

INTERNATIONAL
ACCOUNTING SECTION
of the



American
Accounting
Association

NO. 103



FORUM

INTERNATIONAL ACCOUNTING

Spring 2012



American
Accounting
Association
International
Accounting

Editor: Jeannie J. Harrington
Middle Tennessee State University

President's Letter

Greetings to the members of the International Accounting Section! I hope your semester is going well and it was nice to see many of you at the midyear meeting!

I would like to take this opportunity to once again thank the Conference Co-Chairs, Chris Skousen and Hong Xie, for their effort. We had approximately 150 attending the meeting, which is an increase from the previous year. The weather was gorgeous and the atmosphere was relaxing! I have received lots of positive feedback both during and after the meeting, and I am looking forward to seeing many of you again at the future section meetings.

Thursday evening, there was a Doctoral Consortium reception and the Consortium sessions, chaired by Ole-Kristian Hope, were held Friday (24th) morning. There were 31 attendees, and we were fortunate to have high caliber speakers such as Bjorn Jorgensen (Colorado), Robert Knechel (Florida), Clare Wang (Northwestern), Mike Welker (Queens), and Gwen Yu (Harvard).

The meeting began with a luncheon, featuring Jeffrey K. Willemain, Deloitte Global Director, Quality & Regulation. It was followed by a plenary session, entitled "International Accounting: A Panel of Leading Scholars Discuss International Accounting Topics and Innovative Research Approaches," and by research presentations. Saturday morning, there was a second plenary session, "International Accounting: Current Practice Issues," featuring Holger Erchinger, KPMG, David Schmid, PricewaterhouseCoopers, John Hepp, Grant Thornton, and *(continued on page 2)*



IAS President Tony Kang

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President's Letter (Continued from page 1)

Randy Fletchall, Ernst & Young. The Saturday luncheon featured Professor Lynn Rees, Rainey Chair of Accounting at Texas A&M University, and is the current Research Fellow at the Financial Accounting Standards Board. Sixty one very interesting research papers were presented and discussed.

Stephen Salter announced five Ph.D. Student Travel Grant winners. The winners receive a travel support of \$750 to attend the meeting and are asked to serve as a discussant or moderator. The goal of this program is to help promising young researchers to become involved with our section early on in their career and become life-long members. The winners were Mark Ma (Oklahoma), Linda Quick (South Carolina), Ankita Singhvi (Texas – El Paso), Michael Wolfe (Oklahoma State) and Youli Zou (Toronto). Please join me in congratulating them!

Looking ahead, please be sure to volunteer for various roles at the annual meeting in D.C. this summer. Also, a call to serve on various section committees will be out soon, so please volunteer for those roles as well. The future of our section really depends on your contributions!

Thank you for your support and for being a member of our great section. If there is anything I can do to make your membership more enjoyable, please do not hesitate to let me know!

Tony Kang, IAS President (2011-2012)

International Accounting Section
Forum Deadlines, Suggestions, Comments for 2012/2013

Summer 2012 Issue - June 30, 2012

Fall 2012 Issue - September 30, 2012

Spring 2013 Issue – February 28, 2013

Any comments and suggestions you have to make the *Forum* more informative and enjoyable are appreciated. Please submit comments and items for publishing via email using a Microsoft Word Times New Roman 12 font format file as an attachment. Submit to :

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*Jeannie Harrington at Sedona,
Arizona, February, 2012.*

IAS Midyear Meeting Minutes

Executive Board, Committee Chairs, Regional Coordinators, International Liaisons

February 24, 2012, Phoenix, Arizona

Members Present: Pat Poli, Tony Kang, Stephen Salter, Holger Erchinger, Greg Burton, Paul Herz, Helen Kang, Don Herrmann, Giorgio Gotti, C. Agnes Cheng, Hong Xie, Chris Skousen, Jeannie Harrington, Mike Welker, Eva Jermakowicz, Gia Chevis, Ervin Black, Ray Rodriguez, Asheq Rahman, Kingsley Olibe, Susan Hughes

1. Presentation of agenda, comments by Tony Kang, President.
2. Approval of last Executive Board, Committee Chairs, Regional Coordinators, International Liaisons meeting minutes by Greg Burton, Secretary.
3. Paul Herz, Advisory Board Chair summarized the IAS bylaw changes needed to conform to AAA bylaw changes.
4. Reports and points of discussion
 - a. Midyear conference committee, Chris Skousen and Hong Xie; Proposed that the section have a chair and an associate chair to plan the midyear meetings. Associate chair would become chair for the next year's meeting. 2012 Midyear meeting summary: 77 submissions, 61 accepted; 9 withdrawn; 117 reviews completed; accepted 80 percent of submission; Topics of submission (not mutually exclusive): 41 financial reporting, 32 standards, 13 audit, 1 tax, 3 managerial; of the 77 submissions, 56 were archival.

31 doctoral consortium participants; this year's theme: creativity in accounting; there is no formal limit on number of participants. The number of participants is based on what we can afford and the applicants; the doctoral consortium remained under budget this year.
 - b. Annual program committee, Agnes Cheng, Chair; Annual meeting summary: 193 papers submitted; 11 panels; 3 panels developed by committee members; education, auditing reporting; 39 sessions.
 - c. CPE committee, Eva Jermakowicz, Chair; Gia Chevis put a panel together for the midyear meeting on teaching IFRS using the Conceptual Framework; There are 2 CPE proposals for annual meeting; EY ARC all day Saturday with the morning focusing on curriculum with fair value and the afternoon on sustainability; The second will be on Aug. 5 during the afternoon with Mike Wells and Ann Tarca focusing on the IASB education initiative.
 - d. IT Committee, Giorgio Gotti, Chair; server went down in UK causing the IAS website to be unavailable for a time; new section website will soon move to AAA's

(continued on page 4)

Midyear Meeting Minutes (continued from page 3)

new platform; should make it easier to work with commons as well. May be ready by annual meeting.

- e. International Relations Committee, Asheq Rahman, Chair; many things going on; three recommendations
 - i. Increase travel funding for PhD candidates from \$750 to \$1250 because of increase in travel costs;
 - ii. Expand pool of candidates eligible for travel grant considerations to emerging researchers (graduates within last 5 years);
 - iii. The need for IFRS seminars is growing—the International Relations Committee wants to assist in this area
- f. Membership Committee, Kingsley Olibe, committee member; membership is growing but at a slower pace; Stephen suggests that we email Tony or Stephen with suggestions on how to grow the membership; membership has been growing for last 3 years which is good news since AAA membership is decreasing overall; IAS membership:
 - i. 2007-2008- 847 total members; 775 full members
 - ii. 2008-2009 - 927 total members; 844 full members
 - iii. 2009-2010- 966 total members; 869 full members
 - iv. 2010-2011 -986 total members; 874 full members;

Why growth is slow—competing with FARS; FARS is publishing papers related to international accounting; FARS may have attracted IAS members because they are addressing international accounting issues. Ideas to get new members; improve benefits; highlight excellence of midyear meeting by having high quality researchers; promote *JJAR* within and outside of IAS; renew membership every 3 years instead of every year; ask existing members for ways to improve.
- g. Nominations Committee, Erv Black, Chair; Slate of nominees is about ready. By-law changes impact the committee's work.
- h. Outstanding Dissertation Committee—not enough nominations—encourage submissions; deadline February 28, 2012.
- i. Outstanding Educator Committee, Tony reports that we have two nominations so far; need more
- j. Outstanding Service Committee, Tony reports that we need more nominations
- k. Publications Committee,
 - i. Mike Welker, *JJAR* editor; *JJAR* submissions now go through the AAA website—this provides the same look and feel for all submissions to any AAA journal; 28 papers submitted in 6 months as of 12/31/11; as of 2/15/12, 26 have gone through

(continued on page 5)

Midyear Meeting Minutes (continued from page 4)

first round; 18 rejected (70%); some papers are not being sent for review--most tend to be one country studies with limited implications. The editor gives authors opportunity to resubmit; 1 has been resubmitted; 30% revise and resubmit so far. Editor is trying to improve turnaround; median review time is under 60 days, clustered around 55-65 days; no manuscript over 90 days.

- ii. Jeannie Harrington, *Forum* editor; the Fall *Forum* is out. It was suggested that the president send an email notification when issued to alert the membership.
- iii. Erv Black, *JJAR* guest editor; the first *JJAR* conference edition will be the spring 2012 edition. It will contain 6 articles and 6 discussions; sent 5 conference submissions to *JJAR* that weren't accepted in conference

- l. Regional Programs Committee, Susan Hughes; Regional coordinators are receiving between 0-8 paper submissions for regional meetings. The Northeast and Midwest regions are going to have fall meetings. New coordinators, who begin in August, will not be able to plan the fall meetings. This will require that the prior coordinator help through the date of the regional meeting.
- m. Research Committee-no report
- n. Teaching and Curriculum (education) Committee, Gia Chevis, Chair; the committee is gathering syllabi to share with the IAS membership. The syllabi will be put on the section website.
- o. Strategic Planning Committee, Don Herrmann, Chair; committee recommends that the section add a committee to focus on PhD students. The committee would focus on PhD students and:
 - i. Help market and promote the section
 - ii. Encourage paper submission to *JJAR*
 - iii. Encourage participation in the midyear meeting
 - iv. Help plan the midyear meeting doctoral student consortium

It was suggested that a PhD student could serve on the committee. Stephen suggested that because the consortium is growing the section should put the focus of getting PhD students involved with the midyear meeting rather than the annual meeting—annual meeting PhD student subsidy might not give the best benefit. One way to get PhD students interested in the section is to email all students who graduate each year (estimated to be 75-100). Could have regional coordinators gather information and make invitations to PhD students. Don and Stephen will discuss how to proceed and work out travel and whether to have the new committee work with grants.

