

Plain Paper Statements: Maintaining the New Expectations Gap

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ABSTRACT

Expectation gaps exist not only between CPAs and financial statement users' expectations, but also between the intent of both parties and the intent of the relevant authoritative standards. For nearly two decades, academics and professionals examined expectation gaps related to review and compilation services. Standards for Accounting and Review Services (SSARS) Number (No.) 1, "Compilations and Review Services," (AICPA 1979) provides guidance for public accountants associated with unaudited financial statements through compilations and review. SSARS No. 8, "Amendment to SSARS No. 1, Compilation and Review of Financial Statements," (2000) extends this guidance to "plain-paper statements." Unlike traditional compilations, plain-paper statements are intended only for the use of informed members of management.

While prior studies examined reliance and assurance gaps, this study reports on gaps relating to concepts in the plain-paper standard itself. Specifically, we examine perceptions of what constitutes "submitted financial statements," "third parties," "informed members of management," and other concerns described in SSARS No. 8 comment letters. In 2004, we surveyed practicing CPAs and sophisticated financial statement users (bankers) to measure their perceptions of these concepts and concerns. While we find many similarities between CPA and sophisticated user perceptions, differences exist between the standard's intent and the understanding of the involved parties, even for CPAs somewhat familiar with SSARS No. 8. The results suggest the need for more education to reduce or eliminate this gap.

Data and Survey Availability: Data results and survey instrument are available upon request.

Plain Paper Statements: Maintaining the New Expectations Gap

In the late 1970's, the CPA profession began to focus on reducing expectation gaps for an expanding level of services in which the CPA is associated with financial statements. An expectation gap can be defined as the difference between CPAs' and financial statement users' perceptions, as well as differences between the understanding of these parties and the intent of industry standards.

While several studies have examined gaps relating to engagements offering various levels of assurance, few have investigated plain paper statements. This study examines expectation gaps relating to Standards for Accounting and Review Services (SSARS) Number (No.) 8, "Amendment to SSARS No. 1, Compilation and Review of Financial Statements," (AICPA 2000), which deals with the preparation and submission of plain paper statements intended for internal management. We find that conceptual expectation gaps exist for a variety of concerns that prior research and comment letters to SSARS No. 8's exposure draft have cited.

The paper's primary motivation is to measure gaps relating to what constitute submitted financial statements and internal management, which could have implications for audits and other CPA-associated assurance engagements that have similar problems related to what financial statement users believe constitute the definition and limitations of CPA-provided services. The Accounting and Review Services Committee (ARSC) issued SSARS No.8 in 2000 to allow users significant time to gain an understanding of the standard's conceptual definitions. If reported gaps exist, unintended users may rely on plain paper statements.

The paper's secondary motivation is to examine specific concerns not found in prior studies. For example, bankers are in a unique position as sophisticated users, having prior experience with various levels of limited and no assurance accountant's reports (as in reviews

and compilations), where prior research has reported expectation gaps. While the statements are clearly marked for internal management use only, we find that 68% of the bankers have contact with plain-paper statements. It appears that third parties who have exposure to plain-paper statements do not understand their constraints and limitations, or do understand and ignore the limitations, perceiving a positive cost/benefit in using “no assurance” statements.

Perhaps some history will clarify the problem here. SSARS No. 1, “Compilations and Review Services” (AICPA 1979) offered guidance for public accountants associated with unaudited financial statements for nonpublic entities. Prior academic studies have examined the gap between the purpose and perception of both reviewed and compiled financial statements. Most studies have focused on perceived levels of assurance and financial statement reliability. For example, Reckers and Pany (1979) and Pany and Smith (1982) examined the effect of the extent of auditor involvement on the perceived reliability of an entity's interim financial statements, reporting that financial analysts found no significant differences in perceptions of reliability between audit and review engagements. Strawser (1991) found some user uncertainty about the nature of review reports, the level of assurance offered, and confidence in audits and review engagements. Similar studies, using bankers as surrogate sophisticated users (Johnson et al. 1983; Pillsbury 1985; Nair and Rittenberg 1987) reported supporting results. While users of compiled statements perceived some level of assurance that the statements conformed to GAAP and contained no errors, Yardley (1989) predicted that such perception gaps should diminish over time as users gain experience.

At the start of this decade, the American Institute of Certified Public Accountants’ (AICPA, 2000) ARSC issued SSARS No. 8 to offer guidance for public accountants associated with plain paper statements. Unlike traditional compilations, plain paper statements are intended

for *informed members of management*, i.e., those who have knowledge of the company; can put the company's financial information into context; and understand the limitations of the financial information. Plain paper statements require no traditional compilation report, but can be issued with an abbreviated report. SSARS No. 8 also broadens the definition of *submitted statements* to "presenting to a client or third parties financial statements the accountant has prepared either manually or through the use of computer software." CPAs' association with plain paper statements raises new concerns, discussed in the comment letters to the standard's exposure draft.

Research has not yet examined financial statement users' understanding of SSARS No. 8 and its underlying conceptual definitions. Using content analysis, we examined SSARS No. 8 comment letters to isolate potential perception gaps. We used these comment letters and perception gaps identified in prior studies to develop a survey administered to CPAs and bankers. We extend prior research by examining perception differences between CPAs and sophisticated users, plus any differences between what these parties understand and what the standard actually says.¹ We also ask respondents to indicate their level of agreement to a series of statements and their reactions to several plain paper statements concepts and definitions.

The paper is organized as follows: The first section summarizes the history of authoritative standards relating to compilations and reviews and discusses the relevant research. The next section describes the study's research questions and methodology. The following section presents results and analysis of the data collected through the content analysis of the comment letters and administered survey. The last two sections present our conclusions, suggestions for future research and a statement of the study's limitations.

PRIOR RESEARCH

Professional History

In 1974, the AICPA established the Commission on Auditors' Responsibilities (Cohen Commission) to study whether a gap existed between reasonable public expectations and auditors' performance. The commission identified several possible deficiencies in the auditor's report that impaired communications between auditors and financial statement users and suggested that auditors clearly communicate the purpose of any service. Early research focused on closing this gap for audited financial statements.

Practitioner journals concurrently noted another gap in user perceptions and CPAs' associations with unaudited financial statements. For example, Bainbridge (1979) found that 51% of CPAs and 64% of bankers incorrectly believed that unaudited financial statements provided sufficient evidence to ascertain that the clients' internal control system performed as prescribed. To reduce the gap² found by this research and in response to the *1136 Tenants'* (1971) matter where the court found the CPA responsible for not detecting a financial fraud in unaudited financial statements, the AICPA (1979) issued SSARS No. 1 to provide guidance for CPA association with compilation and review engagements for nonpublic entities. Many CPAs long believed that the new standard improved the profession (Reed, Murray and Murray 1989).

Prior academic studies have examined the gap between the purpose and perception of both reviewed and compiled financial statements. Most studies have focused on perceived levels of assurance and financial statement reliability. Reckers and Pany (1979) and Pany and Smith (1982), for example, examined the effect of the extent of auditor involvement on the perceived

¹ Reinstein et al. (2006) show that financial statement users place some reliance on plain paper financial statements, regardless of the accountants' express statements to assign no assurance and that these statements are for "internal [management] use only."

