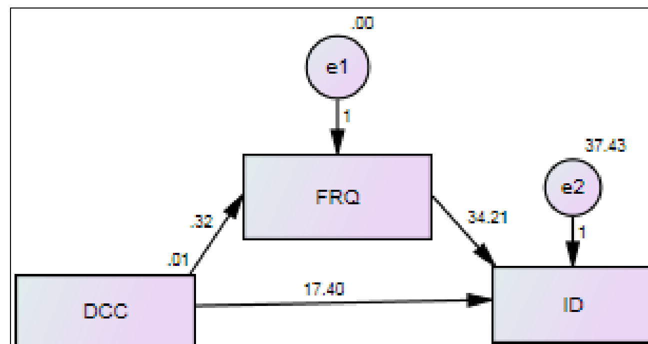
The Variable			The value of the direct path coefficient	The value of the indirect path coefficient	The value of the total path coefficient
The Independent Variable	**The Mediator**	**The Dependent Variable**			
Bank Surplus Disclosure (DCC)	Financial Report Quality (FRQ)	Investor Decisions (ID)	17.398**	10.914**	28.312**

**: It means that the correlation is statistically significant at (0.01) level.

***Source*:** The table was prepared by the researchers using the (AMOS) software.

An analysis of Table (11) shows a rise in the beneficial and statistically significant influence of disclosing bank surplus on streamlining investor decisions, while accounting for financial report accuracy. The increase value is 10.914, indicating the indirect effect and proving the correctness of the fourth main hypothesis.

Put simply, the effect of revealing excess funds by banks on improving investor choices rises by 10.914 when considering the quality of financial reports. Figure (2) depicts the direct and indirect impact model of bank surplus disclosure on rationalizing investor decisions while accounting for financial report quality.



***Source*:** The figure was prepared by the researchers using the (AMOS) software.

Fig 2: Direct and Indirect Impact Model of Bank Surplus Disclosure on Rationalizing Investor Decisions when Controlling for Financial Report Quality

Conclusion

The company's surplus statistic significantly influences the overall perceptions of the company's performance. Surplus management might inaccurately portray the organization's performance. Furthermore, revealing this excess can provide the company with a notable edge in transparency, so presenting stakeholders with a more precise view of the company's performance. Academic and commercial circles are very interested in expanding transparency to offer a more transparent view of the company's performance. Investor decisions and stakeholders are heavily influenced by the level of disclosure, which plays a vital role in minimizing information asymmetry.

The details on the company's excess, how it is now being used, and its future deployment plans are crucial to be included in this extended disclosure scope. Expanding disclosure is crucial as it has been shown in various studies to improve the quality of accounting information, particularly its relevance. The descriptive analysis of the research data shows that there is a satisfactory degree of excess disclosure in the banks sampled. On average, around 75% of the stipulated information is being disclosed, which serves as a standard for this type of disclosure. The results show a high level of financial report quality, but there is considerable heterogeneity within observations, which limits the ability to apply this level to the full sample.

Furthermore, the decisions of investors interacting with banks in the research sample exhibit a high level of rationalization. The research findings show a significant positive correlation among the three variables studied. Specifically, the disclosure of bank surplus is positively associated with the quality of financial reports, which in turn is correlated with investor decisions. The link between the disclosure of the bank surplus and investor decisions is positive. Expanding the disclosure of bank surplus is positively correlated with higher financial report quality and more rational investor decisions.

The financial report quality variable is both influenced by and influences the current research model. It positively influences investor decisions and is also positively affected by the disclosure of the bank excess. It amplifies the extent and intensity of the effect of revealing the bank surplus on investor choices, serving as a mediator in this impact. This job indirectly helps rationalize investor decisions by revealing the bank's surplus.

The regulatory committees of the Iraqi Stock Exchange should compel all registered banks and firms to report their surpluses based on the findings and consequences. The company's surplus plays a crucial role in influencing the perceived image of the organization among stakeholders and investors. Creating strong and reliable systems to provide top-notch financial reporting for all stakeholders necessitates active involvement from the regulatory bodies of the Iraqi Stock Exchange. This refers to the entities in charge of formulating local accounting rules and guidelines for creating and monitoring financial reporting in Iraqi businesses.

Providing training courses for accountants helps them stay updated on the latest releases and changes regarding financial report preparation standards and disclosure of essential information, ensuring high-quality information for decision-makers. Conducting academic workshops and seminars for professionals and investors promotes a culture of evaluating the quality of provided information, methods to enhance its quality, and ways to leverage it.

The study also includes limits that can offer valuable feedback for future research, serving as a foundation for their studies. The research has a limited emphasis on the banking industry in Iraq and does not take into account other sectors. The study focused on a limited sample of 12 banks over 10 years, reducing the ability to generalize the research findings broadly. Future research could overcome these constraints by include the same variables and examining connections across various sectors and greater sample sizes.

The study utilized informational content analysis to gather data for measuring the research variables. Using only one agent for each variable limited the ability to represent the variables comprehensively, leading to a diminished representation and measurement of the variables. Future studies could enhance this by using numerous agents to represent diverse measurements.
The study focused on three specific variables, potentially disregarding other factors that could impact the link between these variables. Future research could investigate how corporate surplus disclosure affects variables like company performance, valuation, and profitability. Furthermore, it is feasible to include control, intermediary, or interaction factors in the relationship between the variables. The variables encompass corporate governance, internal and external mechanisms, company characteristics, accounting practices such as accounting hedging and conservatism, International Financial Reporting Standards (IFRSs), corporate culture, and other pertinent variables.

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