- p. Practice Issues Committee, Gary Braun and Holger Erchinger, Chairs; The committee organized a panel session at midyear meeting with representatives from PwC, E&Y, Deloitte, and Grant Thornton. The committee will do something similar for the annual meeting. It was suggested that the committee write a *Forum* newsletter article summarizing the discussion from the panel.
- q. Treasurers report: Tony discussed the section's finances.

International Accounting Section

Budget to Actual Cash Flows

September 1, 2010 - August 31, 2011

Overall

- Net cash inflows increased by \$23,159, about \$23,068 more than budgeted. The increase is driven both by higher than expected cash inflows and lower than expected cash outflows.
- Unrestricted Funds increased by \$24,546 about \$21,955 more than budgeted.
- Restricted Funds for the Journal decreased by \$1,387, better than the budgeted decrease of \$2,500.

Unrestricted Funds

- *Cash Inflows:*
- Unrestricted cash inflows of \$70,882 are \$12,291, or 21%, higher than budgeted. The increase is primarily due to \$7,180 greater than budgeted Midyear Meeting Registration Fee revenue, \$5,054 higher than budgeted CPE-Annual Meeting, and higher than expected CPE-Midyear Meeting.
- KPMG Foundation generously contributed \$20,000 towards the Doctoral Consortium and the Midyear Meeting.
- Dues-Full Members revenue of \$31,010 (\$13,299 in Restricted Funds plus \$17,711 in Unrestricted Funds) is about \$4,000 or 11% below budget, but similar to the prior year.
- Cash inflows from other activities such as the Midyear Meeting and CPEs are offsetting the decline in Dues revenues.
-
- *Cash Outflows:*
- Annual Meeting cash outflows of \$4,346 were about \$1,800, or 30% lower than budgeted. This decrease is primarily due to no Luncheon Speaker Expenses and the charge for Officer Meeting room being delayed into next year. About \$2,250 of the Program Chair: Admin Expense related to the travel and accommodations for Mrs. Donna Sharp, the widow of Mr. Ian Hague.
- Midyear Meeting cash outflows of \$37,738 were about \$2,960, or 7% below budget.
- General/Administrative expenses were about \$4,817, or 50% lower than expected. Website Development/Hosting, Awards, and Strategic Planning were all lower than budgeted.

Restricted Funds

- Journal cash outflows were \$19,098, about \$3,401 or 15% below budget. Editor Expenses, Journal Promotion, and Copying, Printing, Mailing were also lower than expected.

Submitted by Elizabeth A. Gordon, Treasurer

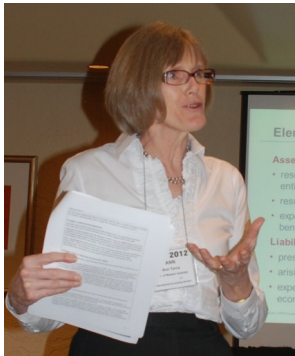


International Accounting Section			
Budget to Actual			
September 1, 2010 - August 31, 2011			
	Actual Sept-Aug	Annual Budget	Prior Year Actual
UNRESTRICTED FUND			
Cash Inflows			
Dues-Full Members - (\$15 per member)*	\$13,299.40	\$15,000.00	\$13,350.00
Dues-Associate Members	870	91	756
Journal Submission Fees (\$25 per submission)	1,250.00	1,000.00	1,000.00
Journal Subscriptions	4,164.97	3,500.00	7,356.96
Midyear Meeting Registration	24,180.00	17,000.00	28,865.00
CPE-Mid-year meeting	1,450.00	500	950
CPE-Annual Meeting	5,054.50	500	7,179.00
Interest Income	0	500	0
Royalties	13.57	400	4.82
Sale of back issues	600	100	15
Contributions - Midyear Meeting**	20,000.00	20,000.00	20,000.00
Total Cash Inflow - Unrestricted Fund	70,882.44	58,591.00	79,476.78
Cash Outflows			
Annual Meeting			
Luncheon ticket sales (inflow)	5,085.00	6,500.00	7,018.00
Luncheon cost	4,305.22	6,500.00	7,135.00
Luncheon Speaker Expenses	0	1,000.00	0
Plaques and Awards	566	300	0
Officer Meeting room and refreshments	0	600	335.31
Program Chair: Admin Expenses	2,812.93	500	0
Phd Travel Support	1,746.54	3,750.00	0
Total Annual Meeting	4,345.69	6,150.00	452.31
Midyear Meeting			
AAA Staff Support	141.5	1,500.00	82
Hotel-Rooms/Food/Beverage - Doctoral Consortium	7,454.13	15,500.00	6,226.62
Hotel-Rooms/Food/Beverage - Midyear Meeting	17,444.71	15,500.00	34,021.93
AV - Midyear Meeting	7,633.54	0	0
Speakers - Doctoral Consortium	0	2,000.00	0
Speakers - Midyear Meeting	1,220.87	2,000.00	871.44
Meeting Coordinator Expenses	1,656.33	750	1,906.40
Meeting Submission Overhead	0	1,950.00	0
Printing and Postage	1,717.85	1,000.00	1,599.09
Awards (Conf Paper)	468.98	500	0
Total Midyear Meeting	37,737.91	40,700.00	44,707.48
General/Administrative			
Postage & Printing	11.82	300	40.24
Website Development/Hosting	261.69	3,500.00	744.4
Awards - Dissertation, Educator, Service	854	1,350.00	954
Strategic Planning	0	1,000.00	0
Council Fee	0	0	0
President Travel and Administration Expense	1,684.22	1,000.00	0
Officer Travel - Council	0	0	1,454.94
Miscellaneous (credit card fees)	2,005.28	1,500.00	1,687.05
Total General/Administrative	4,817.01	8,650.00	4,880.63
Total Cash Outflow - Unrestricted Fund	46,900.61	55,500.00	50,040.42
Contributions - Gift Membership	565	1,000.00	360
Gift Memberships awarded	0	1,000.00	204.57
Gift memberships - net***	565	0	155.43
UNRESTRICTED FUND - Net Change in Cash	24,546.83	3,091.00	29,591.79
RESTRICTED FUND (JOURNAL)			
Cash Inflows			
Dues-Full Members (\$20 per member)*	17,710.60	20,000.00	17,800.00
Total Cash Inflow - Restricted Fund	17,710.60	20,000.00	17,800.00
Cash Outflows			
Editor Expenses	0	1,000.00	437.95
Journal Promotion	0	500	0
JAR Paper Award	500	1,000.00	0
Copying, Printing, Mailing	9,940.48	12,000.00	9,862.39
AAA Staff Support	8,658.00	8,000.00	6,993.00
Total Cash Outflow - Restricted Fund	19,098.48	22,500.00	17,293.34
RESTRICTED FUND - Net Change in Cash	-1,387.88	-2,500.00	506.66
TOTAL CHANGE IN CASH - Unrestricted & Restricted Funds	\$23,158.95	\$591.00	\$30,098.45
OPENING CASH BALANCE (September 1, 2010)	\$213,913.66		\$183,416.26
CLOSING CASH BALANCE (August 31, 2011)	\$237,072.61		\$213,514.71
UNRESTRICTED FUND			
OPENING CASH BALANCE (September 1, 2010)	\$164,246.11		\$134,792.79
CLOSING CASH BALANCE (August 31, 2011)	\$188,792.94		\$164,384.58
RESTRICTED FUND (JOURNAL)			
OPENING CASH BALANCE (September 1, 2010)	\$49,667.55		\$48,623.37
CLOSING CASH BALANCE (August 31, 2011)	\$48,279.67		\$49,130.03

SCENES FROM THE MIDYEAR MEETING



“The Importance of Framework-Based Teaching” CPE Panelists—(from left) Jenice Prather-Kinsey, Ann Tarca, Donna Street, Larry Bello (KPMG), and Greg Burton



ADDITIONAL SCENES FROM THE MIDYEAR MEETING



ADDITIONAL SCENES FROM THE MIDYEAR MEETING



Friday Luncheon Speaker Jeffrey K. Willemain, Deloitte Global Managing Director—Quality & Regulatory

Saturday Luncheon Speaker Lynn Rees, Texas A&M University and 2011/12 Research Fellow, FASB



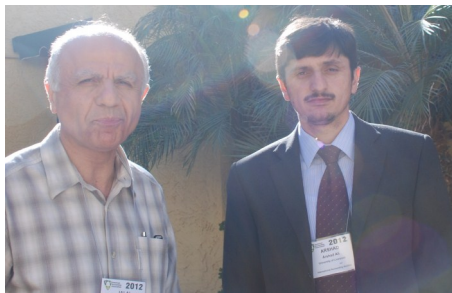
International Accounting Research Plenary Speakers (left) Ole-Kristian Hope, University of Toronto, (right) Bjorn Jorgensen, University of Colorado, Boulder



International Accounting Research Plenary Speakers (left) Francesco Bova, University of Toronto, (right) Mike Welker, Queen's University



ADDITIONAL SCENES FROM THE MIDEAR MEETING



2010 Best Journal of International Accounting Research Paper Award

International Diversification and Management Earnings Guidance: The Effects of Reg FD

By Don Herrmann, Tony Kang, and Joung Kim

ABSTRACT

We examine the relation between the degree of international diversification and management earnings guidance. While more internationally diversified firms create a more complex information environment, providing an incentive to increase public disclosure, they also have higher costs of disclosure, resulting in disincentives to increase public disclosure. Management earnings guidance is measured in multiple ways, including likelihood, frequency, quality (i.e., point versus range versus open-ended versus qualitative forecasts), forecast error, and bias. We find that more internationally diversified firms issued more guidance prior to Reg FD, but they issue less earnings guidance and lower quality guidance post-Reg FD, when managers are required to make voluntary disclosure of information public. Regarding management forecast error, we document that management earnings forecasts of more internationally diversified firms became less accurate and more biased following the implementation of Reg FD. In summary, we provide evidence of a deterioration in management guidance for internationally diversified firms following Reg FD from the perspectives of likelihood, frequency, quality, accuracy, and bias.