² The term "expectations gap" came into vogue in the late 1980s, with the issuance of SAS nos. 53-61.

reliability of an entity's interim financial statements, reporting that financial analysts found no significant differences in perceptions of reliability between audit and review engagements. Strawser (1991) found some user uncertainty about the nature of review reports, the level of assurance offered, and confidence in audits and review engagements. Similar studies, using bankers as surrogate sophisticated users (Johnson et al. 1983; Pillsbury 1985; Nair and Rittenberg 1987) reported supporting results. While users of compiled statements perceived some level of assurance that the statements conformed to GAAP and contained no errors, Yardley (1989) predicted that such perception gaps should diminish over time as users gain experience.

However, SSARS No. 1 prohibited CPA association with plain paper statements, creating a new debate (e.g., Guy, Israeloff and Hepp 1990). Plain paper financial statements entail CPA-submitted statements to clients for informed management use but not for third parties. Early concerns included clients incorrectly expecting CPA assurances with plain paper statements and fear that bankers and other unauthorized parties would improperly receive and rely on such financial statements. More recent concerns include ascertaining proper procedures when clients and CPAs make changes to financial statements on personal computers and transmit them, as well as source documents (e.g., over the Internet). This allows CPAs to “assemble” financial statements without assurances in order to compete with non-CPA bookkeeping services and new entities such as American Express Financial Services began providing recently.

To address these and other similar concerns, the ARSC (AICPA, 2000) issued SSARS No. 8, “Amendment to SSARS No. 1, Compilation and Review of Financial Statements,” which states clearly that CPAs should adhere to the provisions of SSARS No. 1 when compiling financial statements for client or third party general use. The statement also allows CPAs to

perform less detailed, less extensive services when the distribution of such reports is restricted to "informed" members of management and if each statement page is marked with the phrase, "restricted for internal use only." SSARS No. 8 also defines *submitted* as "presenting to a client or third parties financial statements that the accountant has prepared either manually or through the use of computer software (SSARS No. 8, 04 AICPA 2000)."

Prior Academic Research

Liggio (1974) suggests that expectation gaps, such as those this study recognized, had led to many unwarranted increases in CPAs' responsibilities and additional lawsuits against accountants. He recommended the profession clarify its actual responsibilities to financial statement users, including that audit reports do not "guarantee" the accuracy of financial statements. Solomon et al. (1983) also warned that ambiguous compilation standards would increase CPA liability. While little recent evidence exists that CPAs suffered losses due to compilation-related lawsuits, the costs of out-of-court settlements are not publicly available (Anderson and St. Pierre 1984).

Due to the increase in CPAs' responsibilities and potential litigation, the AICPA tried to reduce the gaps in understanding between auditors and users of financial statements using auditing standards; however, academic research finds mixed results. Baron et al. (1977) found that small-firm CPAs, large-firm audit partners, corporate financial managers, bankers and financial analysts thought Statements on Auditing Standards (SAS) Nos. 16 and 17 inadequately clarified the CPAs' responsibilities regarding detecting and reporting on clients' deliberate material falsifications, other material misstatements and non-material illegal acts. However, Miller et al. (1990) found that loan officers from large and small banks could identify both management and auditor responsibilities under the new audit report discussed in SAS No. 58,

finding it more understandable and of greater value than the prior report. Unfortunately, Humphrey, Moizer and Turley (1992) noted that the expectation gap has not changed much in the US (or UK) since the beginnings of company audits in the nineteenth century, and Epstein and Geiger (1994) found that about half of their surveyed investors wanted absolute CPA assurance that the statements were free from material misstatements due to errors.

Other academic research examined various users' ability to understand differing levels of assurance that various CPA reports and associations provide. Again, mixed results arise. Libby (1979) examined auditor/banker perception gaps for various forms of auditor reports, using a series of audit report examples, and found no significant differences between CPA and user perceptions. However, post-SSARS No. 1, Pany and Smith (1982) surveyed financial analysts' perceptions of various degrees of auditor association with quarterly data. Unlike Libby (1979), they found that financial statement users could not recognize differences in levels of auditor association.

Using a sample of bank loan officers and audit partners, Pillsbury (1985) extended Pany and Smith's work by viewing eight different types of CPA professional services³ While finding bankers and auditors to hold consistent perceptions of assurances provided by most types of CPA-associated financial statements and services, significant differences existed for financial forecasts and the review of interim financial statements. Nair and Rittenberg (1987) also examined user perceptions of alternative types of CPA-associated reports, but they found differences for review and compilation terms and concepts.

Prior research suggests that improving communication in CPA reports and letters (e.g. engagement letters) should reduce the CPA/user expectation gap. However, Sumners, White and

Clay (1987) found that smaller firms were less likely to use engagement letters for audits, reviews and compilations.⁴ This result is important since involvement in plain paper statements may be more pronounced in firms that provide services for smaller clients. While the literature (e.g., Bartlett 1991; Schneider 1995; Yardley 1989) suggests that improved audit reports and communications may reduce the perception gaps, Strawser (1991) warns that the accountants' report may fail to influence user decisions because users often do not consider the communicated report as information. Despite the warning, Hian and Woo (1998) and McEnroe and Martens (2001) concluded that public education and additional CPA disclosures could reduce the auditing expectation gap.

Golen, Margheim, and Pany (1998) extended prior research to include assembled plain paper financial statements. Examining bank loan officers' loan application decisions, they report that *who* assembled the financial statements did not affect the actual loan decision. However, bank loan officers were more confident with CPA firm-assembled statements. No study has examined SSARS No. 8 concerns and effects. Our study examines financial statement users' understanding of SSARS No. 8's conceptual definitions, particularly on what constitutes "informed management" and "submitted financial statements." With the standard in effect since 2000, we also extend prior research by assessing the current perceptions of CPAs and bankers regarding plain paper financial statements. The presence of conceptual expectation gaps indicates the potential for plain paper statement misuse, contrary to Yardley's (1989) prediction that perception gaps should diminish over time. This conflict helps to indicate the need for research and education on SSARS related engagements.

³ The eight CPA professional services were interim reviews of public entities, compilations of non-public entities, contract compliance, supplementary information, standard audits, condensed financial statements, agreed-upon procedures and reviews of financial forecasts.

RESEARCH METHODOLOGY AND RESPONDENTS' DEMOGRAPHICS

To help measure expected third party use of SSARS No. 8, we developed a survey to examine sophisticated users' (i.e., bankers as third parties) use and conceptual understanding of plain paper statements. We compare their responses to those of members of local, regional and national CPA firms. Survey questions focused on CPA and sophisticated users' concerns cited in the SSARS No. 8 comment letters on the AICPA's 1999 Exposure Draft (ED), and Young and Madray's (2001) examples of "informed" members of management and "submitted financial statements." Our survey focuses on CPA and sophisticated user perceptions' of conceptual definitions and concerns.

Using content analysis, we examined the 85 letters commenting on the SSARS No. 8 ED. The letters represented opinions of all "Big" CPA firms, a mix of smaller firms and academics. Initially, we analyzed a random sample of 25 of the 85 comment letters, allowing us to identify "concern" variables to classify during the analysis process. The random sample of 25 letters produced nine consistent content analysis categories. The identified categories included *vague guidance, need for a new standard, what constitutes third parties versus informed management, insuring statements are for "Management Use Only," accountant's level of responsibility for plain paper statements, defining "submitted financial statements," reporting versus non-reporting situations, understanding with the client (the need for engagement letters), and the level (assurance) of service being offered.* We then read the entire population of 85 comment letters (which included the original 25 letters), classifying concerns by the content analysis coding categories. To help increase our instrument's validity, each researcher independently categorized these items, and then we reconciled any differences (which were minor). We found

⁴ This practice may well soon change, in light of the issuance of SAS No. 108 (2006) that now requires all practitioners to issue engagement letters or similar contracts for all audits.

a high degree of reliability for the coded categories throughout the 85 comment letters, with each coder successfully classifying the comment letter concerns within these nine categories. After developing the survey, we pre-tested the instrument with 20 local, regional and international CPA practitioners, users (i.e., bankers), accounting professors and professional survey instrument developers. Table 1 reports these ED concerns in descending order of frequency.

