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The Effect of R&D Tax Credit on R&D Spending and Operating Performance: A Life Cycle Analysis

Picheng Lee, Pace University;
Shuling Chian, Soochow University;
Asokan Anandarajan, New Jersey Institute of Technology

Abstract

When firms nowadays are facing global economic slowdown, this research revisits a timing issue if R&D tax credit can be used to promote further R&D investment and enhance the operating performance. Prior literature provides mixed findings that R&D tax credit stimulates investment in R&D. We attempt to reconcile such mixed findings by examining how the stage of a company's life cycle moderates the association between R&D tax credit, R&D spending and operating performance. Our findings indicate that R&D tax credit has greater impact on R&D spending when the firm is in the stagnant stage and has least impact when the firm is in the growth stage. In addition, the influence of R&D tax credit on a firm's operating performance is less pronounced when the firm is in the growth stage and most pronounced when the firm is in the stagnant stage.

Deferred Revenues and the Matching of Revenues and Expenses

Nishi Sinha, Boston University; Rachna Prakash, College of William and Mary

Abstract: Revenue deferrals, as required by SOP 97-2 and SAB 101, have led to much debate among regulators, academics, practitioners and users of financial statements. This study provides evidence that revenue deferrals exacerbate the mismatch between revenues and expenses, making it more difficult to forecast future profit margins for firms that defer revenue. Consequently, market prices do not fully incorporate the future-performance implications of changes in the deferred revenue liability, which makes it possible to exploit this information to earn significant future abnormal returns.

Should Unrealized Holding Gains Or Losses For Investments Be Part Of Net Income? Arguments For Changing The Standards

Ramesh Narasimhan, Montclair State University;
Schifei Chung, Rowan University

ABSTRACT

Some of the blame for the current financial crisis in the U.S. has been attributed to the use of fair values in accounting for investments. In this paper we examine the current accounting rules for investments and argue that the standards need to be altered. Recognizing the unrealized holding gains or losses for investments in the net income at the end of the accounting period creates volatility in the reported income. This results in lowering the predictive ability of income and also gives incentives to the managers to manipulate reported earnings by not properly classifying investments or mismanaging the investment portfolios, both to the detriment of the investors.

Legal Consequences of Management of Specific Accruals: Evidence from Equity Offerings

Salma Ibrahim, Morgan State University;
Li Xu, Southern Illinois University at Carbondale

Abstract

This paper examines whether the likelihood of being sued is different when different specific accruals are used to manage earnings in the setting of equity offerings. Based on 505 initial public offerings (hereafter IPOs) and 1,415 seasoned equity offerings (hereafter SEOs) between 1988 and 2006, we focus on six types of specific accruals: accounts receivable, inventory, accounts payable, other working capital accruals, depreciation expense, and special items. We document the presence of earnings management in equity offering settings, and find that among firms that are ultimately sued under class action litigation after equity offerings, there is prevalence of accounts receivable manipulation. The association is more pronounced since the enactment of the Private Securities Litigation Reform Act enacted in December 1995 (PSLRA). Our interpretation of these findings is that manipulation of the accounts receivable accrual, which is mostly associated with revenue manipulation, is more likely to result in litigation.

Impact Of Economic Change On The Value-Relevance Of Nonfinancial And Financial Airline Performance Measures

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Amy Scott, DeSales University

1. Introduction

Professional and academic literatures argue that financial performance measures (FPM's) such as net income have declined in relevance over time. Most fundamentally, this believed decline is driven by the historical nature of financial accounting information. Because FPMs measure prior period results, they only can be indicative of future results when the future is similar to the past (AICPA Special Committee on Financial Reporting, 1994). Hence, the relevance of FPMs is argued to be "directly [and negatively] associated with economic changes, such as those driven by competition, deregulation and globalization." (Lev and Zarowin, 1999). Because the rate of economic change has increased steadily over the past century, it follows that the relevance of FPMs has been decreasing. Exacerbating this decline in relevance are challenges in measuring FPMs. For example, poor matching of revenues and expenses results when restructuring and other costs associated with change are recognized immediately by the accounting system, while benefits from such expenditures are not recognized until the distant future (Lev and Zarowin, 1999).

Consistent with criticisms of FPMs, Lev and Zarowin (1999) find that the relationship between earnings and both stock market returns and prices weakened over the period 1977-1996. Collins et al. (1997) also find that the relationship between earnings and market prices has weakened over time. It is possible, however, that factors other than economic change explain these results. An increase in the relative importance of nonfinancial performance measures (NPMs), for instance, might have reduced the strength of the earnings/return relationship – even if earnings have retained their usefulness on a stand-alone basis (Lev and Zarowin, 1999). Additionally, changes in accounting standards over time may have reduced the relevance of FPMs (Collins et al., 1997).

The first section of this paper seeks to rule out the previously unexamined alternative explanations for the decline in earnings relevance in the specific setting of the airline industry – an industry that has experienced distinct periods of change and relative stability over its history,

including periods of *decreased* change such as the period beginning with the extreme changes brought on by the Airline Deregulation Act of 1978 and the period subsequent to the September 11, 2001 terrorist attacks. Consistent with economic change as the catalyst for decreased FPM relevance, we hypothesize that airline earnings have decreased in relevance during periods of increased change. Furthermore, we argue airline earnings have *increased* in relevance during periods of increased stability - despite the increased public availability of airline (NPMs) during those periods and despite those changes in GAAP which have affected all industries. Additionally, consistent with the arguments of Lev and Zarowin (1999), we seek to provide evidence that economic change results in smaller average firm size and increased incidence of reported net losses. Finally, we examine the relationship between accounting book values and market returns over time, in hopes of shedding more light on the discrepancy in the findings of Lev and Zarowin and Collins et al.

Increasing the Transparency and Information Content of Financial Statements Using Sparklines

Daniel Tinkelman, Hofstra University

Abstract

Traditional balance sheets and income statements are standardized tables, containing labels and a limited number of annual figures. By embedding small graphical elements ("sparklines") in the financial statements, companies can disclose monthly, semimonthly, or even more frequent data, greatly increasing the amount of information available to users. The usefulness of sparklines is demonstrated through four illustrative company examples.

The State Of State Taxation of Telecommuters

C. Andrew Lafond, Philadelphia University

Introduction

Telecommuting, also referred to as teleworking, is generally defined as work at a remote location or home office rather than working at a fixed employer provided site. In today's economy, teleworking is becoming more and more commonplace, but it is not a recent phenomenon. In January 1998, the North Eastern States Tax Officials Association (NESTOA),

an organization whose members include Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont, issued a report titled Telecommuting & Allocation of Income – Looking Into the Future. This report cited the growing incidence of telecommuting and defined the two commonly used methods of allocating the income of a telecommuter as well as proposed that these states adopt a uniform method of allocating the income of a telecommuter. In July 2001, the United States General Accounting Office (GAO) submitted a study titled Telecommuting: Overview of Potential Barriers Facing Employers to the House of Representatives. So while the concept and use of telecommuting has been with us for some time, its visibility and prominence has increased markedly in recent years for many reasons, including:

1. Evolving technologies that have allowed employers to reduce overhead costs by either permitting or mandating telecommuting.

2. Telecommuting provides employees with more flexibility in balancing work and family considerations, allowing employers to maintain a happier workforce (with the attendant benefit of higher employee retention).

3. The expense to the employee, and in cases where such costs are subsidized, to the employer, of physically commuting to an office or other worksite have risen significantly because of higher energy costs.

But telecommuting has also received recent attention for reasons unrelated to its perceived benefits in *Huckaby v. New York State Division of Tax Appeals, 04-1734* and *Zelinsky v. New York State Tax Appeals Tribunal*. Uncertainties about the application of current state tax laws to interstate telecommuting, combined with the states' need to address revenue shortfalls, have created a tax climate that works as a potential barrier to the implementation of telecommuting programs by employers and the use of such programs by employees.

What to do about College Education: Understanding the Education Credits and the Tuition and Fees Deduction.

Joan Hollister, State University of NY at New Paltz;
Donald Furman, State University of NY at New Paltz

Introduction

The purpose of this paper is to analyze the relative advantages of the Hope Scholarship Tax Credit (HSTC, § 25A), the Lifetime Learning Tax Credit (LLTC (§ 25A) credit and the above-the-line deduction for tuition and related expenses (§ 222). The paper will examine the potential contribution of these three tax incentives towards the financing of a four-year college education and explore which categories of taxpayers may benefit from this legislation. It will also discuss how these aspects of governmental tax legislation impact the affordability of four-year higher education for families in the United States.

One of the biggest financial challenges that parents face today is providing a college education for their children. Considering the costs associated with raising children throughout primary and secondary school, providing a home for them, all while trying to save for retirement, putting funds aside for their children's' higher education is often placed on the back burner. When confronted with the reality of the costs associated with a four-year college education, many parents find them almost insurmountable.

According to the College Board's *Trends in College Pricing 2008*, average tuition, fees, room and board (TFRB) for the 2008-2009 academic year for a private four-year college is $34,132 per year and for a public four-year college is $14,333 per year. For some geographic regions of the US these costs are significantly greater. In New England TFRB averages $42,381 per year at a private four-year college and $17,045 per year at a public four-year college (College Board, 2008). The College Board states that an average full-time student at a private four-year college receives approximately $10,200 of grants and tax benefits and one at a four-year public college receives $3,700 (CollegeBoard, 2008). Thus, for the typical student, once grants and tax benefits are taken into account, the out-of-pocket TFRB for a four-year private college would be $29,932 ($32,181 in New England) and the out-of-pocket TFRB for a four-year public college would be $10,633 ($13,345 in New England) (CollegeBoard, 2008).

Given the US median household income of $50,233 in 2007 (Current Pay Survey, Annual

Social and Economic Supplement, 2008) most families will not have current income to pay the out-of-pocket TFRB for their children. The situation is particularly dire for families with more than one student enrolled in college at the same time. Although, ideally saving for children's college education should be done in advance, the competing costs of raising children and funding retirement plans make saving for college education difficult, if not impossible, for many families.

Recognizing that education is vital to sustain our economy, over the past several decades, the US federal government has enacted legislation designed to help parents finance the cost of their children's college education. It has provided various subsidized loans, grants, and tax incentives. In doing so it has created an "education tax maze" which many families find more confusing than helpful (Kalafat, 2005).

Two-Part Analysis Required for Student Exemption from FICA

Laura Lee Mannino, St. John's University

Abstract

The Seventh Circuit Court of Appeals recently joined the Eleventh Circuit in holding medical residents may be considered students for purposes of FICA. The Eleventh Circuit case, United States v. Mount Sinai, finished its long run through the court system in July 2008 when the district court held on remand that Mount Sinai is a school and its medical residents are students, thus ending the question of whether the medical residents qualified for an exemption from FICA for students which is outlined in the Internal Revenue Code (Code). Specifically, Code section 3121(b)(10) exempts from FICA any "service[s] performed in the employ of . . . a school, college, or university. . . if such service is performed by a student who is enrolled and regularly attending classes at such school, college, or university."