AUTHOR BIOGRAPHIES:

Don Herrmann is the Oscar S. Gellein/Deloitte Professor of Accounting at the Oklahoma State University (OSU) Spears School of Business. He earned his PhD in accounting from Oklahoma State University in 1995, his master's degree from Kansas State University in 1987 and his bachelor's degree from John Brown University in 1985. Don previously served on the faculties of Oregon State University and Baylor University and worked as an auditor for Deloitte in Colorado Springs.

Don is widely known as an international accounting scholar and has published over 20 research articles and has served on the editorial boards of *The Accounting Review* and the *Journal of International Accounting Research*. He is a co-author of the Spiceland Financial Accounting textbook with McGraw-Hill and has served as the President of the International Accounting Section of the AAA. Not only is Don well-regarded for his scholarship, but he is also recognized as an accomplished teacher and has received numerous teaching awards.

(continued on page 13)



Publications Chair Robert Knechel announces the 2010 and 2011 Best JIAR Paper Awards



2010 Best JIAR Paper Award Co-Recipient Don Herrmann, Oklahoma State University

2010 Best JIAR Paper Award (continued from page 12)

Tony Kang is the Wilton T. Anderson Endowed Chair Professor of Accounting at Oklahoma State University. He holds an MBA from McGill University and a PhD in accounting from the University of Illinois. He has taught at the University of Illinois, McGill University, Singapore Management University and Florida Atlantic University. He has held short-term visiting positions at Sophia University in Tokyo, ITESM in Mexico, and the University of Sydney in Australia.

He is currently the President of the International Accounting Section of the American Accounting Association (2011-2012) and a Vice-President of the International Association for Accounting Researchers and Educators (2010-2012). He serves on several editorial boards of academic journals and is an Associate Editor of the *Journal of International Accounting Research*. He has published a number of research articles in journals such as *The Accounting Review*, *Journal of International Business Studies*, *Accounting Horizons*, *Journal of Accounting, Auditing and Finance*, *Journal of Accounting and Public Policy*, and *Journal of Business Finance and Accounting*, among others.

Dr. Joung W. Kim is an Associate Professor of Accounting with the H. Wayne Huizenga School of Business and Entrepreneurship at Nova Southeastern University. Dr. Kim received his Ph.D. at the Moore School of Business, University of South Carolina.

Dr. Kim's research focuses on corporate disclosure strategies, earnings quality, and firm valuation. His teaching interests primarily include areas such as financial reporting, fundamental analysis, and accounting information systems.

In supplement to his research activities, Dr. Kim has published in journals including the *Journal of Accounting and Public Policy*, *Journal of International Accounting Research*, *CA Magazine*, *Journal of Management Information Systems*, and *Journal of Information Systems*.



Robert Knechel awarding Tony Kang as one of the co-authors of the 2010 Best JIAR Paper Award



2010 Best JIAR Paper Award recipients Tony Kang and Joung Kim. A third co-author, Don Herrmann, was not present. Tony is with Oklahoma State University and Joung is with Nova Southeastern University.



2011 Best Journal of International Accounting Research Paper Award

***Measuring and Reporting Income in Europe* By Igor Goncharov and Allan Hodgson**

ABSTRACT

The IASB discussion paper, *Preliminary Views on Financial Statement Presentation* (IASB 2008), asks whether income should be aggregated and reported as a single comprehensive income figure, and how comprehensive income components should be reallocated. We extend prior empirical evidence by researching 16 European countries and by an extensive examination of impact metrics that include information, measurement, prediction, and conditional conservatism issues. A European setting that comprises substantial variation in markets, accounting rules, and business culture would, *ceteris paribus*, support differential reporting of comprehensive income. Results, however, consistently support the retention of operating net income as a general decision-relevant metric, with other comprehensive income reported individually and delineated by its unrealized nature. We found no compelling evidence that it should be reallocated into net income by function. Further, reported aggregated comprehensive income reverses the conservative attributes of income and has policy implications for providers of debt capital in a European setting. Results are robust to several firm-specific controls, nonlinearities, the impact of reporting incentives, and for early IFRS adopters.

AUTHOR BIOGRAPHIES:

Igor Goncharov holds the Chair of Financial Accounting at WHU – Otto Beisheim School of Management. He was born in St. Petersburg, Russia, and obtained his PhD from the University of Bremen, Germany. From 2006 to 2010 he was Assistant Professor of Accounting at the University of Amsterdam Business School in the Netherlands. Igor Goncharov has held visiting positions at Sydney University and the Graduate School of Management, St. Petersburg State University.

His research focuses on economic determinants and consequences of financial reporting, use of accounting information in dividend policy and taxation, international issues in accounting and the role of accounting information in corporate governance. Igor Goncharov's work has been published in various international journals, including *Accounting and Business Research*, *Journal of International Accounting Research* and *Corporate Governance: An International Review*. He serves as an ad-hoc reviewer for various international journals and is a member of the EAA Scientific Committee. His teaching interests are in the broad area of financial accounting, including business analysis and valuation.



2011 Best JIAR Paper Award Co-Winner Igor Goncharov, WHU—Otto Beisheim School of Management

(continued on page 15)

2011 Best JIAR Paper Award (continued from page 14)

Allan Hodgson is Professor of Finance at the University of Queensland Business School, in Brisbane, Australia. He gained his PhD from the Australian National University in derivative pricing and taught accounting theory and finance at that institution. In 1996 he was appointed Foundation Professor in Banking and Risk Management at Griffith University in Brisbane, Australia, later serving as Chair of the Accounting Department and Dean of the Faculty. From 2004-2010 he was Chair of Accounting and Control at the University of Amsterdam and Dean of the Business School. Allan has held visiting academic positions at Manchester, Glasgow, and Leeds Universities in the UK, Santa Clara and Clarkson Universities in the USA, and is Doctor Honoris Causa at the Academy of Economic Studies in Bucharest. He is currently visiting Professor at Strathclyde University in Glasgow and a member of the EAA Scientific Committee.

Allan has research interests in financial accounting, insider trading, corporate governance and derivatives. He served as Editor of *Accounting, Accountability and Performance* from 2000 to 2004 and is on the Editorial Boards of a number of international journals. His text on Accounting Theory is in its 7th edition in Australia and he has published in several international journals including: *Accounting and Business Research*, *Accounting and Finance*, *Australian Journal of Management*, *Journal of Business Ethics*, *Journal of Business Finance and Accounting*, *Journal of Financial Research*, *Journal of Futures Markets* and the *Journal of International Accounting Research*.



Robert Knechel awarding Allan Hodgson as one of the co-authors of the 2011 Best JIAR Paper.



**2011 Best JIAR Paper Award Co-Winner
Allan Hodgson, University of Queensland
Business School**



2012 International Accounting Section —Midyear Meeting Best Paper Award

Firms' Reaction to Changes in Political Environment: The Case of Auditor Switches

By Joseph Weintrop, Hangsoo Kyung and Hakyin Lee

ABSTRACT

Using national political elections as a proxy for changes in political environment, we test the frequency of auditor switches in the year subsequent to a political election. We find firms more frequently change their auditors in the year following national elections. Using political and financial data for 34,628 firm observations across 32 countries from 1991 to 2004, we find firms in highly corrupted countries are 14.4% more likely to change auditors in the following years of political elections than other years. We do not find significant relation between political elections and auditor switches among firms in low corrupted countries. The results indicate that civil law countries are 16% more likely to switch auditors in the following years of elections than other years. There is no significant relation among countries with common law. We also find that firms in countries with presidential system (as opposed to non-presidential systems) are 65.6% more likely to change auditors than other years. Finally, we provide marginal evidence that absolute total accruals for firms which switch auditors following political elections increase following political elections.