[PLEASE INSERT TABLE 1 HERE]

The most common ED concern was “defining submitted financial statements” (40%). Comments and questions referenced types of CPA firm services that could fall under SSARS No. 8, as well as electronic forms of information. Respondents wanted to limit what could be viewed as plain paper statements. The following is an example of a comment coded as “defining submitted financial statements:”

Are we really talking about a traditional set of financials compiled by the outside accountant, or can less than this be construed as submitted financial statements? If we remotely make a single AJE and the client pulls F/S from their system based on our AJE are these submitted F/S? What about write-up work? The standard is not current with technology. Is there a difference between ‘submitted’ and ‘generated’? What about personal F/S?

“What constitutes third parties or informed management” was cited in 38 percent of the comment letters. Concerns generally focused on defining informed management, as opposed to identifying third parties. Given the potential litigation, comments and questions were asking for clarification of who would be defined as informed management. Again, respondents tried to limit those who fall under SSARS No. 8 and to whom they are responsible. The following is an example of comments coded as “what constitutes third parties or informed management”:

However, in creating financial statements for “management only” we first need to define management and assure the statements’ restricted use. No one is convinced that the financial statements will only be used by management. There needs to be a distinction between third parties and management. Are

these statements meant for management or just those who lack independence?
Do we need to expand the definition of management?

Thirty-three percent of respondents questioned the level of service offered by plain paper statements. ED respondents were concerned with offering a lower quality engagement in order to compete with non-CPA services. Does price competition with non-CPAs drive the acceptance of plain paper statements? Below is an example of a comment coded as level of service concerns:

The amendment eliminates the distinction between CPAs and non-CPAs by reducing the quality of work to a less than professional level. But we are offering a less expensive product to compete with those in related areas. Have we created “assembled” financial statements without using the term assembled? Is this a new (lower) level of service? Is this form of compilation a lower level of service (for management only)? Are we sacrificing reliability for timeliness?

We focus on the above concerns that at least one-third of the comment letter respondents mentioned. Of the remaining concerns, 27 percent focused on defining situations requiring an Accountant’s Report, and 18 percent cited a need to “assure an understanding with the client.” Less frequently mentioned concerns included the need for a new standard (15%), ensure “for Management Use Only” (14%), accountant’s responsibility (11%) and the ED offering vague guidance (9%).

Overall, comments sought to limit a CPA’s responsibility, define whom to consider “informed management” and what constitutes submitted “plain paper statements,” and clarify the need for an Accountant’s Report. While “vague guidance” was only mentioned in nine percent of the comment letters, each of the other categories of concern desired both concise and limiting definitions, while questioning key concepts relating to plain paper engagements.

The most frequent concerns cited in comment letters for the AICPA 1999 ED were defining “submitted financial statements” and “informed management,” while questioning the

future standard's key concepts. As in other studies, bankers served as surrogates for sophisticated users--as bankers often use financial statement information for decision making purposes. Relying on these results and prior research, we asked three research questions:

- (1) What are sophisticated users' and CPAs' levels of familiarity with SSARS No. 8's conceptual definitions, issues and limitations?
- (2) Can sophisticated users and CPAs properly identify parties as either members of informed management or third parties?
- (3) Can sophisticated users and CPAs properly identify what constitutes submitted financial statements?

At several professional meetings (e.g., monthly or annual Continuing Professional Education [CPE] meetings of a state CPA Society) in a large metropolitan area, we surveyed participants who had vested interests in these issues. We obtained 111 responses from members of small, medium and large CPA firms ("Public Accountants"). See Appendix 1 for the survey instrument. Surveys were also sent to contact persons (usually vice presidents) from seven various sized banks. The contact person was asked to distribute the survey to their loan officers ("Bankers"). Loan officers could either send their completed surveys to their contact person (who then sent them to the researchers) or mail them directly to us. Respondents who initially returned their surveys to a contact person did so in sealed envelopes. We obtained another 48 surveys from bank loan officers. In total, we obtained 159 responses, of which 111 (70%) are male, 35 (22%) have an advanced degree above the bachelor level, and 99 (62%) are CPAs. While none of the bankers are CPAs, a greater percentage (35.42% versus 18.95%) of bankers had graduate degrees. The public accountants report an average of 24.8 years of public accounting experience, ranging from less than one to 55 years, and an average of 8.0 years of non-public accounting experience, ranging from one to 27 years. The bankers report an average of 14.8 years of banking experience, ranging from two to 45 years.

[PLEASE INSERT TABLE 2 HERE]

Respondents' areas of experience and familiarity with plain-paper statements and SSARS No. 8 are presented in Table 2.⁵ Public accountants were primarily involved in tax work (29%), compilations (38%) and other services (33%), spending 6% of their time working with plain-paper statements. Bankers' reported using compilation statements (58%), plain-paper statements (17%) and other public accounting services (25%).

When directly asked about their experience with plain-paper statements, public accountants report very little experience (20%) and 75% report none. Most bankers report lots or some experience (63%), while a third (32%) report none. Ironically, while bankers reported some experience with plain-paper statements, they noted no familiarity with SSARS No. 8 (100% reported "none"). No familiarity with SSARS No. 8 could explain why two-thirds of bankers report using plain paper statements. Also, they may perceive a positive cost/benefit from using these no assurance statements. However, external decisions based on financial statements intended for internal management use only may lead to unsupported actions by sophisticated users.

Similarly, only 25% of public accountants noted some level of familiarity with SSARS No. 8. The reported mismatch between use/experience and standard familiarity may be one source of expectation gaps. To examine this issue, we divided our CPA sample into two groups: (1) Experienced (Exp) CPAs – 26 subjects reporting "little," "somewhat," or "very" familiar with SSARS No. 8; and (2) Non-Experienced (Non-Exp) CPAs – 70 subjects reporting no familiarity with SSARS No. 8. Since all of the bankers reported no familiarity with SSARS No. 8, these 45 subjects form the third comparison group.

RESULTS AND ANALYSES

Research Question (1): Conceptual Definitions and Concerns

Part 2 of our survey asks bankers and CPAs to rate their level of agreement or disagreement (on a 7-point Likert scale where 1 = strongly disagree and 7 = strongly agree with the statement) with several statements concerning SSARS No. 8 in general, its specific effects on financial statements, and its effects on the accounting profession. Table 3 summarizes the means and standard deviations of the ratings and tests of differences between experienced CPAs, non-experienced CPAs, and bankers. Significant between group differences are highlighted in bold.

Our first research question compares sophisticated users' (bankers) and CPAs' understanding of SSARS No. 8's definitions, concepts and related issues. CPAs with some familiarity with SSARS No. 8 understand the purpose and effects of the statement more than CPAs and sophisticated users (bankers) who have no familiarity with SSARS No. 8. However, these experienced CPAs do not completely understand the definitions in SSARS No. 8, as evidenced in their response to the definition of "submitted" financial statements (Q8).

[PLEASE INSERT TABLE 3 HERE]

First, concerning the need for SSARS No. 8, we find that CPAs more than bankers (p value = .04) agree that users already had difficulty understanding the levels of assurances provided by CPAs even before SSARS No. 8 (Q13). Also, non-experienced CPAs and bankers slightly agree that SSARS No. 8 creates a new and unnecessary rule (Q6), whereas experienced CPAs are neutral on this issue, but all three groups do not significantly differ from each other on this issue (p value = .24).