The question of whether medical residents qualify for the so-called "student exception" has been litigated before, and courts have not always agreed on the proper analysis. In 1964, the Sixth Circuit held that medical residents were not exempt from FICA. However, in 1998 the Eighth Circuit held that medical residents are students, and are therefore exempt from FICA. When the same question was brought to the Eleventh Circuit, the court found both approaches to be inappropriate. Instead, the Eleventh Circuit adopted a case-by-case approach, finding that the student exemption should apply only in situations where a hospital qualifies as a "school,

college, or university," and where its medical residents qualify as "students," as those terms are used in the Code. The Eleventh Circuit remanded the case to the district court to make such determinations.

Mount Sinai Medical Center of Florida, Inc. (Mount Sinai), a private not-for-profit hospital located in Miami Beach, is one of the six "teaching hospitals" located in Florida. Based on the specific facts and circumstances, the federal district court held that Mount Sinai is a school, and its medical residents are students. Having satisfied the two-prong test outlined by the Eleventh Circuit, the stipends paid to medical residents were not subject to FICA and Mount Sinai was entitled to a refund.

Cheating and Whistle Blowing In Academia: The Effect Of Social Desirability Response Bias

Richard A. Bernardi, Roger Williams University;

Caitlin A. Banzhoff, Roger Williams University;

Abigail M. Martino, Roger Williams University;

Katelyn J. Savasta, Roger Williams University

Abstract

This study surveyed 61 business students and 47 non-business students on various aspects of honesty in academics. The results of the study will be used to evaluate students' opinions of cheating, and the percentage of students who have or would whistle blow if they observe cheating. Also, the study will show if different characteristics such as age, gender, major, or whether or not the student is a business major will affect their honesty or their stance on cheating. To analyze this, our survey uses three scenarios to judge academic honesty from Bernardi et al. (2004). We also use a variety of questions from prior research on cheating. Our data extend and confirm prior research on cheating and social desirability response bias. However, our research does not find a significant difference in the level of potential whistle blowing between students who have and have not cheated in college. This result is disappointing in light of the crisis of credibility currently facing the financial markets and prior research indicating that behavior with respect to cheating in college carries over into the workplace.

An Examination of Anticipatory Socialization and Professional Commitment: An Analysis of Diversity among Accounting Students

Satina V. Williams, Marist College;
Carol Cox, Middle Tennessee State University

ABSTRACT

Professional commitment and socialization are important factors in determining whether accounting professionals will remain in the profession and whether they will adopt the values and beliefs of the profession. Socialization and professional commitment are related to organizational commitment and professional commitment is related to turnover and turnover intentions. Therefore socialization and professional commitment are not only important for the profession but also for organizations employing accounting professionals.

Minority turnover in the accounting profession gives us cause for concern. When minority accounting professionals leave the profession and leave or intend to leave the organization, the likelihood of fulfilling the goal of diversity in the accounting profession decreases. The changing demographics in the U.S. render diversity an important issue when investigating attitudes and beliefs of the workforce. Generally, we expect personnel in an organization or members of a profession to reflect the population where they are located. Interestingly, diversity in the accounting profession continues to lag behind the racial and ethnic composition of the U.S. population.

This study examines the attitudes of accounting students before they enter the accounting profession (anticipatory socialization) and investigates whether measured differences can enlighten us to why minorities leave the profession. We measured auditing students' anticipatory socialization and professional commitment; however, the results did not show significant differences in the relationship between anticipatory socialization and professional commitment when taking ethnicity into consideration. Other attributes were also analyzed. In addition to affective professional commitment (measured in this study), future research should consider using other dimensions of professional commitment.

Factors Influencing Auditors' Ethical Judgments and Intentions: A Proposed Model and Study to Investigation of the Influence of Cognition, Moral Philosophy and Locus of Control

Howard Buchan, SUNY College at Oneonta

INTRODUCTION

Ethics research in the accounting domain is a relatively recent phenomenon. The most widely explored paradigm is based on Kohlberg's (1969) stage theory of moral development. According to the theory individuals progress sequentially through a three level hierarchy; each level is divided into two stages. A number of studies have investigated the levels of moral reasoning of both accounting students and practitioners. Generally, the levels of these groups are found to be lower than those of other referent groups. Thus, scholars have suggested appropriate intervention to raise levels of moral reasoning.

A limited number of accounting studies have investigated the relationship between level of moral reasoning and behavior; however, they are relatively narrow in scope. Certain authors suggest that Kohlberg's theory does not provide an adequate explanation of behavior. For example, Trevino (1986) proposed an interactionist model which uses cognitive moral development as its framework, but also incorporates certain personality traits, organization culture and other contextual variables. Empirical testing of the model has been limited. However, a recent study by Tsui and Gul (1996) investigated the relationship between locus of control, a personality factor suggested by Trevino (1986), and moral reasoning in an audit conflict situation.

Cohen, Pant and Sharp (1993, 1995, 1996) have also considered other factors that may influence the ethical decision making process. They used the Multidimensional Ethics Scale (MES) developed by Reidebach and Robin (1990) to investigate the influence of moral philosophy in making ethical judgments. Rest's model (1986), which identifies the components of the ethical decision making process, served as the framework for their studies.

Louwers et al's. (1997), in their extensive review of the literature examining accountants' behavior provide the following guidance:

> "One of the salient issues still confronting behavioral accounting researchers exploring the ethical dimensions of the accounting profession concerns whether to

continue to expand and unify conflicting theories and measures within Rest's (1986) four-component ethical decision framework…….thus future research must continue to progress along two dimensions: (1) The continued integration of different cognitive models within Rest's (1986) ethical decision-making model and (2) the development of a model specific to the accounting profession." (p.)

In their review of the general business ethics literature, Ford and Richardson (1994) suggest that further study of personality traits with reliable and validated measures offers an excellent opportunity to expand our knowledge of the decision process.

The purpose of this study is to follow the suggestions of Trevino (1986), Louwers et al. (1997) and Ford and Richardson (1994) and investigate the relationship between cognitive moral development and moral philosophy in forming ethical judgments, and the potential moderating effect of locus of control in determining behavioral intentions. Rest's (1986) model of ethical decision making has been widely adopted in general business ethics research and will serve as the framework for this study. Certainly this study will further elaborate the model and identify the relationships within the nomological network.

An Exploratory Comparison of the Propensity to Whistle-Blow: the United States and Taiwan/China

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Dennis Hwang, Bloomsburg University of Pennsylvania;

Yan Chen, Dongbei University of Finance and Economics;

Teng- Shih Wang, Feng Chia University;

Yafang Tsai, Chung Shan Medical University

Abstract

Using an instrument developed by the authors, we survey accountants in the U.S. and accountants and accounting students in Taiwan and China on their propensity to blow the whistle. In general, we find that a) U.S. accountants respond more positively to items that may encourage whistle-blowing, b) Taiwanese/Chinese accountants respond more positively to items that may discourage whistle-blowing, c) Taiwanese/Chinese accountants' intention to whistle-

blow is influenced to a greater degree by the impact of illegal, immoral or illegitimate practices on people, money, and society, and d) that *guanxi* has a greater affect on Taiwanese/Chinese accountants' propensity to whistle-blow. Implications regarding internal controls for U.S. (and by extension Anglo-American) organizations operating in Taiwan and China, and Taiwanese and Chinese organizations (and by extension those from Confucian-cultures) operating in the U.S. are discussed.

Fairness, feelings and falsification: Can cheating make you cheerful?

Cynthia L. Krom, Marist College: School of Management

ABSTRACT

This study explores the relationship between perceived violations of community standards of fairness in a pay raise decision, the emotional response thereto, the subsequent likelihood of defrauding an organization by misrepresenting billable hours, and emotions following the commission of an unethical act (falsification of billable hours worked). There was strong evidence that perception of unfair treatment in the pay raise decision resulted in more anger, less satisfaction, less happiness, lowered commitment to the employer, and a greater intent to turnover. Those who indicated that misrepresenting billable hours was justified were significantly more likely to actually record the falsified hours and experienced relatively less guilt. Both those who did and did not believe the falsification to be justified indicated an increase in satisfaction and happiness, and a decrease in anger following the unethical act, suggesting that revenge is, indeed, sweet.

The Legal Environment and Corporate Governance: The Impact of S-OX on Internal Control Remediation

Gary Kleinman, Touro College;

Kam Chan, Pace University;

Picheng Lee, Pace University

Abstract:

This study examines the determinants of internal control weakness remediation on a sample of firms that reported internal control weaknesses at the end of fiscal year 2004, and then reported the presence or absence of internal control weaknesses at the end of fiscal year 2005. Our sample included 243 firms. Of these, 174 firms reported internal control weaknesses in the 2004 filing with the SEC, but had successfully remediated them one year later. The remaining 69 firms reported internal control weaknesses in 2004 and again in 2005. We found that resources available to the firms (e.g., return on assets, size) was positively associated with remediation. Use of a Big 4 auditor, having more audit committee meetings, having more business segments,

having less time to remediate between the 2004 financial statement filings and the end of the 2005 fiscal year (i.e., filing lag) were negatively associated with successful remediation. Also negatively associated with remediation were the number and type (general control weakness versus specific account weakness) of internal control weaknesses the firms had. We employed logit regression analysis to test these associations. We then present an analysis of our results and suggestions for future work.

Fraudulent Tax Refunds: The Case Of Harriette Walters

Philip F. Jacoby, American University

ABSTRACT

Over a period of 20 years, Ms. Harriette Walters stole more than $48 million dollars from the District of Columbia government in a scheme involving the processing of fraudulent real property tax refunds. The Walters' scheme is the largest known government-related embezzlement scandal in the history of our nation's capital. This paper describes the manner in which the fraud was committed, identifies internal control weaknesses that enabled the scandal to go undetected for such an extended period of time, and presents recommendations to reduce the risk of similar fraudulent activity in Washington DC or elsewhere in the future.

Offshoring and Internal Controls: Relevance of SAS 70

Li Xu, Southern Illinois University at Carbondale,

Partha Mohapartha, Morgan State University

Offshoring has become a part of most business organizations. Based on prior literature, and interviews, this study shows the importance of managing internal controls in offshore vendors, and how SAS 70 certification impacts offshore vendors and their clients. In particular, we examine three questions: 1) What are the implications of SAS 70 on offshore vendors and onshore clients (and their auditors); 2) What are the plausible benefits to offshore vendors to have SAS 70 certification; and 3) What future research opportunities exist related to internal controls and the implementation of SAS 70 among offshoring activities? Our results are important to regulators who are interested in improving internal controls of processes managed

by third-parties in offshore countries, and to firms and their offshored vendors that try to meet U.S. financial reporting standards.

CEO Compensation, Pension Plan Funding Status, and Pension Discount Rate assumptions

Steven Balsam, Temple University

Fang Sun, Temple University

Abstract

During 2006 the Securities and Exchange Commission revised its proxy statement disclosures requiring that firms report the present value of pensions promised to executives as well as include the current years' increase in that pension as part of total executive compensation. Concurrently, the Financial Accounting Standards Board revised the accounting requirements, requiring that firms place their pension plan net asset/liability on their balance sheet. While the changes impacted different populations, i.e., the SEC's proxy statement disclosure only pertained to the top five executives whereas the FASB requirement pertained to all defined benefit pension plans including those of executives, they provided firms with similar incentives to minimize the perceived costs of their pensions. One way of doing so, which does not require changing the actual promised amount, is to increase the discount rate assumed for the pension plan.