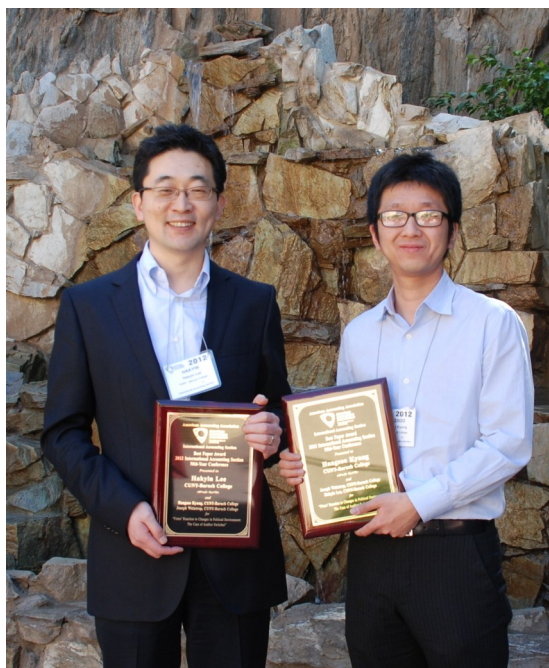


*Professor Joseph
Weintrop, Baruch
College-CUNY*

AUTHOR BIOGRAPHIES:

Joseph Weintrop is the Stan Ross Professor of Accountancy at Baruch College—City University New York. He received a Bachelor's Degree in Mechanical Engineering from the University of Waterloo, an M.B.A. from York University and a PhD in Accounting, Finance, Statistics and Economics from the University of Oregon. He has several publications, including the *Journal of Accounting and Economics*, *Journal of Accounting Research*, *Administrative Science Quarterly*, *Journal of Accounting and Economics*, and *Journal of Financial Economics*. He specializes in valuation of overseas activities of global corporations.

(From Left) 2012 IAS Midyear Meeting Best Paper Award Recipients Hakyin Lee and Hangsoo Kyung, PhD Students at Baruch College– CUNY. A third co-author, Professor Joseph Weintrop was not present.



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2012 IAS Midyear Meeting Best Paper Award (continued from page 16)

Professor Weintrop is the Program Administrator for PSC-CUNY Research Grants for Accounting, Economics, Finance, Management, Marketing, and Public Policy. He is a Chartered Accountant (Ontario, Canada) and a member of many professional groups including AAA and the American Finance Association.

Hangsoo Kyung is a PhD Candidate at Baruch College—CUNY, working on his dissertation currently entitled “The effect of overregulation on voluntary disclosure: evidence from non-GAAP measures.” His research interests are financial accounting, managerial discretion in financial reporting, earnings management, and the political environment. Hangsoo received an M.S. in Accountancy from Baruch College—CUNY and a Bachelor of Science in Physics and a Bachelor of Art in Economics from Dongguk University, Seoul, Korea.

Hakyin Lee is a PhD Candidate at Baruch College—CUNY. His research interests are earnings management and analyst forecasts. Hakyin received an M.S. in Accounting and an MBA (with distinction) from SUNY Buffalo and a BBA from Korea University. He previously worked with IBM Business Consulting Services and Arthur Andersen. He is a Certified Public Accountant in Korea and a Certified Management Accountant with the Institute of Management Accountants.

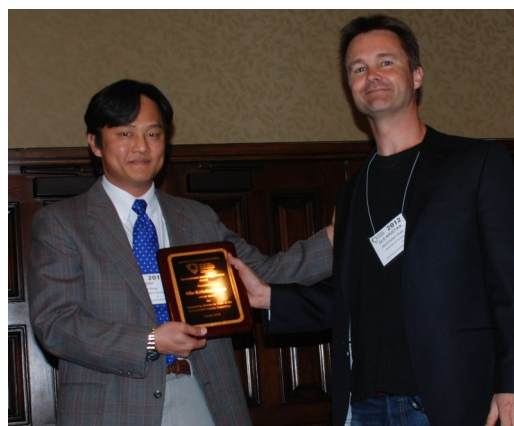
**ADDITIONAL SCENES FROM
THE MIDYEAR MEETING**



***Midyear Meeting Co-Chairs Hong Xie and
Chris Skousen***



***IAS President Tony Kang congratulates Co-
Chair of Midyear Meeting Chris Skousen***



***Tony Kang congratulates Doctoral
Consortium Chair Ole-Kristian Hope***

**2012 International Accounting Section —Midyear Meeting
Best Reviewer Award
Darren Henderson, University of Western Ontario**

Darren Henderson is an Assistant Professor of Managerial Accounting and Control at the Richard Ivey School of Business, University of Western Ontario. He obtained his PhD in Accounting from the University of Waterloo, where he previously completed an MA in Economics. He also has a BA in Honors Business Administration from the Richard Ivey School of Business. Darren practiced as an Assurance Manager with KPMG, where he obtained his Chartered Accountant designation. In addition, he is a Certified Financial Planner.

From 1997-2000, Darren taught in the Pre-Business program at the Richard Ivey School of Business, where he received several Dean's commendation letters for his teaching. Further, he has served as a Seminar Leader at the Institute of Chartered Accountants of Ontario's School of Accountancy since 2006. He has written exam cases for the School of Accountancy and CA Reciprocity exams, and has been a marker for the School of Accountancy and Uniform Evaluation (UFE) exams.



Darren's research interests revolve around assessing the effectiveness of financial reporting. More specifically, he is currently researching whether fair values provide useful information for assessing management's stewardship. Other research projects seek to assess how restatements impact disclosure quality and how principles-based versus rules-based accounting standards influence reporting behavior. Other research interests include executive compensation, employee stock options, and pension accounting.

IAS Midyear Co-Chair Chris Skousen awards Darren Henderson, University of Western Ontario, with the 2012 IAS Mid-year Meeting Best Reviewer Award.

AAA REGIONAL MEETINGS

- Mid-Atlantic** – Parsippany, New Jersey (April 18-20, 2013)
- Midwest** – St. Louis, Missouri (October 11-13, 2012)
- Northeast** – Providence, Rhode Island (October 18-20, 2012)
Submission Deadline: July 1, 2012
- Ohio**—Huron, Ohio (May 9-11, 2013)
- Southwest** – Albuquerque, New Mexico (March 14-15, 2013)
- Western** – San Francisco, California (April 25-27, 2013)



SUMMARY OF “INTERNATIONAL ACCOUNTING—CURRENT PRACTICE ISSUES” PANEL

By Gary P. Braun, University of Texas at El Paso (Co-chair, Practice Issues Committee, AAA International Accounting Section)

On February, 25, 2012, at the Midyear Meeting of the AAA International Accounting Section, a distinguished panel of partners from among the largest international accounting firms spoke about various current international accounting issues of interest to academics. The panelists: Holger Erchinger, KPMG; Randy Fletchall, Ernst & Young; John Hepp, Grant Thornton; and David Schmid, PricewaterhouseCoopers. During this ninety minute session, the panel discussed a number of issues pertaining to Accounting Convergence and Regulatory Initiatives. Immediately below is a summary of some of the highlights of that discussion.

Accounting Convergence

Both the Chair of the IASB and the FASB have stated publicly that “ongoing convergence between U.S. GAAP and IFRS eventually will not be an option.” In addition, in the days just before the conference, James Kroeker, Chief Accountant of the SEC, indicated that the Office of the Chief Accountant of the SEC will issue within a few months its final report under the IFRS work plan which was initially published in 2010. The panelists discussed their perspectives and, rather surprisingly, they were somewhat skeptical about convergence. A general consensus among the panelists was that convergence has not worked as well as many may have hoped, and they identified a number of examples including accounting for derecognition of financial instruments (while acknowledging that disclosure has been converged), offsetting of financial assets and liabilities, and consolidation.

One panelist pointed out that the original schedule that called for issuing multiple converged standards by June 30, 2011 was too optimistic and that it could take several years before those standards are implemented. Further, it was pointed out that the FASB continues to issue standards that diverge with those of the IASB (and vice versa) and that this stands in opposition to the objective to further reduce differences between the two sets of accounting standards. In summary, there was panel consensus that the SEC staff will ultimately recommend a form of the "endorsement" approach discussed in the May 2011 SEC Staff White Paper and the FAF comment letter thereon, although no one knows for sure at this point.

Turning to particular specific convergence projects, there are three – financial instruments,

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Co-Chair, Practice Issues Committee Gary Braun



Panelist Holger Erchinger, KPMG



Panelist John Hepp, Grant Thornton

Practice Issues Committee Panel Summary (continued from page 19)

leasing, and revenue recognition – which are still not yet completed although the Boards and their respective staff are working diligently towards finalization. This gave rise to the following question: Because it seems that the Boards appear to be on the same page regarding revenue recognition and leasing, do you think that these two standards will be finalized in time for a 2015 implementation date? The panel indicated that recent comments from standard setters implied that the boards perhaps are not as closely aligned as had been thought, even very recently. Specifically, while there is some reason for optimism regarding classification and measurement, progress on issues related to impairment and hedging remains less definite.

Regulatory Initiatives

The panel discussed the form of potential incorporation of IFRS into the U.S. financial reporting system. They believed that US GAAP, as a *term*, would be retained. Second, the panel believed that the SEC will not allow an option for U.S. domestic issuers who wish to adopt IFRS as issued by the IASB (unlike foreign private issuers registered with the SEC that have that option). Further, that the SEC will probably ask the FASB to endorse standards on a one by one basis. This brings the question: What is the threshold for acceptability? The long and short of this is that the panelists did not really see a process that would lead to identical frameworks. Stemming from this line of discussion, one panelist brought up the issue that there are already foreign firms using IFRS as issued by the IASB to access the U.S. capital market either by being a SEC registrant (foreign private issuers) or by offering securities under SEC Rule 144A in conjunction with exempt offerings. However, it was pointed out by another panelist that this represents a very small portion of the market capitalization in the United States.