Second, concerning the potential negative effects for CPAs and users arising from the issuance of SSARS No. 8, we find the following differences. Bankers perceive more significantly than CPAs (p value = .03) that firms will engage CPAs to issue plain-paper

⁵ In some cases, both CPAs and bankers reported more than one area of experience.

statements due to the service's lower cost (Q12), but issuing plain-paper statements will negatively impact the CPA's role as a certified professional (Q2; p value = .00), will negatively affect the overall effectiveness and quality of financial statements (Q5; p value = .01), and could lead to deceptive reports and to poor user decision-making (Q3; p value = .01). Bankers also perceive more significantly than CPAs (p value = .00) that SSARS No. 8 allows non-CPAs to issue plain-paper statements, thereby bringing substandard work to the client and to the public (Q1). These results say that bankers perceive that SSARS No. 8 increases the issuance of plain-paper statements but that these statements will lead to negative results and perceptions of CPAs.

On the other hand, CPAs are either neutral (non-experienced CPAs) or disagree (experienced CPAs) with these negative issues. Experienced CPAs significantly disagree more than non-experienced CPAs that plain-paper statements will bring substandard work to the client and public (Q1), could result in deceptive reports and poor decision-making (Q3), and will negatively affect the CPA's role as certified professional (Q2) (p values = .00). Although not significantly different, experienced CPAs disagree more than non-experienced CPAs that plain-paper statements will negatively affect the overall effectiveness and quality of financial statements (Q5). Thus, those most experienced with SSARS No. 8 do not perceive that plain-paper statements will lead to negative results for CPAs.

Finally, on more specific attributes of SSARS No. 8, bankers and CPAs tend to agree that: (1) plain-paper statements will end up in the hands of third parties (Q4); (2) the stamp "for management's use only" or the CPA's letterhead on the statements will inappropriately associate the CPA with the statements (Q9); (3) clients may place unwarranted reliance on plain-paper statements (Q11); and (4) plain-paper statements should be limited to interim reporting only (Q10). These responses mimic the major concerns listed in the ED comments. In addition,

bankers and non-experienced CPAs tend to agree, inaccurately, that all material modifications to financial statements constitute “submitted” financial statements (Q8). Despite their familiarity with SSARS No. 8, experienced CPAs are more neutral and only slightly disagree (mean = 3.87) with this statement, indicating their insufficient knowledge of “submitted” financial statements.⁶

Research Question (2): Informed Management

Our second research question asks whether bankers and CPAs can correctly classify client members as third parties or informed management per SSARS No. 8—the second most frequently identified concern in the SSARS No. 8 comment letters summarized in Table 1. The answer is it depends. CPAs familiar with SSARS No. 8 can adequately classify knowledgeable members of management and owner/managers. Sophisticated users (bankers) and CPAs unfamiliar with SSARS No. 8 also can classify knowledgeable members of management and owner/managers fairly accurately. However, all CPAs and bankers are less successful at properly classifying board members, shareholders, and management who lack financial knowledge.

We developed Part 3 of our survey from the examples of third parties and informed management used by Young and Madray (2001, p. 49). Subjects rated 11 client individuals (six scenarios) on a 7-point Likert scale where 1 = third party, 7 = informed management and 4 = either. Items 2, 3, 5 and 6 on the scale were used to indicate a degree of strength of opinion as to whether the described individual was a third party or informed management. Table 4 summarizes the means, standard deviations and ranges of these ratings, plus Young and Madray’s “correct” answers. Significant between-group differences are highlighted in bold.

[PLEASE INSERT TABLE 4 HERE]

⁶ We discuss the issue of defining submitted financial statements in more detail in a later research question.

The most notable finding in Table 4 is that the means for all three subject groups are in the same direction for all eleven clients and not significantly different from each other except for 4 client ratings. Responses regarding “members in management” (scenarios 1 – 4) are in the correct direction, i.e., closer to 1 for third party or closer to 7 for informed management, with experienced CPAs’ mean ratings being the closest to the “correct” answer. But responses for “board members” (scenario 5) and “managing shareholders” (scenario 6) are not in the correct direction, since all bankers and CPAs rated these members as “either” (close to 4) when SSARS No. 8 defines these members as third parties or informed management.

For scenarios 1-3, CPAs familiar with SSARS No. 8 (experienced) understand the differences between third parties and informed management. Their mean responses are not only close to the “correct” answer, but their standard deviations and range of responses also indicate understanding of the definitions.⁷ However, while non-experienced CPAs’ and bankers’ mean ratings are in the correct direction and fairly close to the correct answer, their range of responses and standard deviations raise questions as to how many subjects understand the definitions.

Also, scenarios 4 (Sales Manager), 5 (Board Members) and 6 (Shareholders), though not significant between groups, indicate much uncertainty. For these scenarios, the responses extend over the entire range from (1) third parties to (7) informed management. The resultant 1.5 through 2.5 standard deviations indicate a large spread of responses within each sub-sample.

To examine further the distribution of ratings, we calculated the percentage of responses for each scale measure (1 through 7) by subject group. Table 5 summarizes these calculations and resulting distributions. The data clearly show that all subjects, particularly those with familiarity with SSARS No. 8 (experienced CPAs), can more accurately classify members of

⁷ Smaller standard deviations represent less variation in responses. Likewise, smaller ranges indicate less variation because responses use only part of the measurement scale, not the whole scale.

management (scenarios 1, 2 (Jane), and 3). The classification ratings for sales manager (scenario 4), board members (scenario 5), and shareholders (scenarios 2 and 6) are clearly distributed over the entire measurement scale, indicating no clear understanding of SSARS No. 8 definitions for third parties and informed management. Even those with familiarity with SSARS No. 8 could not clearly classify these clients per the statement's definitions.

[PLEASE INSERT TABLE 5 HERE]

Research Question (3): Submitted Financial Statements

What constitutes “submitted” financial statements is the most frequently cited concern described in SSARS No. 8 comment letters summarized in Table 1. Our third research question asks whether bankers and CPAs can correctly classify what constitutes “submitted” financial statements per SSARS No. 8. The answer is primarily yes for CPAs and no for bankers.

Bankers generally (measured as simple majority) viewed all seven scenarios as submitted statements, even though physical financial statements were not handed to the client in four of the scenarios. In contrast, CPAs generally viewed only three of the seven scenarios as submitted, and all three scenarios involve handing the client a physical copy of financial statements.

Bankers were generally correct in one of seven scenarios, while CPAs were correct in four of the seven scenarios. Interestingly, the CPAs familiar with SSARS No. 8 performed no better than the CPAs unfamiliar with SSARS No. 8.

We developed Part 4 of our survey from Young and Madray's (2001, p. 47) examples of submitted financial statements. Subjects classified seven scenarios as “yes” or “no,” where “yes” means financial statements as described in the scenario are “submitted” and “no” means financial statements are not “submitted” as defined in SSARS No. 8. SSARS No. 8 broadens the

definition of *submitted statements* to “presenting to a client or third parties financial statements the accountant has prepared either manually or through the use of computer software.”

Table 6 summarizes the frequency and percentages of bankers’ and CPAs’ ratings of “yes” and “no,” plus the correct answer according to Young and Madray. The subject groups that correctly classify the scenario are highlighted in bold. Asterisks indicate any scenarios with significant differences between experienced CPAs, non-experienced CPAs and bankers.