In this paper we examine whether changes in discount rates are related to the funded status of the firm's defined benefit pension plans, the existence of an executive pension plan and/or degree to which the CEO is overpaid. While we find some evidence that funded status influences subsequent changes in discount rates, we find statistically stronger evidence that firms with executive pension plans and firms with overpaid CEOs are more likely to increase the discount rate used, presumably in an attempt to minimize perceived compensation. Perhaps most interesting, we do not find these changes in the year the rules went into effect, but rather find these changes occurred one year prior. This is consistent with firms anticipating the new rules, whose outlines were well known in advance, and making changes in advance of those rules, presumably when they would be subject to less scrutiny from auditors and others.

The Association between CEO Compensation and the Undervaluation of Stock Options by IPO Firms

Anthony J. Amoruso, Elon University;

Joseph Beams, University of New Orleans

ABSTRACT

This study provides evidence regarding the association between CEO pay and the undervaluation of stock options by firms making initial public offerings. IPO firms are of interest because several key inputs to option pricing models are unobservable for nonpublic companies and must be estimated by management. We find that firms with higher levels of stock-based compensation exercise greater discretion over the time value of options by understating estimates of volatility. In contrast, firms with more generous cash compensation exercise greater discretion when estimating the unobservable grant-date stock price, which reduces the intrinsic value of options and lowers the likelihood of reporting in-the-money grants. Our findings suggest that IPO firms exercise discretion over both the intrinsic value and time value of options, and that the nature of managerial discretion varies with the mix of cash and stock-based compensation in executive pay.

The Choice between Real and Accrual-Based Earnings Management around Initial Public Offerings and its Legal Consequences

Salma Ibrahim, Morgan State University;

Li Xu, Southern Illinois University at Carbondale

Abstract

Prior research suggests that managers of firms manipulate earnings through accruals to achieve certain reporting and personal objectives such as meeting specific benchmarks; Recently, researchers have turned their attention to real manipulation as an alternative to accrual manipulation e.g. through eliminating advertising expenditures or research and development expenditures. However, there is no evidence on whether the likelihood of being detected by outsiders, specifically investors, and ultimately sued is different for firms using these different methods to manage earnings. In this study, we examine this research question in the context of

equity offerings. This context has been used in prior research considering earnings management. In particular, this study addresses the following questions. First, what methods are used by firms to manipulate earnings around equity offerings, and second, whether the likelihood of litigation varies with the method(s) used to reach earnings goals around these stock issues.

The Financial Control Practices Of *Zakāt* Institutions In State Islamic Religious Council In Malaysia

Muhammad Akhyar Adnan, International Islamic University, Malaysia

ABSTRACT

In the last two decades, financial scandals and mismanagement of religious organizations resources have overwhelmed the western arena. Complaints from the churches have increased and the reputation of the religious centres has decreased. This has attracted the attention of many researchers to explore the reality in the world of religious organization systems in the West. Even though, no such financial misappropriations have been reported in the Islamic religious nonprofit organizations, it has been raised the question of whether Islamic religious organizations are experiencing similar circumstance (Maliah, 2007). This study is an exploratory in nature which aims to explore the financial control practices of Malaysian zakat institutions. There are four financial control procedures emphasized in the study: control environment, control over receipts, control over disbursements and reporting control. A questionnaire survey was conducted to collect data. The questionnaires were sent to the financial staff and the manager and/or deputy managers of the 14 *zakāt* institutions in Malaysia. Of the fourteen *zakāt* institutions, ten *zakāt* institutions cooperated with 41 respondents. The results of study show that financial control practices of *zakāt* institutions in Malaysia is generally good. Control over disbursement procedures and reporting system have scored the highest level of practice compared to the other two control procedures, control environment and control over receipts.

Maryland Audit Companies: History of Accounting Firms Organized as Corporations within the State of Maryland

James J. McKinney, University of Maryland

Abstract**:**

This paper explores audit companies, firms that were primarily organized as corporations, within the State of Maryland from the early to late twentieth century. Baltimore within the State of Maryland was an early major United States business center and a center of professional accounting activity. Maryland was the third state to adopt a CPA law and had one of the earliest United States accounting societies. Maryland became the first state to successfully enact regulatory accounting laws in 1924, restricting public accounting practice to registered public accountants. That law also likely contained the first prohibition of the practice of public accounting in the corporate form. This paper examines the audit company phenomenon within the State of Maryland from their appearance, prevalence, and disappearance. The paper also discusses the reemergence of corporate accounting firms in Maryland.

Accounting Standard Setting In The Colonial History Of Hong Kong

Anthony Moung Yin Chan, Ryerson University

Abstract

This study is an analysis of Hong Kong accounting standard setting in 1973-1989 from a structuration and cultural perspective. The study spans over three spheres of enquiry of (1) an accounting focus of standard setting, (2) a cultural analysis in which Hong Kong is the empirical context, and (3) the use of a research methodology drawn from Anthony Giddens' structuration theory. The study analyzes the Hong Kong accounting standard setting actors drawing upon the Hong Kong cultures in their standard-setting actions and interactions, referring to Giddens' three structural properties of meaning, power, and morality.

The Adoption of International Financial Accounting Standards: Its Effect on Global Market Integration

Hannah C. Wong, William Paterson University;
Malay Dey, William Paterson University;
Francis Cai, William Paterson University

Abstract:
Our paper examines the effect of the adoption of international financial accounting standards (IFRS) on global capital market integration, measure by correlation matrix of the stock market index returns. We investigate a sample of countries that have adopted IFRS as their accounting standards for listed companies. Our results are consistent with the suggestion that these markets will have a higher degree of integration among them after their IFRS adoption as compared to the period before the adoption.

IFRS Adoption in the United States and Implications for Stock Prices: A Review and Analysis of the Relevant Literature

Hossein Nouri, The College of New Jersey;
Daniel Pannone, The College of New Jersey;
Abdus Shahid, The College of New Jersey

Abstract

The purpose of this paper is to investigate the implications of an adoption of IFRS in the United States on companies' earnings and on stock prices. This paper reviews literature on previous accounting changes in the US and their impacts on stock price, 20-F reconciliations that show higher income under IFRS than US GAAP, as well as a recent study conducted in Europe after its adoption of IFRS. The review of literature indicates that the effect of IFRS adoption in the US market could be negligible and would be firm's specific. While IFRS adoption could decrease the stock prices of some companies (e.g., those switching from LIFO to another acceptable inventory valuation method), it would increase the stock prices of some other companies (e.g., those that will experience a decline in the cost of equity). This paper also Attempts to answer the question why SEC is pursuing a change to IFRS from US GAAP if IFRS

adoption could have negligible impact on capital market. The study concludes that the adoption of IFRS in the US is a political, economical, and social process and not one based on rational and logical decision-making.

IFRS and U.S. GAAP: Differences and Convergence

Obeua Persons, Rider University

Abstract

This paper describes selected major differences and completed convergence projects between International Financial Reporting Standards (IFRS) and U.S. generally accepted accounting principles (GAAP) as of June 1, 2008. These selected differences are fundamental differences, inventories, property, plant and equipment, intangibles with finite useful life, impairment of assets, leases, cash flows statement, contingent liabilities and assets, financial instruments, income taxes, derecognition of financial assets, consolidated financial statements, revenue recognition, and employee benefits. Short questions and cases are also included in selected topics. The completed convergence projects are categorized into IFRS converged with U.S. GAAP (four projects), U.S. GAAP converged with IFRS (five projects), and convergence as a result of joint projects between FASB and IASB (two projects). Accounting educators should definitely try to incorporate these differences and completed convergence into discussion of relevant accounting topics.

Bridging the Gap: A Study of Audit Fee Determinants Currently Used by Public Accounting Firms Compared to Prior Studies and Empirical Results

Danielle Lombardi, Rutgers University;

Victoria Chiu, Rutgers University

ABSTRACT: In this study, the determinants of audit fees in 2003 and prior literature studies are reviewed and discussed, then compare to the determinants evaluated in current, 2008, practice by analyzing results from the audit fee opinion questionnaires conducted for this study. The comparison of different results, possible reasons for deviations, and conclusions of this study are discussed.

Earnings management and Culture: An international comparison of the banking industry

Kurt A. Desender, Autonomous University of Barcelona;
Christian Castro, Autonomous University of Barcelona

I. Introduction

Earnings management, the act of obfuscating financial reports made to external stakeholders, is a significant concern to regulators and a source of much interest both in the U.S. and the rest of the world (Leuz, Nanda, and Wysocki, 2003). In the presence of extensive earnings management, financial reports inaccurately reflect firm performance and consequently weaken outsiders' ability to govern the firm.

The vast majority of earnings management research has been conducted within a single country using firm level data. On an international level, research has found that earnings management is influenced by both institutional factors (Leuz, Nanda, and Wysocki, 2003 and Burgstahler et al., 2006) and culture (Guan et al, 2006; Nabar and Boonlert-U-Thai, 2007; Desender, Castro and Escamilla de Leon, 2008; Doupnik, 2008). While these studies provide convincing evidence that both institutional factors and culture influence earnings management, their samples typically exclude financial institutions. Shen and Chih (2005) and Fonseca and Gonzalez (2008) found evidence of earnings management in the Banking industry for a large cross-country sample. Both studies found that, similar to non-financial firms, institutional factors play an important role in preventing earnings management. The main objective of this paper is to look at the influence of culture on earnings management in an industry with high level of international regulatory standards.

Besides adding new evidence to the current literature on earnings management, this study is relevant for the evaluation of the new Basel Capital Accord (Basel II) on the reliability of bank financial statements. Basel II emphasizes the strengthening of regulation (e.g. minimum regulatory capital requirements in Pillar 1) and of supervision by authorities (Pillar 2), as well as market discipline (Pillar 3) as tools to increase bank stability. The approach of the third Pillar of Basel II consists in strengthening market discipline by proposing a set of requirements and

recommendations concerning public disclosure practices for banks. Moreover, prior research suggested cultural dimensions should be considered for policy making of non-financial firms. Therefore it is important for policy making to understand the importance of cultural values for the banking industry. In this context, García Blandón (2000) provides evidence of the importance of non-regulatory barriers that could complicate the existence of a single European market for banking services. On the other hand, if this study fails to find an effect of culture on earnings management for the banking industry, specific characteristics of the bank regulation make provide solutions for regulation in other industries.

The remainder of this paper is organized as follows. Section 2 reviews previous literature. Section 3 describes the relationship between culture and earnings management. Section 4 outlines the research methodology and describes the sample. Section 5 discusses empirical findings. Conclusions, limitations and suggestions for future research appear in Section 6.