Another set of discussion topics in this area consisted of the various regulatory initiatives under consideration by both the PCAOB and the European Commission (EC). In particular, both bodies are considering mandatory audit firm rotation. The majority of the comments from the panelists were negative toward this proposal. The difficulties and costs associated with mandatory rotation clearly outweigh the benefits, according to the panelists. Most of the panelists expressed the view that mandatory firm rotation would not contribute to an increase in audit quality, and may actually have a negative impact. The panel then turned to discussion of other proposals from the EC's so-called



**Panelist David Schmid,
PricewaterhouseCoopers**



**Panelist Randy Fletchall, Ernst
& Young**

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Green Paper which in 2011 became a Proposal for Auditing Reform in Europe. These proposals cover several areas, including strengthening the role of audit committees, a more frequent tendering process, and greater restrictions on non-audit services provided by firms to their audit clients. Finally, the panelists discussed various considerations in the US and internationally of changes to the auditor's report. The consensus of the panelists was that firms support improvements in the auditor's report, but some aspects of the various proposals are problematic, would have implementation difficulties and would not improve the financial reporting process.

Other

In addition to the above issues, at the end of the session there were some comments and questions from the audience. In particular, there was a question about whether faculty should be teaching their students IFRS in classes, now. The panel acknowledged that many faculty are already teaching IFRS, and the general message from the panel was that they should continue to do so. One panelist did caution against recommending that faculty spend significant time on IFRS. His concern was based significantly on the uncertainties surrounding convergence mentioned above and directed primarily toward faculty teaching students not likely to be involved in IFRS engagements. However, the panel majority pointed out that IFRS is being used in the US currently (e.g. subsidiaries of foreign companies), the CPA exam now tests for IFRS content, and the differences between US GAAP and IFRS are decreasing over time.



SAVE THE DATE!
2013 IAS Midyear Meeting and Doctoral Consortium
Hyatt Regency, Savannah, Georgia
February 21-23, 2013

HAVE YOU SEEN?

Kamala Raghavan
Texas Southern University



Bowe Hansen
Virginia Tech



Editorial Note: If you have an abstract or know of an abstract that would be of interest to the members of the AAA International Accounting Section, please email the reference information and abstract to Kamala Raghavan at raghavank@tsu.edu or Bowe Hansen at bhansen1@vt.edu.

Adam, B., R. Mussari, and R. Jones. 2011. The diversity of accrual policies in local government financial reporting: an examination of infrastructure, art and heritage assets in Germany, Italy, and the UK. *Financial Accountability & Management*, (Volume 27): 107–133.

This paper examines the norms and practices for infrastructure, art and heritage assets in six cities, across three European countries, to determine how the national norms of accrual accounting compared with each other, and with IPSAS, and how the practices in each city compared with the norms. We identify significant diversity between actual practices and the norms imposed by national policy-makers or set by IPSAS. Given that a longstanding concern of the literature has been on whether these kinds of assets should be included in governmental balance sheets and operating statements at all, it is striking how often the question was settled in practice by excluding art and heritage assets, even when this meant non-compliance with national norms. In our three countries, it is clear that comparability of the financial statements between countries was not a concern of policy-makers, and comparability between cities within each country not a concern of preparers.

Ahadiat, Nasrollah. 2011. Association between audit opinion and provision of non-audit services. *International Journal of Accounting and Information Management*, (Volume 19, Issue 2): 182- 193.

While a few US studies on the impact of the provision of non-audit services on auditor judgment have found potential harm to independence, this study investigates whether the British and Australian auditors' involvement with both

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audit and non-audit services for the same clients may also produce similar results. The parametric t-tests and the nonparametric Mann-Whitney tests are used in this study on the empirical data from the British and Australian companies to examine the potential for loss of independence when high levels of non-audit services are provided to audit clients. The results corroborated the US Securities and Exchange Commission's contention that the provision of non-audit services may indeed impair independence. No attempts were made to isolate the effects of other factors that could result in the issuance of qualified opinions. In addition, the sample used in this investigation is comprised of firms that had voluntarily disclosed non-audit fees in the early years of the study. This could potentially introduce a self-selection bias. Nevertheless, this study is one of a kind in the international arena. This paper extends the line of research examining the impact of non-audit services on the auditor's independence.

Akisik, Orhan, and Graham Gal. 2011. Sustainability in businesses, corporate social responsibility, and accounting standards: An empirical study. *International Journal of Accounting and Information Management*, (Volume 19, Issue 3): 304- 324.

This paper examines the relationship of sustainable development in businesses with corporate social responsibility (CSR) and accounting, in 53 developed and emerging economies over the period 1997-2008. The authors test the relationship of sustainable development in businesses with CSR and accounting using ordinary least squares estimation technique for country level panel data. The results of the analyses provide evidence that sustainable development is strongly related to CSR and accounting standards, even after controlling for a variety of macroeconomic variables such as inflation, foreign direct investment, and unemployment. The authors find that sustainable development is strongly and positively associated with customer satisfaction and the availability of senior managers. Conclusions that have been drawn are important for a large group of stakeholders such as investors, companies' managers, employees, customers, suppliers, governmental and private regulatory agencies, and the general public, indicating that socially responsible firms and good accounting standards are likely to contribute to sustainable development in businesses in developed and emerging countries.

Anagnostopoulos, Yiannis, and Roger Buckland. 2011. IAS39 and measurement quality: bankers' perceptions. *Journal of Applied Accounting Research*, (Volume 12, Issue 2): 157-178.

This paper makes an empirical contribution by investigating the boundaries between external financial reporting and decision making through assessing the degree of differences among practitioners' perspectives of financial reporting measurement attributes across two countries, and the impact of the "domestic" practice through cultural factors on the implementation of financial accounting and regulation. The authors employ the method of triangulation by employing two research instruments, namely interviews and a questionnaire. Triangulation cuts across and within research strategies, as one of its features as a process technique is to cross-check results deriving from both quantitative and qualitative research. Cross-national studies is a very useful tool that can provide a basis for competing explana-

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tions, identifying the importance of regional factors across a universally-changing environment or discriminating between explanations that are country-specific and those that are universally applicable. This study provides evidence for a diverging perceived effectiveness and acceptance of IAS39 in two different banking markets (Greece and the UK), suggesting that culture and domestic configurations play an important part in shaping management perceptions and that given these differences, the choice of a measurement system can potentially also affect the (re)liability of managers that sign a firm's financial reports. It shows that topical settings can potentially influence the preferences and perceptions of managers with regards to particular measurement bases as part of the wider accounting framework instituted by international authorities, as well as raise significant barriers to harmonization efforts. This paper seeks to examine the chasm between regulation and accounting through the lens of topical/domestic configurations of accounting practice and its application. The reason for doing so is also because of the recent structural developments in the international finance arena, namely signs of creation of markets for impaired assets.

Autrey, Romana, and Francesco Bova. 2012. Gray markets and multinational transfer pricing. *The Accounting Review*, Forthcoming.

Gray markets arise when a manufacturer's products are sold outside of its authorized channels, for instance when goods designated by a multinational firm for sale in a foreign market are re-sold domestically. One method multinationals use to combat gray markets is to increase transfer prices to foreign subsidiaries in order to increase the gray market's cost base. We illustrate that, when a gray market competitor exists, the optimal transfer price to a foreign subsidiary exceeds marginal cost and is decreasing in the competitiveness of the domestic market. However, a multinational's discretion in setting transfer prices may be limited by mandatory arm's length transfer pricing rules. Provided gray markets exist, we characterize when mandating arm's length transfer pricing lowers domestic social welfare relative to unrestricted transfer pricing. We also demonstrate that gray markets can lead to higher domestic tax revenues, even when gray market firms do *not* pay taxes domestically.

Bédard, J. and Y. Gendron. 2010. Strengthening the Financial Reporting System: Can Audit Committees Deliver? *International Journal of Auditing*, (Volume 14): 174–210.

This paper reviews the literature on audit committees in order to evaluate the extent to which committees are effective in terms of strengthening financial reporting. The paper aims to achieve two goals: first to provide updated information about the effectiveness of the audit committee, and second to identify research opportunities. Compared with other reviews on the matter, we cover a broader spectrum of theoretical perspectives from various fields, methods, and countries. In particular, our review investigates from a meta-perspective the results reported in studies which examine the relationship between certain audit committee characteristics and measures of audit committee effectiveness. It is hoped that this work will sensitize accounting researchers about the appropriateness of extending the boundaries of research on audit committees, from methodological, theoretical, and geographical points of view.

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Brooks, Lily Z., C.S. Agnes Chen, Joseph Atkins Johnston, and Kenneth John Reichelt. 2011. When does audit quality start to decline in firm audit tenure? – An international analysis. Working paper, September 25, 2011. Available at SSRN: <http://ssrn.com/abstract=1933488>.

This paper investigates the decline in audit quality during an audit firm's tenure across countries with varying degrees of legal liability. We propose that audit quality can increase through a learning effect in early years but in later years it is likely to decrease due to a bonding effect. Using a quadratic model, we estimate the year when audit quality, measured by earnings quality, starts to decline during an audit firm's tenure. We propose that the bonding effect should be weaker in countries with stricter legal liability regimes, which implies that the year that audit quality begins to decline should be later in countries with stricter legal liability regimes. We find that it takes 14 to 16 years for countries with stronger legal liability regimes while it only takes 4 to 10 years for countries with weaker legal liability regimes for audit quality to decline. Our results are strong regardless of whether we measure legal liability from the perspective of legal origin (common or code law) or litigation risk. Our findings have implications across the world for the current debate on the mandatory requirement of audit firm rotation across the world.