[PLEASE INSERT TABLE 6 HERE]

To test for correct classification, we considered an answer as “correct” if more than 75%⁸ of the subjects in the group classify the scenario the same as Young and Madray (2001). All subjects correctly classified two scenarios – 1 and 4. Scenario 1 – the CPA prepares financial statements for the corporate tax return and does not give the statements to the client – is correctly classified as not submitted financial statements, and scenario 4 – the CPA prepares financial statements for the corporate tax return and gives the statements to the client – is correctly classified as submitted financial statements.

Slightly more than half (53% to 62%) of experienced and non-experienced CPAs classified correctly scenarios 3 and 5. These are the only two scenarios where CPAs and bankers significantly differed (p value $< .05$), where slightly over half (60% and 69%) of the bankers incorrectly classified the scenarios. In both of these scenarios, the CPA modifies the client’s accounting database via data stored on a disk (scenario 3) or by modem access (scenario 5). Per SSARS No. 8, both of these scenarios are not submitted financial statements.

Scenario 7, where the CPA prepares the financial statements for use in the corporate tax return and gives the client the statements, adjusting entries, and tax return, does not represent

⁸ We considered several cutoffs for the correct answer. A 50% cutoff has the potential for half of the respondents’ answers being wrong, while 100% was an unreasonable absolute. We compromised at 75%.

submitted financial statements; however, the responses of the three subject groups are mixed. Experienced CPAs slightly choose the correct response (60%); non-experienced CPAs are 50/50; and bankers slightly choose the incorrect response (66%).

Finally, all three subject groups largely classify scenarios 2 and 6 incorrectly as submitted financial statements when they are not submitted financial statements per SSARS No. 8. In both of these scenarios, at the client's office, the CPA makes material adjustments to the client's accounting database, prints the financial statements, and keeps the statements (scenario 2) or gives the statements to the client (scenario 6).

LIMITATIONS AND FUTURE RESEARCH

This study has several limitations. Our sample was limited to attendees at CPE meetings and responses from bank offices concentrated in one area of a Midwestern state. The non-random sample impairs our ability to generalize the results beyond our sample. However, we feel there are several reasons supporting our sample as representative of the population. First, the conferences themselves were held in a large Midwestern city; the assembly represented a wide variety of CPAs and banking firms. Second, our CPA respondents represent CPAs from all levels of the profession – national, regional and local firms. Our bankers also represent small, medium and large institutions. The conference setting also ensured a nearly 100% response rate, reducing potential non-response bias.

Another limitation is our moderate sample size, especially bankers (n = 48) who represented our sophisticated user group. (However, prior studies have used as few as 25 banker respondents.) A moderate sample size could limit the power of our used statistical tests. Further empirical research on the use of SSARS No. 8 could help standard setters develop and clarify future guidance for reviews, compilations, plain paper statements, and other limited or no

assurance engagements. This research provides standard setters with evidence that expectation gaps exist for plain paper engagements. Future research could study how to best increase CPAs', bankers' and other key users' understanding and use of plain paper statements.

SUMMARY, CONCLUSIONS AND IMPLICATIONS

The accounting profession believed that time and experience would diminish the expectation gap for limited and no assurance engagements. Despite Yardley's (1989) prediction, our results indicate that an expectation gap still exists for plain-paper financial statements, despite the many years that elapsed since SSARS No. 8 went into effect. Our study measured prior and new sources of expectation gaps relating to limited and no assurance engagements. Data for the study was collected from SSARS No. 8 Exposure Draft comment letters and surveys of CPAs and bank loan officers. The comment letters identified new expectation gaps relative to what constitutes informed management, third parties, and submitted financial statements, as well as familiarity with the standard's conceptual definitions and limitations.

We asked whether sophisticated users and CPAs understand SSARS No. 8's conceptual definitions and can properly apply key definitions of informed management, third parties, and submitted financial statements. Our respondents fell into three groups – CPAs with some familiarity of SSARS No. 8, CPAs with no familiarity of SSARS No. 8, and bankers, who all reported no familiarity of SSARS No. 8.

We find that CPAs familiar with SSARS No. 8 do not perceive the standard as leading to negative effects for CPAs, the profession, and users; are able to distinguish between third parties and informed management better than the other CPAs and bankers, but only for members of management, not for board members and shareholders; and are no better at determining submitted financial statements than the other CPAs and bankers. Bankers perceive the most

negativity associated with SSARS No. 8; are able to distinguish between third parties and informed management better than non-experienced CPAs with less variability in responses; but are the worst at determining submitted financial statements.

Researchers and the profession have continually called for education as the main mechanism in reducing expectation gaps. These findings support this call for more education. While CPAs somewhat familiar with SSARS No. 8 understood more of the standard's definitions and provisions, they did not completely understand them and could benefit from more education

Our findings also support the concerns raised in the Exposure Draft comment letters. Respondents had the most difficulty determining "submitted" financial statements as defined in SSARS No. 8. This concern was the cited most often in the ED comment letters (40%). The respondents only properly classified members in management as "third parties" or "informed management"; they did not properly classify board members and shareholders. This concern was the second most cited concern in the ED comment letters (38%).

We also find that bankers and CPAs not familiar with SSARS No. 8 expect that CPAs will now provide more plain-paper statements (because of lower cost) that will end up in the hands of third parties (e.g. bank loan files) and that will result in negative effects for the CPA, the profession and the public. These results support the third most cited concern in the ED comment letters (33%) – what reliability level of service are we providing with these plain-paper statements? With plain-paper statements in many bankers' hands, they may be persuaded by the information even when the CPA explicitly denies any attestation role. Such misinterpretations of the purposes and limitations of SSARS No. 8 reports and other no assurance engagements may lead to their improper use and incorrect decisions, putting capital provider's resources at risk.

We found some problems of financial statement users misconstruing CPAs' limited assurances and definitions of plain paper financial statements, which could well carry over to audits and other CPA-associated assurance engagements.

The concerns identified and supported in this study imply that CPA and user education is needed to reduce this expectation gap. Both the AICPA and American Bankers Association can make significant contributions to this education effort. To further educate clients and third parties, CPAs must establish a clear understanding (e.g., by using proper engagement letters) with their clients in all limited and no assurance engagements as well as in audits.

Table 1

Content Analysis of SSARS No. 8 Comment Letters

Identified Issue	Frequency of Concern n= 85
What constitutes submitted financial statements?	40%
What constitutes third parties or informed members of management?	38%
What reliability level of service are we offering?	33%
When are there reporting vs non-reporting situations? (Accountant's Report)	27%
How do we assure an understanding with the client? (the need for engagement letters)	18%
Why do we need this new standard?	15%
How do we insure "For Management Use Only?"	14%
What is the public accountant's responsibility level for plain paper statements?	11%
Is the guidance too vague?	9%

Table 2
Subject Demographics:
Average Percentage of Time Worked in Accounting Areas,
Experience with Plain Paper Statements and Familiarity with SSARS No. 8

Subject Group	CPAs and Bankers Experience with Each Accounting Area*							Experience with Plain Paper Statements				Familiarity with SSARS No. 8 Rules			
	Audit	Tax	Con-sulting	Reviews	Comp-ilations	Plain Paper Statements	Other	None	Little	Some	Lots	None	Little	Some	Very
CPAs	6%	29%	4%	10%	38%	6%	7%	79	12	10	5	80	18	7	2
								75%	11%	9%	5%	75%	17%	6%	2%
Bankers	3%	4%	NA	15%	58%	17%	3%	14	2	13	15	47	0	0	0
								32%	5%	30%	33%	100%	0	0	0

Total number of subjects = 159

Total number of CPAs = 111

Total number of Bankers = 48

NA – information not available from survey

* Represents each subject group’s average percentage experience for their respective areas.