The influence of board composition on enterprise risk management implementation

Kurt Desender, University of Illinois at Urbana Champaign

Abstract

Corporate governance failures and new legislation have emphasized the importance of enterprise risk management (ERM) in preventing fraudulent reporting. Despite the increased attention on ERM, little research has been done to explain why some organizations embrace ERM while others do not. The objective of this paper is to explore how the board composition is related to the degree of enterprise risk management implementation. Our main findings are that the position of the CEO in the board has an important influence on the level of ERM. We find that board independence alone does not induce enterprise risk management implementation. Only boards with a separation of CEO and chairman, tend to favour more elaborated ERM. Firms with independent board and separation of CEO and chairman show the highest level of ERM. One possible explanation for our results is that CEOs do not favour ERM implementation and are able to withstand pressure from the board when they are occupying the seat of chairman.

Formal Definition of Policy Constraints in Rea Enterprise Systems

Guido Geerts, University of Delaware

ABSTRACT: Geerts and McCarthy (2006) integrate policy data structures into Resource-Event-Agent (REA) enterprise systems. In this paper, we extend their research by explicitly defining policy constraints. Starting point for our paper is model-driven software development and the first section briefly discusses model-driven architectures (MDA). Following, we introduce the Object Constraint Language (OCL), a formal language for the definition of constraints as part of conceptual schemas. Next, we review the definition of REA policy data structures as discussed in Geerts and McCarthy (2006). In defining policy data structures, they (1) heavily rely on the grouping and typification semantic abstractions, (b) identify attributes, associations, and association classes as key data modeling mechanisms, and (c) identify a number of stereotypical patterns. The final section of the paper discusses the formal definition of policy constraints as part of REA enterprise systems using OCL. Using a series of examples we illustrate OCL policy constraint definitions relying on attributes, associations, and association classes. Further, we analyze constraint specifications for each of the stereotypical patterns identified in Geerts and McCarthy (2006) and provide guidance on how to define them.

Corporate Environmental Performance: A Proposal for Standards

Atasi Basu, Utica College

Abstract

In recent years, governments and individuals have become increasingly aware of the need to preserve the environment. Recognizing this trend, companies have engaged in aggressive efforts to reduce their environmental footprints. These actions not only help the environment, but also allow companies to market themselves as ecologically aware and thus broaden their consumer and investor bases. To assess the impact of these actions, there is a growing need of corporate reporting standards for environmental performance (Beets and Souther 1999). This paper aims to set a standard for environmental performance, focusing on two manufacturing corporations, the Dow Chemical Corporation (DOW) and the International Paper Company (IP). Our primary source of data regarding environmental performance is the Toxics Release Inventory (TRI)

database, which compiles information on the release and transfer of toxic chemicals reported to the EPA by companies. This information is compared to the production estimated from the financial statements available from the SEC filings (10-K). The TRI per production is suggested as a standard for reporting environmental performance.

From Doctoral student to faculty member: insights from PhD project alumni

Satina Williams, Marist College;

Bill N. Schwartz, Stevens Institute of Technology;

W. Darrell Walden, University of Richmond

Abstract

The proportion of minority business students in U.S. colleges and universities and business managers in corporate America is far less than their proportion of the overall population. The number of minority faculty members teaching in business programs may have an effect on the number of minority college students studying business and seeking careers.

To respond to this important issue, the KPMG Foundation created the PhD Project. The Project helps business professionals and recent graduates earn doctoral degrees in business disciplines, join business school faculty, and become role models and mentors for minority students. Since 1994, when the PhD Project began, the number of minority business faculty has increased from 294 to nearly 900, more than tripling the number of minority business faculty and opportunities for diversity.

While the PhD Project has helped increase the number of minority faculty members, it may be helpful to gather insights from the recent Ph.D. alumni who have received support from the PhD Project to identify ways the Project can improve its efforts. Therefore, we raise the following questions: Do business school faculty, who are PhD Project alumni, perceive that they are better prepared for their first faculty position than faculty who are not PhD Project alumni? Are there other ways the Project could help those they support and better prepare them for faculty positions? Other than by race, do these individuals differ, from majority faculty? This study examines the preparation and attitudes of PhD Project alums in their first faculty positions after completing their PhD program and compares them with majority faculty members with a similar level of experience.

How Productive Accounting Faculty Members View the Citation Process

Alan Reinstein, Wayne State University;

James Hasselback, University of West Florida,

Mark Riley, Northern Illinois University;

David Sinason, Northern Illinois University

ABSTRACT

The advent of computerized data searches has led to many schools using citation analysis to help measure faculty members' research productivity, which, in turn, offers "scientific" data for use in determining tenure, promotion, teaching load and merit pay. However, such "objective" bases often ignore such factors as which journals to count, the effect of co-authorships and the quality of a specific article in a specific journal. In fact, some faculty members decide which citations to include in their own works to help "play the research game," rather than focus on developing high-level research. This process can lead to groups of faculty members citing each others' works and authors developing works that they believe will be cited often—rather than including citations that are necessary to support their ideas.

After reviewing the relevant literature, we present the results of a survey of the opinions of highly productive accounting faculty members on the citation issue. We then present potential solutions to this problem.

An Exploratory Study Of Accounting Faculty Publication Patterns Leading To Promotion And Tenure

Susan Borkowski, La Salle University

Mary Jeanne Welsh, La Salle University

Abstract

What are reasonable standards of scholarly activity at non-doctoral granting universities and colleges? This study examines the publication records of faculty promoted to associate and to full professor at Carnegie Master's L institutions to determine both publication frequency and publication outlet. We find that faculty who have been promoted at Master's degree institutions

publish in a wide range of journals, but more frequently in journals that have not appeared in "quality" rankings. To the extent that they publish in ranked journals, they publish heavily in journals that focus on education or are directed toward practitioners.

Income Tax Coverage in Accounting Principles Courses

Robyn Lawrence, University of Scranton;

Robert McDonald, University of Scranton

Abstract

An examination of course descriptions available on the websites of various educational institutions, and the textbooks for introductory accounting courses reveals the inclusion of financial accounting, managerial accounting, and internal controls. Significantly there is no substantial coverage of income taxes. It is the position of this paper that income taxes can and should be included in this first year of accounting courses. Most residents of the United States make decisions related to income taxes, both with regard to their personal filings and when they vote for representatives and on government proposals. To be knowledgeable participants in our society, students should have at least a rudimentary knowledge of income tax terminology and a general understanding of some of the basic income tax concepts. To facilitate the inclusion of a three to six hour discussion of income taxes in introductory accounting courses, the authors discuss the positioning of the coverage of income taxes, suggest some tax topics, and identify materials available at little or no cost to instructors and students.

A Financial Statement Analysis Approach to the First Accounting Course

Mark P. Holtzman, Seton Hall University;

Theresa Henry, Seton Hall University;

David Mest, Seton Hall University;

Karen Schoenbeck, Seton Hall University

Introduction

In 2007, our Department redesigned its introductory accounting course, moving from a hybrid-approach, textbook-based introduction to financial accounting to a unique "financial statement

analysis" approach. This article describes problems with the existing course, the process of redesigning the course, and the effectiveness of changes made.

In its second Position Statement, the Accounting Education Change Commission (AECC) called for radical change in the first course in accounting. "The first course in accounting is very important to all who take it, whether they plan to become professional accountants or to use accounting information in nonaccounting careers." AECC called for a restatement of the objectives of this course, using more interactive teaching methods, and positioning the most effective instructors to teach this course. We present our experience in the redesign of this course in order to share our experiences with those who would consider similar changes in other institutions.

Following a case-study format, this paper describes the existing course, and its problems. It discusses the process of redesigning the course, and common alternatives in curriculum. It provides course-teacher-evaluation results as course changes were implemented, and discusses specific issues that arose during implementation, and how they were addressed. In concluding, it discusses extensions of this redesign and transferability to other schools.

Adopting A Mastery Goal Orientation For Introductory Accounting Courses.

Susan Muzorewa, Morgan State University

Abstract

Instructors of introductory accounting courses can play a vital role in increasing the number of students who choose to major in accounting. Most business students form their perception of accounting during their first accounting course (Diller-Haas, 2004). This paper contends that if accounting educators adopt a mastery goal orientation for the introductory accounting course as opposed to a performance goal orientation, they would be able to foster motivational patterns that are likely to promote long-term and high-quality involvement in learning (Wentzel, 1991). Such an orientation, it is hoped, would attract more students to major in accounting as well as impart attributes the accounting profession is looking for.

A Discussion of the 2008 Collapse of the US Municipal Auction Rate Securities Markets

Louis J Stewart, Howard University

Abstract

Auction Rate Securities (ARS) combine long term nominal maturities with interest rates reset through a modified Dutch auction, at predetermined short term intervals. Tax – exempt ARS debt issues had become increasingly popular source of financing for state governments, municipalities, and large nonprofit organizations such as universities and health systems. Issuers are always able to issue these long term debt obligations at par because they carry current market interest rates. In addition, many ARS issuers use interest rate swaps to hedge their interest rate risk. The market for these debt issues had grown to more than $166 billion by the end of 2007. Tax – exempt ARS became popular investments with many corporate treasuries due to high after tax returns and liquidity. However, demand for these debt securities collapsed in February 2008 as a result of the growing sub – prime mortgage securities crisis. Interest rate reset auctions began to fail en masse. This paper focuses on the impact of the municipal ARS debt market collapse on issuers. All faced rapidly rising interest rates and debt services costs. Many ARS issuers responded by refinancing more $96 billion of their outstanding debt. These state governments, municipalities, and nonprofit organizations incurred considerable costs from refunding their ARS debt and unwinding their interest rate derivative positions as a result.

Stock Option Backdating, Corporate Governance and CEO Compensation: A Longitudinal Study

Jui-Chin Chang, Howard University;
Alex Tang, Morgan State University

ABSTRACT

We investigate the longitudinal evolvement of stock option backdating firms' corporate governance characteristics and CEO stock options relative to that of control firms in three periods – pre-SOX, post-SOX, and the SEC's Investigation. Our logistic results show that backdating firms are associated with higher CEO option compensations in all three periods. We find that backdating firms are likely to be associated with less independent board and

compensation committee, less diligent board and compensation committee, fewer subcommittees and no fixed granted date in the pre-SOX period. Comparing the pre-SOX and post-SOX periods, we find that backdating firms are no longer associated with board-level governance summary measure in the post-SOX period. The SEC's investigation prompts backdating firms to strengthen their governance mechanisms by replacing Founder-CEOs. The investigation also results in other changes in backdating firms' corporate governance measures. It appears that backdating firms take SEC's investigations seriously. Additionally, we find that a staggered board is inversely related to the likelihood of backdating.

Negotiated Measurement Rules in Debt Contracts

Ningzhong Li, The University of Chicago Booth School of Business

Abstract

This paper investigates negotiated accounting measurement rules in debt contracts to show how contracting variables are chosen from financial statements to increase contracting efficiency. I predict and document in a *large* sample of private debt contracts that contractual definitions of earnings and net assets systematically exclude transitory components. I also document that the likelihood of contractual adjustments (mainly within-GAAP adjustments) to net income increases with the maturity of the debt and decreases with proxies for the contracting usefulness of transitory components. Collectively, the evidence shows that debt contracts choose contracting variables efficiently, and that transitory components of earnings and net assets are less useful for debt contracting. Further analysis indicates that restricting managerial opportunism does not explain my descriptive and cross-sectional results.