Brown, L. D. and Y.J. Lee. 2011. Changes in Option-Based Compensation around the Issuance of SFAS 123R. *Journal of Business Finance & Accounting*, (Volume 38): 1053–1095.

We investigate the extent to which employee stock option (ESO) cutbacks around issuance of SFAS 123R are explained by eliminating the favorable accounting treatment available to firms prior to SFAS 123R and the economic consequences of such ESO cutbacks. We find a reduction in the grant day fair value of ESOs to all employees, which is an increasing function of the accounting benefits the firm derived from ESOs' favorable accounting treatment prior to SFAS 123R. The removal of these accounting benefits explains 20% (45%) of ESO cutbacks around the issuance of SFAS 123R for our sample median (mean) firm. We do not find that firms cutting back more on the use of ESOs experienced a greater decrease in firm performance. Rather, a dollar increase in ESOs is associated with higher future productivity and higher future firm value in the post-SFAS 123R period. Collectively, our evidence suggests that ESOs' favorable accounting treatment prior to SFAS 123R provided firms with incentives to make compensation decisions that minimized accounting expense but did not maximize firm value. We show that firms were more likely to replace ESOs with restricted stock and long-term incentive plans post-SFAS 123R but the substitution was far less than dollar for dollar.

Brown, P., W. Beekes, and P. Verhoeven. 2011. Corporate governance, accounting and finance: a review. *Accounting & Finance*, (Volume 51): 96–172.

We review accounting and finance research on corporate governance (CG). In the course of our review, we focus on a particularly vexing issue, namely endogeneity in the relationships between CG and other matters of concern to accounting and finance scholars, and suggest ways to deal with it. Given the advent of large commercial CG databases, we also stress the importance of how CG is measured and in particular, the construction of CG indices, which should be sensitive to local institutional arrangements,

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and the need to capture both internal and external aspects of governance. The ‘stickiness’ of CG characteristics provides an additional challenge to CG scholars. Better theory is required, for example, to explain whether various CG practices substitute for each other or are complements. While a multidisciplinary approach to developing better theory is never without its difficulties, it could enrich the current body of knowledge in CG. Despite the vastness of the existing CG literature, these issues do suggest a number of avenues for future research.

Clausing, Kimberly A., and Yaron Lahav. 2011. Corporate tax payments under formulary apportionment: Evidence from the financial reports of 50 major U.S. multinational firms. *Journal of International Accounting, Auditing & Taxation*, 20, 97-105.

Under a formulary apportionment system of taxing multinational corporate income, U.S. tax liabilities would be based on the product of a multinational firm's worldwide income and the fraction of their real activities that occur in the United States – typically, an average of asset, payroll, and sales shares. This analysis utilizes financial reporting data for 50 large U.S. multinational firms to analyze how tax payments would change under a possible formulary system, updating. Our time period is 2005–2007 instead of 1989–1993. We find that tax payments under formulary apportionment would increase modestly overall but by a lower magnitude than found by Shackelford and Slemrod. Given the changes in the international tax environment since the earlier time period, this is a puzzling finding; we speculate regarding possible explanations.

Dobler, Michael, Kaothar Lajili, and Daniel Zeghal. 2011. Attributes of corporate risk disclosure: International investigation in the manufacturing sector. *Journal of International Accounting Research*, 10, 1-22.

This paper is the first multi-country investigation of comprehensive corporate risk disclosure. Based on a detailed content analysis of 160 annual reports, we analyze the attributes and the quantity of risk disclosure and its association with the level of firm risk in the U.S., Canadian, U.K., and German settings. We find a consistent pattern where risk disclosure is most prevalent in management reports, concentrates on financial risk categories, and comprises little quantitative and forward-looking disclosure across sample countries. In terms of risk disclosure quantity, U.S. firms generally dominate, followed by German firms. Cross-country variation in risk disclosure attributes can only partly be linked to domestic disclosure regulation, suggesting that risk disclosure incentives play an important role. While risk disclosure quantity appears to be positively associated with proxies of firm risk in the North American settings, we find a negative association with leverage for Germany. This coincides with a “concealing motive” implied by an insider role of banks in the German financial setting.

Endenich, C., M. Brandau, and A. Hoffjan. 2011. Two Decades of Research on Comparative Management Accounting – Achievements and Future Directions. *Australian Accounting Review*, (Volume 21): 365–382.

Comparative Management Accounting research has explored the applications, transferability and cross-country adaptation of management accounting practices since the early 1990s. These efforts have been triggered by findings indi-

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cating that the adoption of foreign management accounting techniques generates comparative advantages in environments characterized by increasing global business competition. However, the literature on Comparative Management Accounting is heterogeneous in terms of its methods and theory and tends to focus on a great variety of practices and instruments. Therefore, this paper reviews the existing literature, elaborating on the dimensions of comparative research in management accounting. In addition, it provides insights into shortcomings and developments in the field and identifies directions for future research and implications for corporate practice.

Firth, Michael, Oliver M. Rui, and Xi Wu. 2012. How do various forms of auditor rotation affect audit quality? Evidence from China. *The International Journal of Accounting*, Forthcoming.

The Enron/Arthur Andersen scandal has raised concerns internationally about auditor independence, audit quality, and the need for regulatory action such as mandatory auditor rotation. China's unique institutional features provide a setting in which we can compare comprehensively the various forms of auditor rotation at different levels (partner v. firm) and in different settings (voluntary v. mandatory). In addition, institutional conditions vary dramatically across China, which provides us with an opportunity to test whether the development of market and legal institutions affects the impact of rotation on audit quality. We expect that auditors are less (more) constrained by market forces and less (more) self-disciplined to maintain audit quality in regions with less (more) developed market and legal institutions. Therefore mandatory rotation may play a more (less) important role in less (more) developed regions. Using auditors propensity to issue a modified audit opinion (MAO) as a proxy for audit quality, we find that firms with mandatory audit partner rotations are associated with a significantly higher likelihood of an MAO than are no-rotation firms. However, this effect is restricted to firms located in less developed regions. We find similar evidence for voluntary audit firm rotation although the significance level is much weaker than for mandatory partner rotation. Other forms of audit rotations (i.e., mandatory audit firm rotation and voluntary audit partner rotation), have no effect on MAOs.

Gebhardt, G. and Z. Novotny-Farkas. 2011. Mandatory IFRS Adoption and Accounting Quality of European Banks. *Journal of Business Finance & Accounting*, (Volume 38): 289–333.

This paper examines the implications of mandatory IFRS adoption on the accounting quality of banks in twelve EU countries. Specifically, we analyze how the change in the recognition and measurement of banks' main operating accrual item, the loan loss provision, affects income smoothing behavior and timely loss recognition. We find that the restriction to recognize only incurred losses under IAS 39 significantly reduces income smoothing. This effect is less pronounced in countries with stricter bank supervision, widely dispersed bank ownership and for EU banks cross-listed in the US. This provides additional evidence that institutions matter in shaping financial reporting outcomes. Further, the application of the incurred loss approach results in less timely loan loss recognition implying delayed recognition of future expected losses. In the light of the ongoing financial crisis it is questionable whether this is a desirable financial reporting outcome of mandatory IFRS adoption.

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Goncharov, Igor, and Allan Hodgson. 2011. Measuring and reporting income in Europe. *Journal of International Accounting Research*, 10, 27-59.

The IASB discussion paper, *Preliminary Views on Financial Statement Presentation* (IASB 2008), asks whether income should be aggregated and reported as a single comprehensive income figure, and how comprehensive income components should be reallocated. We extend prior empirical evidence by researching 16 European countries and by an extensive examination of impact metrics that include information, measurement, prediction, and conditional conservatism issues. A European setting that comprises substantial variation in markets, accounting rules, and business culture would, *ceteris paribus*, support differential reporting of comprehensive income. Results, however, consistently support the retention of operating net income as a general decision-relevant metric, with other comprehensive income reported individually and delineated by its unrealized nature. We found no compelling evidence that it should be reallocated into net income by function. Further, reported aggregated comprehensive income reverses the conservative attributes of income and has policy implications for providers of debt capital in a European setting. Results are robust to several firmspecific controls, nonlinearities, the impact of reporting incentives, and for early IFRS adopters.

Hodgson, Allan, Suntharee Lhaopadchan, and Sitapa Buakes. 2011. How informative is the Thai corporate governance index? A financial Approach. *International Journal of Accounting and Information Management*, (Volume: 19, Issue 1): 53- 79.

Prior research, in mainly Western economies, suggests the level of corporate governance is financially important. As an emerging economy case study, the purpose of this paper is to investigate whether the Thai Institute of Directors (IOD) corporate governance index provides investors with financial information about fundamental value and arbitrage portfolio decisions, and if/how information content changes over time. Logistic regressions using 11 financially dependent variables and a “good governance” dummy variable, constructing zero-cost buy-sell portfolios, and Fama-French cumulative average returns (CARs), over the period 2001-2006. The predicted significant relationships between a “good governance” categorization and financial proxies for firm performance; and zero-cost portfolios that generate very high future monthly excess returns early in the study period, which are then dissipated by 2006, are found. These high returns were also associated with insignificant or inconsistent ten-day CARs after the announcement of an improving (deteriorating) index category, but with a more rapid reaction in 2006. Results suggest that either (or in a combination): the Thai stock market had a slow learning adjustment to the governance index because of uncertainty as to information content; the IOD was incomplete and needed fine tuning and updating before full information impact was realized; and other time-specific factors meant the IOD was of a lesser importance. One limitation is the data time period and the extension of the governance analysis to the global financial crisis years. Governance information content in Thailand was not (initially) fully integrated into prices with substantial arbitrage returns available to astute investors. Continual re-assessment and improvement of governance reporting should be an agenda requirement. The paper forms an extension of governance studies into an Asian emerging economy, and determination of time-varying information content and arbitrage opportunities.