Table 3
Group Means and Between Group Comparisons for SSARS No. 8 Definitions, Concepts and Issues

Question	Group Means ¹ [Standard Deviation] (Number of Subjects)			Univariate Tests		Significant Group Differences
	Exp CPAs	Non-Exp CPAs	Bankers	F Value	p value	
Q1: SSARS No. 8 allows non-CPAs to issue plain-paper statements, thereby bringing substandard work to the client and to the public.	2.77 1.74 22	3.90 2.07 68	4.36 1.35 45	5.67	0.0043	Exp vs Non-Exp CPAs Exp CPAs vs Bankers
Q2: A CPA issuing plain-paper reports will negatively affect the CPA's role as certified professional (as opposed to non-CPAs).	3.09 1.65 23	4.21 2.07 70	4.72 1.36 46	6.32	0.0024	Exp vs Non-Exp CPAs Exp CPAs vs Bankers
Q3: Allowing plain-paper reports could be deceptive and lead to poor decision-making.	3.27 1.52 22	4.21 1.91 70	4.72 1.47 46	5.28	0.0062	Exp vs Non-Exp CPAs Exp CPAs vs Bankers
Q4: Plain-paper reports will end up in the hands of third parties (e.g. bank loan files, uninformed members of management, and the public).	4.91 1.41 22	5.38 1.54 69	4.87 1.77 46	1.63	0.1999	
Q5: A CPA issuing plain-paper reports will negatively affect the overall effectiveness and quality of financial statements.	3.24 1.64 21	4.09 2.02 70	4.70 1.53 46	4.78	0.0099	Exp CPAs vs Bankers
Q6: SSARS No. 8 creates a new and unnecessary rule since the profession already has the tools needed to prepare such "internal-use" statements.	3.90 1.51 21	4.60 1.86 68	4.55 1.45 44	1.44	0.2413	

¹ Responses were reported on a 7-point Likert scale with 1=strongly disagree and 7=strongly agree with the statement.

Bold represents significant difference at a .05 significance level.

Table 3 (continued)
Group Means and Between Group Comparisons for SSARS No. 8 Definitions, Concepts and Issues

Question	Group Means ¹ [Standard Deviation] (Number of Subjects)			Univariate Tests		Significant Group Differences
	Exp CPAs	Non-Exp CPAs	Bankers	F Value	p value	
Q7: Allowing CPAs to issue plain-paper reports brings “inconsistency” to the profession.	3.87 1.82 23	4.53 2.03 70	4.67 1.60 45	1.48	0.2311	
Q8: All material modifications of financial statements constitute “submitted” financial statements.	3.89 1.24 19	4.75 1.48 67	4.44 1.31 43	2.86	0.0611	Exp vs Non-Exp CPAs (p value = .0204)
Q9: CPAs stamping the report “for management’s use only” or issuing any financial statement on their letterhead associates themselves with such reports, e.g. an unknowing bank clerk will focus only on the CPA’s name as an adequate basis to process a loan.	4.70 1.58 23	4.80 1.81 70	4.82 1.27 45	0.05	0.9515	
Q10: Plain-paper reports should be limited to interim reporting only.	4.67 1.53 21	4.64 1.80 70	4.63 1.69 43	0.00	0.9964	
Q11: Clients may place unwarranted reliance on plain-paper financial statements.	5.05 1.12 21	5.04 1.62 69	5.12 1.42 43	0.03	0.9667	
Q12: Firms will regularly engage CPAs to issue plain-paper statements, since compilations, reviews and audits are too expensive.	4.19 1.36 21	4.43 1.77 70	5.13 1.27 45	3.76	0.0258	Bankers vs Exp CPAs Bankers vs Non-Exp CPAs
Q13: Users of financial statements already have much difficulty understanding the level of assurance CPAs provide before the issuance of SSARS No. 8.	5.00 1.48 21	5.38 1.56 69	4.64 1.50 44	3.18	0.0449	Bankers vs Non-Exp CPAs

¹ Responses were reported on a 7-point Likert scale with 1=strongly disagree and 7=strongly agree with the statement.

Bold represents significant difference at a .05 significance level.

Table 4
Classifying Third Parties versus Informed Management
Comparison of Mean Responses Between Groups

Classification Scenario	Published Answer ¹	Experienced CPAs		Non-Exp. CPAs		Bankers	
		Mean ² (Std. Deviation) ²	Range ² (# of subjects)	Mean ² (Std. Deviation) ²	Range ² (# of subjects)	Mean ² (Std. Deviation) ²	Range ² (# of subjects)
1. ABC Co. is owned and managed by its sole shareholder, John. John has adequate accounting and business knowledge of his business. Classify John.	7.00	6.92* (0.27)	6.0 – 7.0 (26)	6.64 (0.86)	3.0 - 7.0 (69)	6.38* (0.72)	5.0 – 7.0 (45)
2. KML Co. is managed by one of its 10 shareholders, Jane. The other nine live out of state and are not involved in the managing of the business. Jane has adequate knowledge of the business. Classify Jane.	7.00	6.79* (0.59)	5.0 – 7.0 (24)	6.22 (1.23)	1.0 – 7.0 (64)	5.91* (1.00)	4.0 – 7.0 (43)
Classify the other nine shareholders	1.00	2.43 (1.42)	1.0 – 6.0 (26)	2.87 (1.65)	1.0 – 7.0 (67)	2.67 (1.34)	1.0 – 5.0 (43)
3. The XYZ Co. management team consists of a president, Joe; controller, Mary; and operations manager, Sue. All 3 are involved in the company's financial operations and are knowledgeable about the accounting principles and practices being used. Classify Joe.	7.00	6.88* (0.44)	5.0 – 7.0 (25)	6.61 (0.75)	2.0 – 7.0 (69)	6.42* (0.75)	3.0 – 7.0 (45)
Classify Mary.	7.00	6.88* (0.44)	5.0 – 7.0 (25)	6.57 (0.88)	2.0 – 7.0 (69)	6.38* (0.75)	4.0 – 7.0 (45)
Classify Sue.	7.00	6.58 (0.86)	4.0 – 7.0 (26)	6.07 (1.23)	2.0 – 7.0 (69)	6.09 (0.90)	3.0 – 7.0 (45)

¹Published Answer comes from the article "An End to the Plain-Paper Debate?" by G. Young and J. Madray (JOA, Jan. 2001, pp. 45-53)

²Means, Standard Deviations and Ranges are based on a 7 point Likert scale where 1 = Third Party, 4 = either, and 7 = Informed Management.

*Difference between groups is significant at the .05 significance level.