Earnings management, cash compensation and CEO turnover

Qian Hao, Wilkes University

Abstract:

This paper studies the role of compensation committees in mitigating accruals manipulation in the presence of the horizon problem. I construct a sample including 95 CEO-turnover observations and match them with 1320 non CEO-turnover observations based on year and

industry, to examine the association between cash compensation and different components of earnings, and find that compensation committees evaluate cash increases more than accrual increases, but assign similar weight to non-discretionary and discretionary accruals. More important, I investigate compensation adjustment to mitigate managerial incentives to manipulate accruals in the final years when CEOs are in office. The empirical result shows that in the presence of the horizon problem, compensation committees reward CEOs for the improvement in cash and non-discretionary accruals, while penalize them for the increase in discretionary accruals. This paper provides empirical evidence to the contracting theory that compensation committees adjust pay-for-earning performance sensitivity to deter opportunistic behavior, when CEOs have short tenure with companies.

Financial Analysis Using The FASB's Preliminary Views On Financial Statement Presentation

Daniel Acton, St. John Fisher College

Synopsis

The Financial Accounting Standards Board (FASB) issued a Discussion Paper entitled "Preliminary Views on Financial Statement Presentation" on October 16, 2008, in which they presented a new format for the primary financial statements. The proposed statements are segmented into functional activities of the entity on a net-asset basis. The Board's objectives are to present a cohesive set of financial statements that are useful in predicting future cash flows and assessing liquidity and financial flexibility. This paper describes the proposed statements, examines the application of financial ratios, and assesses the extent to which the Board's objectives are satisfied.

An Empirical Analysis of the Effect of Accounting-Based Debt Covenant Disclosures on Shareholder Wealth

Ping Wang, Baruch College CUNY;
Masako Darrough, Baruch College CUNY

Abstract

This paper examines whether disclosures of the terms of accounting-based debt covenants affect shareholders' wealth. In specific, we focus on the market reaction at the time of announcements of technical default. We find that firms that disclosed the terms of the covenants in prior SEC filings experience less negative price responses during the three-day window surrounding the announcements. We also provide the evidence that the market reaction to technical default varies systematically with the size of the debt contract over total liabilities, which we use as a proxy for the materiality of the contract. Further analyses show that, firstly, the reduced shareholder wealth losses occur, in particular, in firms where the contracts are less material. Secondly, the relation between market reactions to technical default and the materiality of a contract is significant only when the contracts are material. These findings have financial reporting implications for standard setters.

Creating an Ethical Culture – A Challenge for all Employees

Peggy Griffin, New Jersey City University;

The global world is facing a major recession that is affecting all facets of business, government and non-profit organizations. Consumers are struggling with rising food and heating costs and many families are in arrears on their mortgage payments. Shrinking credit and stringent lending policies are limiting business operations and consumers' purchasing power. The financial climate is extremely volatile and many sectors of the market have deteriorated causing an erosion of retirement, college and savings plans. Consumers are fearful and resentful, businesses are glum and the world is concerned about the continuing erosion of the economy. Organizations are facing restructure challenges. They must continue to operate with fewer resources and lower costs, but they cannot neglect the implementation of effective anti-fraud

controls. These uncommon times call for vigilance and a plan to prevent and detect occupational fraud.

The Association of Certified Fraud Examiners (ACFE) defines occupational fraud as "The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organizations' resources or assets" (2008, p. 6). All organizations face the risk of occupational fraud, which includes asset misappropriations, corruption, and financial statement frauds (ACFE, 2008). Asset misappropriations include cash skimming, larceny, billing and payroll schemes as well as expense reimbursement schemes and check tampering. These thefts may range from a few dollars to thousands of dollars. Corruption includes conflicts of interest, bribery and economic extortion and can result in significant financial and reputational costs to an organization. Financial statement frauds include the manipulation of financial records to misrepresent the operating results of a company in order to defraud investors and creditors. Some of the most significant and public frauds include Enron and WorldCom. The act(s) of fraud involves misrepresentation and concealment; almost all perpetrators attempt to hide their actions from scrutiny (IIA, ACFE, AICPA, 2008). Executives, managers, and employees of an organization must recognize the risks of fraud and be actively engaged in preventing or identifying fraudulent events.

The "fraud triangle" developed by the late sociologist Donald E. Cressey addresses the three elements necessary for fraud to occur in an organization. The three conditions are motivation, opportunity and rationalization (ACFE, 2007). Dr. Cressey believed that employees tended to commit violations of trust when faced with financial problems that they were unable to share with others (ACFE, 2007). The motivation to commit a fraud includes living above one's means, credit issues, family illness and vices. One of the major economic issues in the current financial climate is the increasing rate of mortgage and credit card delinquencies and the inability to maintain one's household. Employees may also be motivated to commit a financial crime on behalf of a company when there is pressure from the leaders of the organization to improve earnings or hide bad results. The Public Company Accounting Oversight Board (PCAOB) oversees U.S. auditors. At a meeting conducted in October 2008 to discuss the impact of the financial crisis on the auditing profession, representatives of PCAOB released the following statement, "There's a lot to worry about, includ[ing] increased pressure for fraudulent behavior"

Reexamination of the Effects of Expensing Stock Options on Firm Returns in Anticipation of SFAS 123R

Rogelio J. Cardona, University of Puerto Rico

Introduction

The increased use of stock options as a compensation component and the subsequent failure of firms such as Enron, WorldCom and others, where the use of options was prevalent, forced both Congress and the Financial Accounting Standards Board (hereafter, "FASB") to enact new legislation and regulations in 2002. The new legislation and several new accounting standards now require corporations, among other matters, to disclose more information related to executive compensation, and initially compelled firms to recognize voluntarily stock option grants as an expense on their financial statements. In 2004 option expensing became mandatory.

The objective of this investigation is to reexamine the effects of announcing the adoption of voluntary expensing of stock options (when expensing them was not mandatory) on firms' returns and their debt levels. An event study is performed to study the effect of the announcement decision on the abnormal returns for a group of firms, and an econometric test is performed to evaluate the effect on the firms' debt ratio. This investigation examines stock options from the point of view of "employee" stock options, i.e. benefits awarded to employees (managerial or non-managerial) as part of their total compensation pursuant to their employment agreement.

The Changing Public Reports By Management And The Auditors Of Publicly Held Corporations: A Comparative Study Of A Retail Industry And A Gaming Industry

Charles J. Pineno, Shenandoah University;
Mark Tyree, Shenandoah University

ABSTRACT

As a result of the Enron debacle based in a wave of revelation of accounting irregularities and securities fraud interlinked to Adelphia, Tyco and WorldCom, Congress passed the Sarbanes-Oxley Act (SOX) in June 2002. This was the most significant securities law change since

passage of the original Federal Securities Law in 1933 and 1934. This paper provides background information on sections 302 and 404 of the Act. Based on that information, the Internal Controls Report of Management and the Independent Auditor's Report of the retail industry including Target Corporation, Kohl's Corporation, J.C. Penney Company, Inc., Sears, Roebuck and Company, and Wal-Mart Stores, Inc. from the years 2002 through 2007 are summarized, analyzed, and compared with the reports of the gaming industry including MGM Mirage Casino, Penn National gaming, Inc., and Harrah Entertainment, Inc. Various differences are noted and implications are considered.

A Meta-Analysis of Empirical Materiality Studies

David E. Vance, Rutgers University School of Business Camden

ABSTRACT

Materiality is defined subjectively as an amount sufficient to change an investor's or creditor's opinion about a company. It is key concept in accounting and an implied warranty of precision in audit opinions. Because materiality is subjectively defined people assess the threshold of materiality differently depending on a variety of factors.

A meta-analysis of 42 studies reporting 14,033 materiality decisions by 6,762 individuals finds the threshold of materiality ranges from 0.44% of net income to 54.64% of net income. The mean materiality across all studies is 8.52%. The factors which contribute to variability include the interest group making the materiality decision, the accounting issue in play, study method, and the amount of detail provided to the decider.

The contributions of this study are to synthesize prior research into a broad landscape from which materiality issues can emerge, describe the application of meta-analytical techniques to accounting research, and raise questions for further research which might reduce the uncertainty in applying the concept of materiality in the future.

PCAOB Inspections: Perceptions of Triennial Firms with No-Deficiency Inspections

Mary Ellen Oliverio, Pace University;
Bernard Newman, Pace University

The drive to enhance audit quality after the cascade of audit failures in the final decades of the last century and first two years of the new century resulted in a new structure for the oversight of public accounting firms. The Public Company Accounting Oversight Board (PCAOB) was established with the passage of the Sarbanes-Oxley Act of 2002.
This Board was given the authority to inspect all public accounting firms who provide audits to publicly-owned companies reporting to the Securities and Exchange Commission. Such public accounting firms were required to register with the PCAOB. Accounting firms who audit more than 100 clients per year are required to undergo a yearly inspection; firms who audit 100 or fewer clients undergo inspections at least once every three years and are referred to as *triennial firms.*

None of the firms that are inspected yearly have to date received a deficiency free inspection report. However, some of the triennial firms have had deficiency free reports. It is this sub population of registered companies -- the triennial firms -- that is the topic of this paper. Furthermore, the interest here is limited to inspection of the auditing process of the firm; there is no attention to quality control, which constitutes a separate assessment and conclusion.

A simple, relatively brief survey inquiry questionnaire was designed to obtain the opinions of a key person in the sample of firms chosen at random. Questions asked for perceptions of the reasons for their deficiency-free inspections, opinions related to the value of inspections, the PCAOB, and to their interest in increasing the number of SEC reporting clients they serve. The questionnaire was accompanied by a covering letter.

A total of 41 (35.6 percent)respondents from a sample of 115 responded to the questionnaire. Among the findings were: A. Factors perceived critical for achieving no-deficiency audits accepted by the respondents were: 1. Systematic, timely and thorough review process; 2. Level of knowledge/skill of the total audit team and; 3. audit partner’s skill in team leadership. B. A

majority of respondents concurred the reasons for deficiencies were 1. inadequate review process, 2. weaknesses in knowledge of relevant GAAP and 3. audit partner leadership skills inadequate. Other conclusions are included in the report.

A Theoretical Analysis of Diluted Earnings Per Share

Mei Zhang, Montclair State University

Abstract:

In this paper, I propose a theoretical foundation to compute earnings per share (EPS) for firms with both common shares and dilutive securities outstanding. I derive a new EPS measure, *market EPS*, which is defined as the expectation of the future earnings per share. From the view of investors, market EPS naturally captures EPS information in stock prices. Market EPS is compared to basic EPS and diluted EPS, which are suggested under the current U.S. rule. The comparisons show that market EPS is below the range defined by basic EPS and diluted EPS as long as the expected future abnormal earnings is zero. This indicates a weakness behind the thinking of the current rule. I also find that the diluted EPS by the treasury stock method has a negative relationship with the market expectation of future EPS. It also overstates market EPS to a greater extent than the diluted EPS by the if-converted method. This analysis provides insights for rule makers developing a diluted EPS measure.