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Hung, Mingyi, T.J. Wong, and Tianyu Zhang. 2012. Political considerations in the decision of Chinese SOEs to list in Hong Kong. *Journal of Accounting and Economics*, Forthcoming.

This paper investigates why Chinese state-owned enterprises (SOEs) with strong political connections (i.e., politically connected firms) are more likely to list overseas than non-politically connected firms. We find that connected firms' post-overseas listing performance is worse than that of non-connected firms. This evidence suggests that connected firms' managers list their firms overseas for private (political) benefits. Consistent with this private benefits explanation, we further find that connected firms' managers are more likely to receive political media coverage or a promotion to a senior government position subsequent to overseas listing than domestic listing.

Jagalla, T., S. D. Becker, and J. Weber. 2011. A taxonomy of the perceived benefits of accrual accounting and budgeting: Evidence from German states. *Financial Accountability & Management*, (Volume 27): 134–165.

Accrual Output-Based Budgeting (AOBB) in government has been disputed intensely among academics and practitioners. While normative, conceptual or theory-based literature made promising claims about which benefits can be expected from reforming government accounting and budgeting, recent empirical research finds that at least some of these expectations have been massively overstated. The observed gap between promises and reality poses the question for the true benefits anew. Basing our analysis on practitioners' judgment, we suggest a general and prioritized landscape of perceived benefits (taxonomy). Our findings are derived from 42 interviews conducted in the context of two German federal states. Mapping our results to prior claims in the literature, we reveal that the practitioners interviewed do not see upsides in areas that former research deems to be important while other and previously not emphasized areas, such as mindset changes, seem to convince in practical life. The results of our analysis offer a profound basis for further exploration of the benefits and/or even cost/benefit evaluations.

Khurana, Inder K., and Paul N. Michas. 2011. Mandatory IFRS adoption and the U.S. home bias. *Accounting Horizons*, 25, 729-753.

This paper examines whether mandatory IFRS adoption at the country level lowers U.S. investors' propensity to overweight domestic stocks in their common stock portfolios (generally referred to as home bias). We find that, on average, U.S. home bias decreases for countries that mandate IFRS adoption, after controlling for country-fixed effects. We also find that the reduction in the U.S. home bias after the mandatory adoption of IFRS is greater for countries with larger differences between IFRS and their domestic accounting standards, for countries with a stricter rule of law and a common law legal origin, and in countries with greater incentives to report high-quality financial information. Overall, our results indicate that a common set of global accounting standards matters for portfolio holdings of U.S. investors and that U.S. investors regard the enforcement of standards to be a key factor in making investments outside the U.S.

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Kimbro, Marinilka B, and Zhiyan Cao. 2011. Does voluntary corporate citizenship pay? An examination of the UN Global Compact. *International Journal of Accounting and Information Management*, (Volume: 19, Issue 3): 288- 303.

The UN Global Compact (GC) is the world's largest voluntary corporate social responsibility (CSR) initiative. Signatory companies voluntarily agree to abide by the GC ten principles and explicitly declare compliance with social and human rights, environmental protection, and anti-corruption practices. Participants commit to CSR and are required to publish a yearly report called Communication on Progress (COP). If firms fail to provide a COP for one year they are labeled “non-communicating”, and for two years they are “delisted” from the GC. In 2006, the first list of non-communicating and delisted firms was announced. The purpose of this paper is to investigate the extent by which being a signatory company – that reports COP – reduces information risk, and thus leads to better market returns, lower cost of debt, and lower cost of equity. The authors studied the period from the launch of the GC until the first list of non-communicating firms was made public, investigating the extent by which being a signatory company – that reports COP – reduces information risk, and thus leads to better market returns, lower cost of debt, and lower cost of equity. The results suggest that communicating (reporting) firms have statistically significant higher market valuation – lower book to market – than companies that initially agree to participate in the GC but that do not comply with the reporting requirement. Communicating firms also have statistically significant higher ROA, lower cost of debt, lower cost of equity, and lower beta indicating better performance and less risk. The authors also find some evidence that non-communicating firms might be “free riding” and could have joined the GC to improve their corporate image. The paper provides evidence of the value of CSR reporting. It is not enough to disclose compliance with CSR, but it is also necessary to account for this through some sort of formal mechanism such as a CSR report. Voluntary disclosures and narrative statements in annual reports will continue to have questionable information content, but standards of environmental reporting, such as the Global Reporting Initiative, not only improve the way in which social and environmental performance is measured, but they also provide evidence of compliance. This paper also presents evidence of the value of voluntary initiatives such as the GC when these initiatives are supported by formal reporting and when accountability/enforcement.

Kumarasiri, J. and R. Fisher. 2011. Auditors' Perceptions of Fair-Value Accounting: Developing Country Evidence. *International Journal of Auditing*, (Volume 15): 66–87.

The increasing application of fair value accounting (FVA) in financial reporting has given rise to a range of challenges for external auditors and auditing standard-setters, particularly for those in developing nations. Given the dearth of prior research, this exploratory study sought to identify and examine the issues and challenges confronting auditors in a developing country context. Based on a survey of 156 practicing auditors in Sri Lanka, the study found that Sri Lankan auditors were generally supportive of the decision usefulness of FVA, although they perceived specific auditing issues with its implementation in developing countries. These issues included: lack of technical knowledge, the prevalence of inactive markets in developing countries, difficulties associated with the variation in tech-

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niques used to ascertain fair values across different industries, general complexities in ascertaining fair values, and the incorporation of future events and conditions into valuations. The provision of adequate training and technical guidance were viewed as the primary means of mitigating these concerns.

Lang, Mark and Mark Maffett. 2011. Transparency and liquidity uncertainty in crisis periods. *Journal of Accounting and Economics*. 52, 101-125.

We document, for a global sample, that firms with greater transparency (based on accounting standards, auditor choice, earnings management, analyst following and forecast accuracy) experience less liquidity volatility, fewer extreme illiquidity events and lower correlations between firm-level liquidity and both market liquidity and market returns. Results are robust to numerous sensitivity analyses, including controls for endogeneity and propensity matching. Results are particularly pronounced during crises, when liquidity variances, covariances and extreme illiquidity events increase substantially, but less so for transparent firms. Finally, liquidity variance, covariance and the frequency of extreme illiquidity events are all negatively correlated with Tobin's Q .

Lo, Agnes W.Y., and Raymond M.K. Wong. 2011. An empirical study of voluntary transfer pricing disclosures in China. *Journal of Accounting and Public Policy*, 30, 607-628.

This paper empirically investigates the factors that affect the management's voluntary disclosures of the transfer pricing details of related-party transactions. Using Chinese data from 2004 and 2005, we hypothesize and find that firms that make voluntary disclosures of the pricing methods of related-party transactions are negatively associated with (i) a higher level of earnings management (as captured by abnormal related-party transactions) and (ii) its underlying incentives (as captured by the management's performance linked-bonuses and the firms' incentives to achieve earnings targets); further, they are positively associated with (i) a higher percentage of independent directors and (ii) a higher percentage of government ownership. Overall, our findings suggest that earnings management and its incentives, board composition, and ownership structure significantly influence the voluntary disclosure decisions of management.

Masulis, Ronald W., Cong Wang, and Fei Xie. 2012. Globalizing the boardroom – the effects of foreign directors on corporate governance and firm performance. *Journal of Accounting and Economics*, Forthcoming.

We examine the costs and benefits associated with foreign independent directors (FIDs) at U.S. corporations. We find that firms with FIDs make better cross-border acquisitions when the targets are from the home regions of FIDs. However, FIDs also display poor board meeting attendance records and are associated with a greater likelihood of intentional financial misreporting, higher CEO compensation, and a lower sensitivity of CEO turnover to performance. Finally, firms with FIDs exhibit significantly poorer performance, especially as their business presence in the FIDs home region becomes less important.

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Merchant, Kenneth A., Wim A. Van der Stede, and Thomas W. Lin. 2012. Performance measurement and incentive compensation: an empirical analysis and comparison of Chinese and Western firms' practices. *European Accounting Review*, 20, 639-667.

This paper describes the findings of a study aimed at providing a replication and extension in China of studies focused on incentive compensation practices of automobile retailers in the USA and the Netherlands. Rich, detailed data-sets from all three countries are analysed together and in comparison. As theory is not well developed at the level of detail of the data collected, the purpose of this study was primarily exploratory, to provide empirics that can lead to the development of theory. The findings show that Chinese firms are much more likely to provide incentive compensation than are Dutch firms, and they are even somewhat more likely to provide them than are US firms. But Chinese bonus plans are more likely to be subjective, rather than formula-based. In the situations where incentive payments are based on pre-set formulas, the Chinese firms' systems are more like those used in the Netherlands than in the USA, with bonuses based on non-financial performance measures and with more complex performance-reward functions. Like managers in the US firms, but unlike managers in the Dutch firms, Chinese managers who receive some form of incentive compensation are more satisfied with their pay. The paper concludes with tentative explanations of the findings and suggestions for future research.