Table 4 (continued)
Classifying Third Parties versus Informed Management
Comparison of Mean Responses to Published Answers and Between CPAs and Bankers

Classification Scenario	Published Answer ¹	Experienced CPAs		Non-Exp. CPAs		Bankers	
		Mean ² (Std. Deviation) ²	Range ² (# of subjects)	Mean ² (Std. Deviation) ²	Range ² (# of subjects)	Mean ² (Std. Deviation) ²	Range ² (# of subjects)
4. The XYZ Co. management team consists of a president, Joe; controller, Mary; operations manager, Sue, and sales manager, Jim. Jim has no finance background and is not involved in financial decisions. Classify Jim.	1.00	2.68 (1.63)	1.0 – 6.0 (25)	3.01 (1.65)	1.0 - 7.0 (70)	2.80 (1.60)	1.0 – 7.0 (45)
5. A 3-member Board of Directors manages MLC CO. The chairman of the board, Tom, was an engineer for MLC Co., but no longer works for MLC Co. Classify Tom.	1.00	4.28 (2.21)	1.0 – 7.0 (25)	3.60 (1.98)	1.0 – 7.0 (68)	3.39 (1.99)	1.0 – 7.0 (44)
Another board member, Bill, also works at a financial brokerage firm. Classify Bill.	7.00	3.85 (2.09)	1.0 – 7.0 (26)	3.97 (1.86)	1.0 – 7.0 (67)	3.78 (1.85)	1.0 – 7.0 (45)
The third board member, Barb, works in sales at MLC Co. Classify Barb.	1.00	3.88 (2.09)	1.0 – 7.0 (24)	4.22 (1.74)	1.0 – 7.0 (68)	4.47 (1.70)	1.0 – 7.0 (45)
6. GHI Co. is managed by 10 of its 250 shareholders. None of the 10 shareholders have a financial background. Classify the 10 shareholders.	1.00	4.42 (2.18)	1.0 – 7.0 (26)	4.39 (2.04)	1.0 – 7.0 (70)	4.09 (1.91)	1.0 – 7.0 (44)

¹Published Answer comes from the article “An End to the Plain-Paper Debate?” by G. Young and J. Madray (JOA, Jan. 2001, pp. 45-53)

²Means, Standard Deviations and Ranges are based on a 7 point Likert scale where 1 = Third Party, 4 = either, and 7 = Informed Management.

*Difference between groups is significant at the .05 significance level.

Table 5
Comparison of Scale Responses by Group to Scenarios

Classification Scenario ¹	Published Answer ²	% of Subjects Responding Scale is 1 to 7 ³							Subject Group
		7	6	5	4	3	2	1	
1 – John	7	92	8	-	-	-	-	-	Experienced CPAs
		81	12	3	3	1	-	-	Non-Experienced CPAs
		53	33	14	-	-	-	-	Bankers
2 – Jane	7	88	4	8	-	-	-	-	Experienced CPAs
		64	14	14	6	1	-	1	Non-Experienced CPAs
		32	37	19	12	-	-	-	Bankers
2 - Shareholders	1	-	4	-	23	19	15	39	Experienced CPAs
		1	1	13	28	7	12	36	Non-Experienced CPAs
		-	-	12	21	12	37	18	Bankers
3 – Joe	7	92	4	4	-	-	-	-	Experienced CPAs
		73	24	1	1	1	-	-	Non-Experienced CPAs
		54	42	2	-	2	-	-	Bankers
3 – Mary	7	92	4	4	-	-	-	-	Experienced CPAs
		73	22	1	3	-	1	-	Non-Experienced CPAs
		52	42	2	4	-	-	-	Bankers
3 – Sue	7	77	8	11	4	-	-	-	Experienced CPAs
		54	20	14	9	-	3	-	Non-Experienced CPAs
		33	52	9	4	2	-	-	Bankers
4 – Jim	1	-	8	4	20	20	12	36	Experienced CPAs
		4	3	10	22	20	17	24	Non-Experienced CPAs
		5	-	13	13	11	40	18	Bankers
5 – Tom	1	16	20	20	16	-	4	24	Experienced CPAs
		10	9	15	23	6	15	22	Non-Experienced CPAs
		11	5	11	25	7	20	21	Bankers
5 – Bill	7	12	15	15	15	8	15	20	Experienced CPAs
		12	8	24	21	9	13	13	Non-Experienced CPAs
		9	7	20	33	2	13	16	Bankers
5 – Barb	1	17	8	8	29	8	8	22	Experienced CPAs
		13	10	18	30	9	10	10	Non-Experienced CPAs
		13	13	20	31	6	9	6	Bankers
6 – Shareholders	1	23	15	12	23	4	4	19	Experienced CPAs
		19	17	14	20	7	6	17	Non-Experienced CPAs
		9	25	11	21	9	16	9	Bankers

¹Scenario details are in Table 4.

²Published Answer comes from the article “An End to the Plain-Paper Debate?” by G. Young and J. Madray (JOA, Jan. 2001, pp. 45-53)

³Scale is 7 point Likert scale where 1 = Third Party, 4 = either, and 7 = Informed Management.

Table 6
Comparisons between CPAs and Bankers
What Constitutes Submitted Financial Statements?

Scenario	Published Answer ¹	Exp CPAs ²		Non-Exp CPAs ²		Bankers ²	
		Yes	No	Yes	No	Yes	No
1). Using client information, the CPA prepares financial statements in the CPA's office for use in preparing a corporate income tax return, and the financial statements are not given to the client.	No	5 19%	21 81%	15 21%	57 79%	9 20%	36 80%
2). At a client's office, the CPA makes material adjustments to the clients accounting database, prints the adjusted financial statements and takes the financial statements with him or her to the client's office.	No	21 81%	5 19%	50 69%	22 31%	35 78%	10 22%
3). The client sends the CPA a disk containing the information from the client's accounting database. The CPA makes adjustments to the disk and returns it to the client.	No*	11 42%	15 58%	34 47%	38 53%	31 69%	14 31%
4). Using client information, the CPA prepares financial statements in the CPA's office for use in preparing a corporate income tax return, and the CPA gives the client a copy of the financial statements along with the income tax return.	Yes	26 100%	0 0%	64 89%	8 11%	41 93%	3 7%
5). The CPA accesses the client's accounting database by modem and makes material modifications to the database.	No*	10 38%	16 62%	30 43%	40 57%	27 60%	18 40%
6). At a client's office, the CPA makes material adjustments to the clients accounting database, prints a copy of the financial statements and presents them to the client.	No	22 88%	3 12%	63 88%	9 12%	39 89%	5 11%
7). Using client information, the CPA prepares financial statements in the CPA's office for use in preparing a corporate income tax return, and the CPA gives the client a copy of the adjusting journal entries and trial balance with the income tax return.	No	10 40%	15 60%	36 50%	36 50%	29 66%	15 34%

¹Published Answers come from the article "An End to the Plain-Paper Debate?" by G. Young and J. Madray (JOA, Jan. 2001, pp. 45-53)

²Percentage frequency of respondents within each group

Total number of subjects varied by scenario: 25-26 Exp CPAs; 70-72 Non-Exp CPAs; 44-45 Bankers

Bold – scenarios the subjects correctly classified.

*Represents significant difference (at a 10% significance level) between group responses ($p < .10$). Chi-square values for logistic analysis from categorical data modeling procedure.

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Appendix A
Survey Instrument

Experience with Plain Paper Statements SSARS No. 8

[CPA version of page 1 of survey]

PART 1: About the Participant (demographics)

1) Which category best describes your primary profession?

Public Accounting-Audit _____ Public Accounting-Tax _____ Public Accounting-Other _____
Corporate Accounting _____ Internal Auditing _____ Other _____

2) What are your academic degrees and/or professional certifications?