Accounting and Finance Issues Motivating Subsidiary Stock Offerings

Deborah Pendarvis, North Georgia College and State University

Abstract

In 1983, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 51 (SAB 51) which permitted, but did not require, companies to recognize gains or losses arising from stock issuances by their subsidiaries. Before SAB 51, the SEC had required any implicit gains arising from these types of transactions to be reported as adjustments to paid-in-capital on the consolidated balance sheet.

In this study, I examine two issues related to stock offerings of consolidated subsidiaries. First, I investigate whether managers manipulated reported earnings by taking advantage of the option

allowed by SAB 51 to recognize gains on subsidiary offerings. Second, I investigate managers' incentives to issue equity at the subsidiary level. In this part of the dissertation, I focus on finance considerations that could suggest a potential advantage to offering subsidiary equity over parent equity.

My results support the conclusion that finance considerations played a role in the decision to issue stock in a consolidated subsidiary while earnings management was a factor in the manager's accounting choice of recognizing the gain on the transaction. In particular, the evidence indicates that subsidiary stock offerings provided managers with an alternative equity financing arrangement that allowed them to avoid a potentially more costly offering of parent equity. Furthermore, the subsidiary stock transactions provided the added benefit of giving managers the option of recognizing a gain on the transaction. The results suggest that managers used the gain to offset nonrecurring loss items, items over which managers have discretion in the timing of their recognition.

Stock price performance and ownership structure during periods of stock market crisis

Kurt A. Desender, Autonomous University of Barcelona

Miguel Angel Garcia Cestona, Autonomous University of Barcelona

ABSTRACT

Using Spanish data, this research investigate whether a company's ownership structure has an impact on the stock price performance during periods of crisis. Our results show that both inside ownership and ownership concentration are important to explain stock price adjustments during periods of crisis. Stock market performance is positively related to insider ownership and the number of foreign shareholders and negatively related to ownership concentration and the number of financial shareholders. In addition, the analysis shows that family controlled firms, characterised by high insider ownership, outperform non-family controlled firms with around 5.6%, while firms with dispersed ownership outperform non-family controlled firms with around 7.8%. Furthermore, when we split the family controlled firms into founding family controlled firms and non-founding family controlled firms, we find that founding family controlled firms perform on average 11.6% better compared to non-family controlled firms. For non-founding family firms, we also find a positive coefficient although it is not significant.

Accrual Conundrum in Earnings Management Research

Varda Yaari, Morgan State University

Since most models in the research on earnings management are a variation of the Jones model, it provoked a literature that evaluates its effectiveness and provides refinements. In this study, we draw attention to its yet unexplored feature that it is econometrically a restricted regression (Theil, 1971), since it constrains the coefficients on sales and lagged sales to be equal (because this model uses change in sales as a regressor). If this restriction and related ones were true, the Jones model would create an accruals conundrum because it conflicts with the findings of the research on the associations between earnings, accruals, and cash flows. We examine this issue in 667 cross-sectional industry-year regressions covering 44,543 non-financial firms listed on Compustat over the period from 1990 to 2006. Finding that this restriction fails to hold is a contribution to scholarship in accounting.

Abnormal Returns Around SEOs; Does Insider Trading And Earnings Management Matter?

Loretta Nartey Baryeh, Towson Univerity

1. Introduction

Earnings have a very important role in management-controlled firms. They can be used to predict future cash flows so that investors can put a value on the firm (the informativeness role of accounting). This role is especially important when firms raise funds in seasoned equity offerings (SEO), because the history of earnings up to the SEO event provides a clue on the firm's type: poor or strong. Firms with poor performance use the inflow of funds to survive through the injection of new capital. Strong performers also finance the expansion of operations and growth. At the same time, SEO takes place after a long process that involves underwriters, analysts, auditors, and organization changes. This gives insiders the opportunity to present earnings and earnings trend that appeal to investors; that is, firms can manage earnings. Indeed, the earnings management literature has established that firms tend to inflate earnings before SEOs [Teoh, Welch, and Wong (1998)], which allows them to boost the price.

If the market could separate strong from poor performers, the earnings signal would have been credible and the market would not discount the earnings signal. Unfortunately, the earnings management strategy of both good and poor performers is the same. Strong performers have incentives to inflate earnings to boost the market price. Borrowing reported earnings from future periods is unlikely to hurt their reported earnings as the future actual performance is expected to be sufficient. Poor performers have incentives to manage earnings upwards too in order to pool with strong performers and hide poor performance. Given that investors cannot distinguish between these types, the market price can discount the earnings of a strong performer too much and the earnings of a poor performer too little. This, in turn, provides insiders with opportunity to engage in profitable insider trading. At the same time, the insider trading is a signal that allows the market to improve the assessment of the firm since earnings management obscures the truth. In this study, we examine earnings management and insider trading for firms that conduct SEOs. We pose the following research questions:

- Does earnings management around SEOs still exist?
- How does the market react to the pattern of earnings management and insider trading around SEOs.

The first question is motivated by the fact that earlier works employed the Jones model to calculate abnormal, managed accruals. This model has been under criticism (Dechow, Sloan, and Sweeney (1995), Dechow and Skinner (2000); Kothari, Leone, and Wasley (2005); and others) for being misspecified because, for example, the relationship between accruals and performance is not linear. In this study, we use the Kothari, Leone, and Wasley's methodology. Furthermore we are motivated by the fact that prior research established that firms manage earnings upwards, reporting thus inflated results [Teoh, Welch, and Wong (1998); Rangan (1998); Shivakumar (2000); Marquardt and Wiedman (2004); and Kim and Park, 2005)]. Prior studies concluded that earnings management is pernicious because of the association between earnings management before SEOs and the post issue underperformance [(Teoh et al (1998), and Rangan (1998)]. If the market has become more suave and attempts to undo earnings management, it may well be the case that firms no longer have incentives to engage in this practice.

Earnings Smoothing and Derivative Restatements

Jayanthi Krishnan, Temple University;
Chunwei Xian, Temple University

ABSTRACT

A number of companies recently restated their financial statements to correct for the misapplication of the accounting standard for derivative accounting, SFAS No. 133. The FASB's initial proposal for this standard was met with opposition from the business community, which argued that it would increase earnings volatility. Using a sample of non-financial companies that restated their financial statements to correct for derivative accounting, we examine whether the misapplication of the standard – and therefore the restatement – was motivated by companies' desire to avoid earnings volatility. Using an ex-ante measure of earnings smoothing (i.e. the degree of earnings smoothing prior to the restatement years), we find companies that were more likely to be "earnings smoothers" were more likely to misapply SFAS 133.

Using Corporate Code of Ethics to Examine Cultural Effects on the Ethicality of Chinese vs. American Students

Sherry Fang Li, Rider University;
Obeua Persons, Rider University

Abstract

This study uses a corporate code of ethics as a roadmap to create 18 scenarios for examining effects of cultural differences on the ethicality of Chinese vs. American business students. These cultural differences are: (1) small vs. large power distance, (2) long-term vs. short-term orientation, (3) individualism vs. collectivism, (4) difference in socio-economic values, and (5) rule of men vs. rule of law. The cultural differences are hypothesized to contribute to: (1) lower ethicality among Chinese students compared to American students in 16 of the 18 scenarios, and (2) lower overall ethicality of Chinese students compared to American students across all 18 scenarios combined. Logit regression results strongly support the second hypothesis, but do not support the first hypothesis as they indicate cultural effects in only 11 scenarios related to five areas of the code. These five areas are: (1) accurate accounting records, (2) proper use of

company assets, (3) compliance with laws, (4) trading on inside information, and (5) reporting unethical behavior. Business educators and corporate ethics trainers should be aware of these cultural effects, and provide more coverage and special emphasis on these ethics areas of the code especially when they have Chinese students or entry-level personnel.

Sexual Harassment in Public Accounting: Anecdotal Evidence from the Profession

Gerald J. Miller, The College of New Jersey;
Brian Stanko, Loyola University Chicago

Abstract:
This paper reports on a study of sexual harassment in public accounting and includes anecdotal evidence that was gathered in a survey of women public accountants. Stanko and Schneider (1999) conducted the first national survey on sexual harassment in the public accounting profession and followed that up with a similar study (2008). This paper further examines sexual harassment in the public accounting environment and extends the 2008 research. Both research studies surveyed American Institute of Certified Public Accountants (AICPA) female accounting professionals. The findings of this study show sexual harassment remains a serious concern, and that sexual discrimination in the workplace is a concern as well. Although preventive measures have been put in place, these measures may not working as well as intended, suggesting that public accounting firms need to revisit this issue to manage risk.

Are Female Auditors Still Women? Analyzing the gender differences affecting audit quality

Kris Hardies, Free University of Brussels

Abstract
Previous research has hinted a potential impact of auditor gender on audit quality. From international literature it seems that women use more elaborative information processing strategies, suffer less from cognitive distortions, and are more risk-averse. On the basis of these findings, female auditors are expected to discover more material misstatements, to analyse these misstatements more accurately, to report more material misstatements, and to issue more going-

concern opinions than male auditors. On the other hand, it also seems that women are more affected by time pressure, are more empathetic, and are less overconfident than men. This however may lead female auditors to report less material misstatements and issue fewer going concern opinions than male auditors. This paper addresses a potential major bias underlying the gender auditing research as it is not obvious that findings from cognitive psychological literature about the general (men-women) population can be interpolated to the specific context of (female-male) auditors. Therefore we address the question "Are female auditors still women?" by using a unique set of responses of 677 non-economics students (as proxy for the general population), 173 economics students and 122 external auditors.

A synergistic approach to planning and control using a stakeholder based strategy

George Joseph, University of Massachusetts Lowell;
Stephen Collins, University of Massachusetts Lowell

Abstract

No tool embodies the key role of management accounting in the activities of planning, organizing and control as the budgeting function. Yet, a dissonance between strategy and budgets handicaps organizations when responding to the changing environment (e.g., Gray 1986; Hope and Fraser 2003). Increasingly, management accounting has found a role in mapping strategy, particularly with the emergence of the BSC. This paper integrates strategic mapping with ABC and EVA to provide an alternative to the traditional budgets for planning and control using stakeholder management as a sensory system to monitor and adapt to changes in the environment. Specifically, principles underlying stakeholder theory of management combined with the management accounting tools results in a synergy that complements the features of the tools while addressing the weakness of discrete application, thus supporting strategy in an evolving environment. The paper illustrates this approach using a case.

Debt-Contracting Efficiency of Accounting Conservatism

Ningzhong Li, The University of Chicago Booth School of Business

Abstract

This paper investigates the usefulness for debt contracting of timely gain and loss recognition. I explicitly model timeliness in gain and loss recognition, and define accounting conservatism as timelier loss recognition on one component of the whole accounting signal, assuming covenants are written on the reported whole signal. I show that under this characterization of conservatism, contracting efficiency of conservative accounting and aggressive accounting is \symmetric," though bad news of *the whole signal* is more valuable than good news. I also show that timelier gain or loss recognition always increases contracting efficiency, even if debt contract parameters adjust rationally to the properties of accounting signals. My results imply that, on one hand, gain information is valuable for debt contracting. On the other hand, given timeliness in gain recognition, accounting conservatism increases debt-contracting efficiency, and it cannot be substituted by rational debt-contract adjustments.