Michas, Paul N. 2011. The importance of audit profession development in emerging market countries. *The Accounting Review*, 86, 1731-1764.

This study investigates the country-level development of the audit profession in emerging market countries and whether this development is associated with audit quality and auditor choice. I find that audit quality is higher for client companies located in countries with a more developed audit profession, after controlling for rule of law and investor protection. Specifically, Big 4 client companies' total and abnormal accruals are both lower, and earnings are more conservative in countries with stronger Audit Profession Development (APD). However, these results hold only for companies audited by a Big 4 auditor. Results also indicate that stronger APD is associated with a greater likelihood that a client company hires a Big 4 auditor. My findings contribute to the literature that explores differences in audit quality and determinants of auditor choice, the literature that explores cross-country differences in audit professions, and research on the characteristics and effectiveness of audit institutions in emerging market economies.

Moosa, I. 2011. The demise of the ARC journal ranking scheme: an ex post analysis of the accounting and finance journals. *Accounting & Finance*, (Volume 51): 809-836.

The recent abolition of the ARC journal ranking scheme is indicative of some problematical features of journal ranking in general and the ARC scheme in particular. An alternative citation-based ranking scheme is applied to the accounting and finance journals to highlight some loopholes in the abandoned ARC scheme and provide some suggestions for how to proceed with ERA 2012. By re-ranking journals according to their citation indices, it is demonstrated that the ARC ranking placed a large number of journals where they do not belong. As a result, the ARC scheme induced some adverse behavioral changes with respect to preferred publication outlets.

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Qian, Wei, and Roger Burritt. 2011. Lease and service for product life cycle management: an accounting perspective. *International Journal of Accounting and Information Management*, (Volume 19, Issue 3): 214- 230.

Previous research in lease finance and evaluation has given little consideration to environmental factors. The purpose of this paper is to add to the literature by analyzing how leasing provides a more attractive option than selling and extended producer responsibility (EPR) in helping to close product life-cycle loops, extend the useful life of products, and increase environmental benefits. This paper revisits the accounting concepts of asset depreciation, residual value and cost of leasing and proposes methods to incorporate these concepts into the “closed loop” lease and service mode for product life-cycle management. For business, the “closed loop” lease and service mode changes asset values through the extension of the asset's useful life and in particular, the increase of the residual value of the product (i.e. recoverable value to the producer/lessor). Such changes reduce the cost of leasing to the advantage of both lessor and lessee. However, the argument about a “win-win” monetary and environmental outcome being associated with leasing presents several challenges for current accounting standards in terms of recognition of lease and lease revenue, recognition of intangible assets and internalization of environmental costs and impacts associated with the leasing process. To date, accounting and finance literature seems to focus exclusively on the economic aspects of leasing strategies. This paper uses a different lens to make a call for a rethink about leasing with environmental considerations. It is expected that the findings and suggestions in this study will facilitate the adoption and diffusion of the “closed loop” lease and service mode in the business world for the benefit of the environment in the future.

Ray, Korok. 2011. One size fits all? Costs and benefits of uniform accounting standards. Georgetown University Working Paper, September 11, 2011. Available at SSRN: <http://ssrn.com/abstract=1940696>.

I build a model of neoclassical production to examine the capital market and welfare effects of a uniform accounting standard (like IFRS). Firms vary in their cost of compliance to the standard, and investors vary in their cost of learning diverse standards for capital allocation. A uniform accounting standard increases the quantity of capital in the economy and lowers the cost of capital. However, uniform standards force diverse firms onto the same standard, which reduces welfare. A regulator selects the optimal number and type of standard to balance these competing effects. Uniform accounting standards are better than diverse accounting standards when firm productivity and variation between investors is large, but worse when the cost of investment and variation between firms is large. I draw implications for IFRS/GAAP convergence, and the incentives versus standards debate.

Tan, H., S. Wang, and M. Welker. 2011. Analyst Following and Forecast Accuracy After Mandated IFRS Adoptions. *Journal of Accounting Research*, (Volume 49): 1307–1357.

This study investigates how accounting harmonization affects one particular group of financial statement users—financial analysts. We find that mandatory International Financial Reporting Standards

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(IFRS) adoption attracts foreign analysts, particularly those from countries that are simultaneously adopting IFRS along with the covered firm's country and those with prior IFRS experience. We also find that mandatory IFRS adoption improves foreign analysts' forecast accuracy. The change in analyst following increases with the distance between prior local Generally Accepted Accounting Principles (GAAP) and IFRS and with the extent to which IFRS adoption eliminates GAAP differences between the firm's country and the analyst's country. IFRS adoption also attracts more local analysts, schedule with the devaluation schedule implied by exposure-specific credit indices such as the ABX. The results show that the accounting write-downs are less timely than the devaluations implied by credit indices. In a cross-sectional analysis of the determinants of the timeliness of write-downs, I document that corporate governance quality, regulatory investigations, and litigation pressure are positively related to the timeliness of write-downs, whereas the write-downs by firms with higher financial leverage, tighter regulatory constraints, and more complex exposures are less timely. I control for numerous exposure-specific characteristics and document that exposures that were less risky and those affected later during the financial crisis were written down later. Regarding the consequences of timeliness, I find that the exposure to risky assets is reflected faster in stock returns for firms with timelier write-downs.

Taplin, Ross H. 2011. The measurement of comparability in accounting research. *Abacus*, 47, 383-409.

Indices of harmony such as the H, C, I and T indices have been developed and used in the accounting literature to quantify the level of comparability of company accounts. This has led to advances in definitions of comparability as well as empirically quantifying the extent of comparability between actual company accounts. These are important because the general concept of comparability is considered desirable, as highlighted by its inclusion as one of four qualitative characteristics in the framework of the International Accounting Standard Board (IASB). This paper rebuts criticisms of harmony indices in the accounting literature by arguing these criticisms either: (a) apply to old indices but not to newer ones, (b) apply to most empirical accounting research, (c) are based on incorrect or irrelevant assertions, or (d) relate to alternative definitions of harmony. This assists the use and interpretation of harmony indices and advances our understanding of what comparability means. New indices within the T index framework are also proposed by directly comparing company accounts and therefore avoiding the previous requirement to define 'accounting methods'. A new index R is also proposed to capture international harmony between countries when within-country uniformity is absent.

Trotman, K. T., H. C. Tan, and N. Ang. 2011. Fifty-year overview of judgment and decision-making research in accounting. *Accounting & Finance*, (Volume 51): 278-360.

As part of the celebration of the fiftieth anniversary of AFAANZ, we consider the breadth of judgment and decision-making (JDM) experimental research in accounting over that 50-year period. Our review is divided by decade and between auditing, financial accounting and management accounting. In four major journals, we found 5745 papers between 1970 and 2009, which we consider impressive and strong support for the opportunity to publish in this field. Our aim is to encourage more JDM research from Australians and New Zealanders, and to allow researchers in

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particular specializations to get a better understanding of the JDM research in other specializations.

Vyas, D. 2011. The Timeliness of Accounting Write-Downs by U.S. Financial Institutions during the Financial Crisis of 2007–2008. *Journal of Accounting Research*, (Volume 49): 823–860.

This paper examines the timeliness of write-downs taken by U.S. financial institutions during the financial crisis of 2007–2008. The timeliness of write-downs is measured by benchmarking the quarterly accounting write-down as is measured by the ratings compiled by Credit Lyonnais Securities Asia, which are based on a series of corporate governance characteristics. Results show that analysts tend to issue favorable recommendations for firms with better corporate governance mechanisms. Furthermore, this evidence is concentrated in countries with a code law origin where investor protection is relatively weak. This paper has important implications for financial analysts and investors by offering insights into how analysts help the market efficiently incorporate the quality of corporate governance in the code law countries of emerging markets. This paper is also of interest to companies by highlighting the significance of establishing good corporate governance mechanisms. Examining the association between analyst recommendations and the strength of corporate governance adds to the research on the association between corporate governance and analyst activity and therefore highlight the role analysts play in the valuation of corporate governance.

Yu, Minna. 2011. Analyst recommendations and corporate governance in emerging markets. *International Journal of Accounting and Information Management*, (Volume 19, Issue 1): 34 -52.

This paper examines whether analyst recommendations are influenced by the strength of corporate governance in emerging markets. It is expected that analysts take into consideration the corporate governance mechanisms when they set their recommendations because better-governed companies are associated with less risk from management and have value improvement potentials. This hypothesis is tested with a sample of 805 firms in 26 countries from emerging markets. Corporate governance is effective particularly to those with prior IFRS experience and with an international portfolio prior to mandated IFRS adoption in their home country. Local analysts' forecast accuracy is not affected by IFRS adoption. Overall, our results suggest that accounting harmonization brings comparability benefits that enhance the usefulness of accounting data.

Zeff, Stephen A. 2012. The evolution of the IASC into the IASB, and the challenges it faces. *The Accounting Review*, Forthcoming.

In this article, I undertake to review the major developments and turning-points in the evolution of the IASC, followed by the evolution of the IASB. At the conclusion, I suggest five challenges facing the IASB.

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