

MODELING GOING-CONCERN OPINION EXPECTATIONS IN ACCOUNTING RESEARCH

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ABSTRACT - Researchers have investigated the information value of going-concern opinions (gcos) by looking for systematic evidence of a capital market reaction to the issuance of the opinion. The diverse results obtained have been attributed (Loudder et al. [1992]) to, among other things, the failure to control for the extent to which capital market participants expect a gco. This paper reviews recent empirical studies that have attempted to incorporate financial statement users' expectations of going-concern opinions in accounting research. Strengths and weaknesses of the methods employed in these studies are considered. One limitation of all these attempts is the use of a questionable proxy for the market's gco expectation. One approach to developing a proxy has been to select a gco prediction model from among several that have been employed in academic research. This paper questions the use of such an approach to identify a suitable proxy because 1) there is no agreement as to which gco model is most appropriate 2) none of the gco models extant in the literature were based on an attempt to model market participants' expectation process, and 3) there is no empirical evidence that investors or creditors use any of these models. The paper concludes with a suggested approach to modeling going-concern opinion expectations that could be incorporated with the best methodologies used by previous researchers.