BBA/BS _____ MBA _____ MSA _____ MAS _____
Other Accounting Related Masters _____ Other Masters _____ PHD _____
Other Degrees _____

CPA _____ CMA _____ CIA _____ CFE _____ CFA _____ Other _____

3) How many years of experience do you have in:

Public Accounting _____ Non-Public Accounting _____

4) What is your current title? _____

5) Gender: Male _____ Female _____

6) What percent of your personal work involves: (The sum of the percentages must equal 100%)

Audit _____ Review _____ Compilations _____ Plain Paper Statements _____ Tax _____
Consulting _____ Other _____

7. How much experience do you have with issuing plain-paper financial statements?

No experience (none issued) _____
Little experience (issued once or twice) _____
Some experience (issued a few times) _____
Lots of experience (issued many times) _____
Extensive experience (issued frequently) _____

8) How familiar are you with the new SSARS No. 8 rules?

Not familiar (no exposure to SSARS No. 8) _____
A little familiar (read SSARS No. 8 but not issued any reports under it) _____
Somewhat familiar (issued at least one report under SSARS No. 8) _____
Very familiar (issued several reports under SSARS No. 8) _____

Experience with Plain Paper Statements SSARS No. 8

[Banker version of page 1 of survey]

PART 1: About the Participant (demographics)

1) Which category best describes your primary profession?

Public Accounting-Audit _____ Public Accounting-Tax _____ Public Accounting-Other _____
Corporate Accounting _____ Internal Auditing _____ Banking-Loan Officer _____
Other _____

2) What are your academic degrees and/or professional certifications?

BBA/BS _____ MBA _____ MSA _____ MAS _____
Other Accounting Related Masters _____ Other Masters _____ PHD _____
Other Degrees _____

CPA _____ CMA _____ CIA _____ CFE _____ CFA _____ Other _____

3) How many years of experience do you have in:

Accounting _____ Banking _____

4) What is your current title? _____

5) Gender: Male _____ Female _____

6) What percent of your personal work involves using these types of financial statements: (The sum of the percentages must equal 100%)

Audited _____ Reviewed _____ Compiled _____ Plain Paper Statements _____ Other _____

7. How much experience do you have with using plain-paper financial statements?

No experience (none used) _____
Little experience (used once or twice) _____
Some experience (used a few times) _____
Lots of experience (used many times) _____
Extensive experience (used frequently) _____

8) How familiar are you with the new SSARS No. 8 rules?

Not familiar (no exposure to SSARS No. 8) _____
A little familiar (read SSARS No. 8 but not used any reports under it) _____
Somewhat familiar (used at least one report under SSARS No. 8) _____
Very familiar (used several reports under SSARS No. 8) _____

PART 2: General Questions About SSARS No. 8

The following statements ask about your level of agreement with a variety of statements concerning SSARS No. 8. Please circle the number that indicates your level of agreement/disagreement, where 7 is “strongly agree SA,” 1 is “strongly disagree SD” and 4 is “neither agree nor disagree.”

	SD	N					SA
		<u>Please circle one</u>					
1). SSARS No. 8 allows non-CPAs to issue plain-paper statements, thereby bringing substandard work to the client and to the public.	1	2	3	4	5	6	7
2). A CPA issuing plain-paper reports will negatively affect the CPA's role as certified professional (as opposed to non-CPAs).	1	2	3	4	5	6	7
3). Allowing plain-paper reports could be deceptive and lead to poor decision-making.	1	2	3	4	5	6	7
4). Plain-paper reports will end up in the hands of third parties (e.g., bank loan files, uninformed members of management, and the public).	1	2	3	4	5	6	7
5). A CPA issuing plain-paper reports will negatively affect the overall effectiveness and quality of financial statements.	1	2	3	4	5	6	7
6). SSARS No. 8 creates a new and unnecessary rule since the profession already has the tools needed to prepare such “internal-use” statements.	1	2	3	4	5	6	7
7). Allowing CPAs to issue plain-paper reports brings "inconsistency" to the profession.	1	2	3	4	5	6	7
8). All material modifications of financial statements constitute “submitted” financial statements.	1	2	3	4	5	6	7
9). CPAs stamping the report “for management's use only” or issuing any financial statement on their letterhead associates themselves with such reports. E.g., an unknowing bank clerk will focus only on the CPA’s name as an adequate basis to process a loan.	1	2	3	4	5	6	7
10). Plain-paper reports should be limited to interim reporting only.	1	2	3	4	5	6	7
11). Clients may place unwarranted reliance on plain-paper financial statements.	1	2	3	4	5	6	7
12). Firms will regularly engage CPAs to issue plain-paper statements, since compilations, reviews and audits are too expensive.	1	2	3	4	5	6	7
13). Users of financial statements already have much difficulty understanding the level of assurance CPAs provide before the issuance of SSARS No. 8.	1	2	3	4	5	6	7

PART 3: What Constitutes a Third Party or Informed Management?

Please classify the following parties as third parties, informed management, or constituting elements of each. Please classify each example by circling a number, ranging from **7 is “definitely informed management,” 4 “can be viewed as informed management or third party,” and 1 is “definitely third party.”**

Informed management	Third party either						
	1	2	3	4	5	6	7
1. ABC Co. is owned and managed by its sole shareholder, John. John has adequate accounting and business knowledge of his business. Classify John.	1	2	3	4	5	6	7
2. KML Co. is managed by one of its 10 shareholders, Jane. The other nine live out of state and are not involved in the managing of the business. Jane has adequate knowledge of the business. Classify Jane.	1	2	3	4	5	6	7
Classify the other nine shareholders	1	2	3	4	5	6	7
3. The XYZ Co. management team consists of a president, Joe; controller, Mary; and operations manager, Sue. All 3 are involved in the company’s financial operations and are knowledgeable about the accounting principles and practices being used. Classify Joe.	1	2	3	4	5	6	7
Classify Mary.	1	2	3	4	5	6	7
Classify Sue.	1	2	3	4	5	6	7
4. The XYZ Co. management team consists of a president, Joe; controller, Mary; operations manager, Sue, and sales manager, Jim. Jim has no finance background and is not involved in financial decisions. Classify Jim.	1	2	3	4	5	6	7
5. A 3-member Board of Directors manages MLC CO. The chairman of the board, Tom, was an engineer for MLC Co., but no longer works for MLC Co. Classify Tom.	1	2	3	4	5	6	7
Another board member, Bill, also works at a financial brokerage firm. Classify Bill.	1	2	3	4	5	6	7
The third board member, Barb, works in sales at MLC Co. Classify Barb.	1	2	3	4	5	6	7
6. GHI Co. is managed by 10 of its 250 shareholders. None of the 10 shareholders have a financial background. Classify the 10 shareholders.	1	2	3	4	5	6	7

PART 4: What Constitutes a Submitted Financial Statement?

Please classify the following scenarios as to whether they constitute a “submitted financial statement,” by checking the appropriate “Yes” or “No” box.

Scenario	Yes	No
1). Using client information, the CPA prepares financial statements in the CPA's office for use in preparing a corporate income tax return, and the financial statements are not given to the client.		
2). At a client's office, the CPA makes material adjustments to the clients accounting database, prints the adjusted financial statements and takes the financial statements with him or her to the client's office.		
3). The client sends the CPA a disk containing the information from the client's accounting database. The CPA makes adjustments to the disk and returns it to the client.		
4). Using client information, the CPA prepares financial statements in the CPA's office for use in preparing a corporate income tax return, and the CPA gives the client a copy of the financial statements along with the income tax return.		
5). The CPA accesses the client's accounting database by modem and makes material modifications to the database.		
6). At a client's office, the CPA makes material adjustments to the clients accounting database, prints a copy of the financial statements and presents them to the client.		
7). Using client information, the CPA prepares financial statements in the CPA's office for use in preparing a corporate income tax return, and the CPA gives the client a copy of the adjusting journal entries and trial balance with the income tax return.		