Time-Driven Activity Based Costing in Healthcare- Time Measurement, Workload Intensity and Cost Estimation

Bea Chiang, The College of New Jersey

Abstract

Kaplan and Anderson (2004) proposed Time-Driven Activity-based Costing to simplify the process. This approach simplifies the two-stage cost allocation process and presumes that a time factor will capture the complexities of the business process. In healthcare, one of the most significant costs to the hospital is nursing costs, which significantly rely on the time accumulation to account for the costs. In this case, Time-Driven ABC is conceptually applicable to accurately estimating nursing costs. The objective of this article is to examine if there is any differences between the nursing costs estimated by two measurement-time and intensity weight. This study finds that for patients with a lower severity level or shorter length of stay, the time measurement estimated is approximately the same to those estimated by the intensity measurement. The difference increases significantly as severity level and length of stay increase.

Service-Based Cost-Volume-Profit (CVP) Problems for Use in Accounting and Tax Courses

David E. Stout, Youngstown State University;

Raymond Shaffer, Youngstown State University

Abstract

The majority of classroom and homework examples used in business education classes, including accounting classes, tend to be from the manufacturing sector. This is because many of the techniques and procedures in areas such as management accounting were developed by manufacturing companies. Pedagogically, the use of manufacturing-based examples was traditionally thought desirable because of the presumption that many of our students had direct experience in that sector of the economy or perhaps because our students could readily "visualize" such a context. However, the business environment today has changed drastically. Many entities that will employ our students are service oriented; therefore, the use of service-based examples in the classroom should be of interest to educators, especially in accounting courses. Thus, the continued use of manufacturing-based examples in the accounting classroom can be called into question.

This paper presents two examples of service-sector-based cost-volume-profit (CVP) problems suitable for use in upper-level accounting courses. The first problem requires students to develop a comprehensive profit-planning (i.e., CVP) model. Students examine alternative planning scenarios regarding the relative desirability of a relatively high fixed versus a relatively high variable cost structure. Further, students address the notion of operating leverage and are required to use Excel to depict short-term profitability, under each of two cost structures, as a function of output (volume). A separate Excel solution file (containing problem material plus solutions) is available to the instructor as a supplement to this paper.

The second problem requires students to develop a multi-product tax-planning model. Specifically, students develop a model for determining end-of-year mutual fund transfers (i.e., redemptions) from two non-IRA mutual fund accounts to an IRA mutual fund account. Solutions are required for determining the optimal number of shares to transfer from each of the non-IRA accounts to the nondeductible IRA account to accomplish pre-specified tax objectives (e.g., minimizing net taxes payable on the conversion(s)). A separate Excel spreadsheet file, based on

the Solver routine, accompanies this problem and can be used by students (and the instructor) to model this decision problem. (An appendix in this paper contains a tutorial for using the Solver routine and related Excel file.) Problem #2 could be used in an upper-level cost or management accounting course, an MBA-level managerial accounting course, or a basic income-tax course. Coverage of these problems addresses virtually all of the CVP requirements on the Certified Management Accountant (CMA) exam (IMA, 2008).

Practicing Accountants' Views of the Content of Accounting Ethics Courses

Mohammad J. Abdolmohammadi, Bentley University;

Alan Reinstein, Wayne State University

ABSTRACT

The National Association of State Boards of Accountancy's most recent proposal (NASBA 2007) requires all students sitting for the Uniform CPA examination to have completed a curriculum that includes a three-semester-hour (SCH) ethics course or one that integrates the study of ethics into all accounting courses at the equivalent of the three SCH minimum. If passed, the implied curriculum modification suggests that accounting instructors can benefit from guidance on ethics content to include in their courses. Because much of the debate of how to cover ethics in the curriculum focuses on the requirements to become a CPA, experienced practicing accountants' views can be helpful in determining the content of ethics courses in accounting. We compare our results with Hurtt &Thomas (2008) who asked academicians similar questions. Specifically, we surveyed 215 highly experienced practicing accountants (the vast majority of whom were CPAs). Among the top choices of content are current ethical issues, professional codes of conduct, ethical judgment and decision making process/models, corporate codes of ethics, whistleblower protection, record retention, philosophical theories of ethics and theories of ethics. The subjects agreed—moderately-- that ethics courses can influence attitudes and behavior, but they were neutral on whether ethics courses can reduce instances of Enron-like fraud. We also discuss some implications for the future of accounting education.

Leveraging a Familiar Scenario: An Experiential Introduction to the Audit Risk Model (Rosie's East End Restaurant)

Richard H. Gifford, West Chester University
Harry Howe, School of Business, SUNY-Geneseo

Abstract

Educational research indicates that student learning is enhanced when students are able to relate new material to a familiar conceptual framework or experience (Kolb, 1984; Baxter, 1999). Introductory auditing often creates uncertainty and anxiety for many students because the course is a conceptual departure from traditional accounting courses. This short interactive case/exercise provides a familiar scenario, the process of verifying a restaurant bill that can be used during the first class meeting to demonstrate a basic audit process that virtually student has performed. Student teams first determine whether a restaurant bill is accurate and then must decide if they are willing to pay the bill. During the discussion of each teams' decisions, the audit process, evidence, procedures, materiality, internal control, and professional standards are briefly introduced and related to the exercise. Students indicate they are better able to conceptualize the audit process after completing the case. The exercise also serves as an experiential reference point throughout the course as complex aspects of the audit process are introduced.

How Metropolitan and Regionally-Focused Accounting Programs Can Thrive in the 21st Century

Alan Reinstein, Wayne State University;
Mark Higgins, University of Rhode Island

ABSTRACT

This study sought to ascertain how metropolitan or regionally-focused accounting programs can thrive in the 21st century, given the inevitable increased competition from nationally ranked, generally rural, residential programs. We examine how metropolitan, regionally-focused units can maintain enrollments as automation affects more accounting and auditing procedures and the U.S. Congress or the SEC eases SOA provisions. Based on interactive

discussions conducted for the study, we suggest developing new curriculum tracks such as internal auditing or governmental accounting, marketing new skills for accounting students such as knowledge of databases and forming closer alliances with feeder schools.

Post Sarbanes-Oxley Changes in the Composition of Boards: Have They Impacted Spending for Audit Services?

Timothy G. Coville, S.U.N.Y. College at Old Westbury

Abstract:

Much of the 2002 legal response to scandals came as new initiatives and requirements on all firms. However, regarding the use of independent directors and committee structure requirements, many firms had pre-adopted these recommendations prior to their being made compulsory. This study investigates whether these pre-adopters experienced less change than firms forced to change their board composition and committee structure? This is important, in that less change detected among pre-adopters supports the efficacy of these regulations, given the greater relative change seen in those compelled to adapt to the regulations.

I investigate an effect on spending for audit services attributable to the Sarbanes-Oxley Act of 2002 and related stock exchange regulations. This analysis also advances the study of effects associated with the use of independent directors, as it employs the difference-in-differences methodology to overcome endogeneity concerns that have plagued that literature. This is accomplished through the examination of the effect on spending for audit services associated with the exogenously forced addition of independent directors to the boards of publicly listed firms. The results reveal a significant positive relationship between firms that were compelled by law to change their boards and a greater increase in spending on audit services, than firms that had pre-adopted analogous changes to their boards.

Belief Revision among Accounting Practitioners Regarding the Effect of Nonaudit Services on Auditor Independence

Philip Beaulieu, University of Calgary;
Alan Reinstein, Wayne State University

ABSTRACT

We hypothesize, based on management control processes in large firms (Covaleski et al. 1998), that large-firm practitioners will be less likely than small-firm auditors to report beliefs that nonaudit services (NAS) impair auditor independence. Based on Goldman and Barlev's (1974) analysis of auditor-firm conflict of interests and procedural independence safeguards, we also predict that auditors will report less concern over impairment than nonauditors. We investigate also a confirmatory bias – whether large-firm practitioners, for example, persistently report the same beliefs even after reading research on the relationship between NAS and auditor independence.

Practitioners reported their beliefs before and after reading a summary of Frankel et al. (2002) indicating that providing NAS may impair independence; Ashbaugh et al. (2003) suggesting that independence is not impaired; or a summary of both findings. Results generally support our hypotheses and suggest that as evidence regarding the effectiveness of key provisions of the Sarbanes-Oxley Act of 2002 emerges, accounting practitioners will react differently depending upon their specializations and firm affiliations. This will affect public policy to the extent that accountants and auditors, rather than academics, report research findings to regulators.

The Implications of Shifting from Rules to Principles Based Accounting: The Case of Goodwill Impairment

Kang Cheng, Morgan State University;

Yu Cong, Towson University;

Martin Freedman, Towson University

Abstract

The Securities and Exchange Commission (SEC) has been pushing accounting rule-making bodies to allow US companies to prepare financial statements in accordance with International Financial Reporting Standards (IFRS).This maneuver is congruent with the Financial Accounting Standard Board's (FASB) desire to shift from a rules based accounting model to a principles based one. A consequence of this shift may be that management will take advantage of the flexibility accorded them by a principles based approach and earnings will not reflect the firm's underlying economic picture. Accounting for the write-off of goodwill provides a good example to test whether shifting from a rules-based approach to one that is more principle based has an unintended consequence of fostering earnings management. In this paper we present the association between goodwill impairments under SFAS No. 142 and management's reporting incentives. By examining this association, we try to ascertain whether goodwill impairments under SFAS No. 142 are more closely associated with the underlying economic factors captured by the implied fair value of goodwill or with management's reporting incentives.

In this study, we find that there has been both an economic rationale and an earnings management component in the write-off of goodwill. An interpretation of the findings of this study is that management in exercising their judgment in determining whether goodwill has been impaired is basing that judgment on data indicating that goodwill has in fact been impaired. However, in deciding how much to write-off they are determining this amount based on earnings management incentives. In the case of goodwill, it appears that a principles based approach can lead to the best economic decision, but that it also allows for the manipulation of the financial statements.

Using an Ounce of Prevention – Does it Reduce Healthcare Expenditures and Reap Pounds of Profits? A Study of the Financial Impact of Wellness and Health Risk Screening Programs

Janet Phillips, Southern Connecticut State University

Abstract

As we are all well aware, healthcare expenditures in the United States are out of control and growing at epic proportions. Since private industry shoulders a significant burden of paying these rising healthcare costs, the huge and ever increasing sum paid by these corporations continues to impact the United States economy translating into higher prices of services and manufactured goods and reduced job opportunities when companies outsource jobs or locate manufacturing facilities to avoid paying healthcare benefits for workers. One approach to control rising healthcare costs and contain corporate financial responsibility is to establish wellness and health risk screening programs to improve the health of employees.

This research project was accomplished to examine relationships between total health care cost per employee, wellness and health risk screening programs and corporate financial results. Total health care cost per insured individual was gathered through an online survey directly from health care benefit administrators. The survey asked information about wellness and health risk screening programs and the related responses were used as independent variables. Corporate financial results were requested from a web based portal product. The sample of 653 health care benefit administrators receiving the survey was obtained from an online business directory of business contacts and company information – "Jigsaw". Two requests to participate in the online survey were send out resulting in a data sample of 22 cases – an approximate response rate of 3%.

Because a large mailing of 653 cases produced only 22 usable cases and many independent variables were dichotomous, no statistically significant results emerged to explain dependent variables in regression analyses. It was concluded that the statistical results do not provide reasonable support to reject or fail to reject the null hypotheses.

However, many important conclusions are suggested from the limited data available. First 82% of the respondents answered "YES" when asked if the company funds their own employee wellness program. This is an impressive number of companies who have recognized wellness

programs as a potential means to reduce employee health care costs. In regards to specific programs, at least fifty percent of respondents answered that they have smoking cessation, employee fitness, counseling, health risk screening and bio-metric screening programs. The longevity variables depict companies have in fact been vigilant in attempts to reduce health care expenditures for a number of years. Some companies report the existence of weight loss clinics, smoking cessation programs and counseling programs for over ten year periods of time.

Value Relevance Of Goodwill Impairments

Lianzan Xu, William Paterson University of New Jersey;
Francis Cai, William Paterson University of New Jersey

ABSTRACT

FASB statements SFAS 141 and SFAS 142 remove the pooling method for business combinations and change the approach to how goodwill is accounted for subsequent to its initial recognition. We test empirically the value relevance of Standard & Poor's Core Earnings which excludes impairment of goodwill charges, and the value relevance of impairment of goodwill charges using data from 2007 Compustat Research Insight databases. We find that Standard & Poor's Core Earnings are highly value relevant, as expected. We also find that the coefficients on impairment of goodwill charges are either not significant or with a wrong sign. Our evidence supports FASB SFAS 141 to eliminate the pooling method for mergers and acquisitions. Our evidence further suggests that impairments of goodwill are a non-cash charge and thus not value relevant to market analysts.

The Prediction of Next-Year Cash Flows with Current Earnings As a Test of Earnings Usefulness

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Taewoo Park, Kennesaw State University

ABSTRACT

Kim and Kross (2005) show that the power of predicting one-year-ahead cash flows by current earnings has significantly increased over last decades, while the explanatory power of return-earnings regressions have decreased over the same period. In this paper we first show analytically that the explanatory power of the cash flows prediction regression is exaggerated by the correlation between the value-unrelated components in the dependent variable (next-year cash flows) and the independent variable (current year earnings). We also obtain empirical results that are consistent with the increase in such correlation occurring from decreases in volatility of cash flows and earnings, which we conjecture is due to income smoothing and the resulting cash flows smoothing.

Quality Of Reported Earnings By Chinese Firms: The Influence Of Ownership Structure

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Asokan Anandarajan, New Jersey Institute of Technology;

Kun Wang, Tsinghua University

Abstract

This paper examines the influence of ownership structure on earnings quality of firms listed on the Chinese Stock Exchange in which area limited research has been done. By empirically testing four contemporary earnings quality measures for 1,438 firms listed on Shenzhen Stock Market and Shanghai Stock market during the period of 1999 to 2006, we found that although State controlled firms are bigger in size and more profitable on book, Private firms, Foreign firms and Society owned firms outperform the State controlled firms in earnings quality, measured by volatility of earnings, variability of earnings over cash flows, and correlations between accruals and cash flows, with Foreign firms having the highest earnings quality among

all types of ownership structure groups. However, inconsistent with prior US or international accounting literature, the earnings reported by state controlled firms are not less negatively skewed as compared to the non-state controlled firms. The results also indicate that Employee-owned firms exercise most discretion in earnings management and rank least in all four earnings quality tests. Our paper will contribute to the extant earnings quality and accounting literature by examining if and how ownership structure influences quality of reported earnings. The findings in particular will have direct policy implications for the China Securities Regulatory Committee (CSRC).

Value-at-Risk Disclosure, Cost of Equity Capital, and Investor Reaction

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ABSTRACT: Using a sample of 24 US banks from 1997 to 2004, we examine the relationship between value-at-risk (VAR) for trading activities and banks' cost of equity capital. We show that the implied cost of equity capital and the bid-ask spread, both proxying for the cost of equity capital, are positively related to VAR, as well as a quality indicator based on bank technical sophistication. The results are consistent with the claims that VAR effectively captures bank trading risk, and that investors care about banks' risk-taking activities. We next examine whether investors fully understand the implication of VAR to future volatility in trading revenues and utilize it in the pricing process. Our test cannot reject the null that bank stock price has fully incorporated the predictability of VAR.

The Effect of "Financial reporting Management" on Knowledge-Flow Management in MNC

Varda Yaari, Morgan State University

Abstract
This study analyzes the much unknown impact of *earnings management* (the practice of firms using financial accounting flexibility to report a desirable earnings figure) on internal resource allocation within the multi-national company (MNC). Specifically, we analyze the profit-

maximizing combination of incentives to subsidiary managers and the intensity of headquarters' intervention activities (HQIA) at the subsidiary level when the profits of the MNC also depend on the knowledge flows between the subs with unobservable benefit. We show that incentives and HQIA are perfect substitutes and that when the MNC relies on HQIA, it may not induce knowledge transfer even when it is beneficial. The choice between an HQIA organization and Incentives organization depends on the cultural gap between headquarter and subsidiaries, and the MNC's structure and strategy. As much as incentives organization is valuable to promote knowledge transfer, since incentives are based on accounting earnings, managers attempt to misrepresent their earnings, which, in turn, may distort the efficient allocation of knowledge flows and increases headquarters intervention suboptimally.

Comparison Of French GAAP, US GAAP And International Financial Accounting Standards In The Insurance Sector

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Abstract

The European insurance sector has undergone phenomenal change as it completed its first phase of transition to International Financial Accounting Standards (IFRS) starting 2005. Certain companies listed on the US stock exchanges have been complying with US GAAP but need to comply with IFRS 2007 hence, which would be a start of Phase 2 of the IFRS transition. Starting with a brief introduction of common differences between French and US accounting environment and onto international accounting harmonization, this paper focuses emphasis on the French insurance sector and tries to analyze the effects of the first phase of IFRS transition French insurance companies. Important international accounting standards relevant to the insurance sector have been discussed followed by effect of these accounting standards on French insurance companies and response to IFRS by such companies. Financial results of two companies (public and non-public) have been studied for impact on its first financial statements in compliance with IFRS. Thoughts and views in the form of conclusion is based on opinion developed through detailed readings including insurance markets in various countries, US, French and International accounting standards relevant to the insurance sector, views of

companies which have implemented IFRS, views of certain known international consulting firms and general opinion on this current topic.

The Abuse of International Transfer Pricing by Multinational Companies

Wagdy Abdallah, Seton Hall University;
Athar Murtuza, Seton Hall University;
Nadeem Firoz, Montclair State University

Abstract

Transfer pricing fraud is considered as the biggest tax scam on the globe. Abuse of transfer pricing is a key tool that multinational companies use to fool tax authorities of different countries into thinking they have almost zero profit, and hence should not pay any corporate income taxes. Tax authorities and several international organizations try to detect abnormal pricing in international trade. The purpose of this paper is fourfold: (1) to understand the reasons and consequences of international transfer pricing fraud, (2) to explore the challenges that multinational companies of different industries, such as pharmaceutical and Life Science, face to comply with tax regulations of transfer pricing; (3) to know the penalties and documentation requirements of international transfer pricing in the U. S. and EU for multinational companies; and (4) to suggest and recommend a workable solution of the abuse of transfer pricing for both foreign governments and multinational companies..

Assessment of Accounting Knowledge Findings of Pilot Study

Nashwa George, Berkeley College

The focus of this presentation is to evaluate students' retention of accounting knowledge at the senior level. In developing a retention assessment instrument the following questions were examined: How do we know if students have learned? What have students learned? What accounting knowledge have students retained? The senior year capstone course content indicated the need for basic financial analysis skills. Seven objectives were identified. A pilot study was conducted of two groups, one at the beginning of the semester and one at the end of the semester. Students were asked to complete 50 theoretical and computational multiple choice

questions. The testing instrument was administered to business students enrolled in two sections of the capstone course.. The results indicated that on average the number of right answers was less that 50%. Subsequently, we reviewed our financial and managerial course outlines and recommended a realignment of course content; the integration of accounting information in other courses; the need to evaluate accounting proficiency prior to capstone course enrollment and remediation programs

Participants in this session will learn the methodology used to develop the assessment instrument and the evaluation methods used. In addition, a best practices outcome will be presented.

Approaches to Learning, Assessment Preferences, and Learning Outcomes of Intermediate Accounting Students

Susan A. Lynn, University of Baltimore

Abstract

Prior research has established that students' approaches to learning affect their learning outcomes and quality of learning. Students' approaches to learning are influenced by their perceptions of the learning environment and assessment. The present study extends prior research by examining the relationship among approaches to learning, assessment preferences, and learning outcomes of accounting majors enrolled in a U.S. public university with a diverse student population. Students with higher deep approach scores had higher preferences for assessment involving higher- order thinking tasks, integrated assessment, and non-conventional assessment. Students with higher surface approach scores had lower preferences for assessment involving higher-order thinking tasks. Student approaches to learning and assessment preferences were also related to differences in student learning outcomes. The implications of the results for teaching and learning in accounting education are discussed.

A Comparative Analysis of Undergraduate and Graduate Students' Perception of Effective Assessment Strategies: Is There a Relationship or a Disconnect?

Joseph J. Riotto, New Jersey City University

Abstract

It is unknown as to the relationship or disconnect between undergraduate students' desired assessment and graduate students' desired assessment. Does the migration of the undergraduate student to a graduate student change the desired assessment? Assessment is a critical part of the teaching and learning process and is a driving force for accreditation and for greater calls for accountability. The learner-centered paradigm challenges our basic assumptions about how people learn and how we measure what students know and are able to do with what they have learned. This study provides insights to the migration of undergraduate student to the graduate level. In short, this study revealed what undergraduate and graduate students would like as assessment tools versus what is currently being utilized. In addition, this approach could be used as a model for other institutions in the development of their assessment tools in the student-learning paradigm.

The Structure of Accounting Education In The United States: A Revisit Of The Argument For Separate Professional Schools Of Accountancy

Mary F. Jackson-Heard, Elizabeth City State University;

Freda McBride, Elizabeth City State University

Abstract

Accounting is the only profession without a structured path to entering the profession. This paper compares the history and education processes of accounting and law. It discusses the diversity in the accounting education structure in public institutions in two states and the Federation of Schools of Accountancy full members. The authors provide support for the need for standalone Schools of Accountancy and a structured path to the Certified Public Accountant designation in the United States. The authors argue that the education path and the accreditation of the standalone Schools of Accountancy should be the province of the American Institution of Certified Public Accountants or some similar entity designed for the purpose.