

INTERNATIONAL
ACCOUNTING SECTION
of the



American
Accounting
Association

NO. 107

FORUM

INTERNATIONAL ACCOUNTING

Summer 2013

Editor: Gia Chevis

Baylor University



American
Accounting
Association
International
Accounting

President's Letter

Where has the year gone? It seems like only yesterday that I was writing my first President's letter.

Where are we? I am happy to report significant progress on the items I listed as crucial tasks in my last letter. With the exception of persuading the Advisory Board to allow electronic voting, I have achieved my objectives. However, what I have done is only a beginning. While we now understand more about why we are losing members (weak cost and value proposition) and how to stop the decline (with a new value proposition), we now must move from discovery to action. The details of what I have been able to achieve are in the table below.

The good news is that we have the funds and lots of goodwill from the newest members of the section and the AAA to do whatever needs to be done. The bad news is that we really will have to make some fundamental changes to our governance structure if we are to incorporate the new persons and ideas into our future. As was pointed out to me by a long time member, our system is like the US federal government: designed, at best, to do no harm and, at worst, to do nothing. I think we need to move away from a system with a bias toward inactivity to one with a bias for change. One clear path to me is to have less of a managed democracy process. A good start would be to have an open election for the nominations committee. This group not only de facto selects the officers but also selects the persons who will serve on the following year's nominations committee. It is essentially self-perpetuating, and while it often makes good decisions, this year I saw it make a bad one. We can do better.

Despite its vicissitudes, this has been a good year and made even better by the wonderful persons I have worked with. I want to

(continued on page 2)



IAS President Stephen Salter

Table of Contents

President's Letter.....	1
Dropped Membership Survey...3	3
Call for Volunteers.....5	5
You Must Try This.....6	6
Annual Meeting Schedule.....8	8
Calls for Papers.....12	12
Have You Seen?.....13	13
Gift Membership Form.....27	27

International Accounting *Forum*
Published Triannually
Baylor University
Accounting & Business Law
One Bear Place #98002
Waco, TX 76798-8002, USA

President's Letter *(continued)*

thank my fellow core EC members Betsy Gordon, Giorgio Gotti, Greg Burton and Erv Black. What a wonderful group! I also want to thank Helen Kang and Hsihui Chang for organizing a great annual meeting and Wolfgang Schueltze for his clear and insistent focusing of our Strategy Committee. I also want to thank David Boynton and the staff at AAAHQ whose innovative ideas and coordination were a great help. Finally, if there were a service award of the year, it would go to Chris Skousen, who not only was co-chair of the mid-year meeting, but also effectively carried out a special project to understand our declining membership numbers.

Looking forward, we will be blessed with a great incoming President in Betsy Gordon. Betsy is smart, empathic and most importantly, has fire in her belly for the work of the section. I am off to work with the Advisory Board on making this section a little more accountable and democratic.

Thank you all for participating. We do this for you. See you in Anaheim! Stephen.

Objective and Action from the President and Executive	Achievements
Have the section committees, particularly the Strategic Committee led by Wolfgang Schueltze, complete a new value proposition to increase and retain members.	The committee has completed a draft report with some exciting suggestions on how the section can move forward. There will be a presentation of the report at the section luncheon in Anaheim.
The budget and finances are sound, but we do need to increase the number of members renewing. I have asked Chris Skousen to follow up on this.	Chris found that the largest loss of members was because their institution would no longer pay. (See survey results on page 3.) This often included a general feeling that the AAA overall was too expensive. Unfortunately, the second reason was that the section did not add value, particularly for teaching schools. The new strategy will, I believe, address this.
Mike Welker's term as Editor of JIAR ends in June, 2014. Mike has done an excellent job, but we need a new Editor by August 2013.	Erv Black will be the new Editor. He has great plans. Thanks to Robert Knechel for his diligent work in selecting Erv.
Most journal rankings require three issues to be considered a journal for excellent rankings.	Submission numbers for the journal are up by 50% this academic year but we still need to do some work here to be able to launch the third issue.
The business meeting at the annual meeting will be held in conjunction with the section luncheon.	When you register for the AAA, please register for our lunch on Monday, August 5, 12:00pm - 1:45pm.
Midyear committee reports will be available on the section's website.	Look for these on our website.
I believe the section should move to on-line voting for officers and by-law changes.	I was unable to persuade the Chair of the Advisory Committee to consider any changes to the bylaws this year. While he was not opposed, the chair indicated early on that he felt a holiday from changes to the bylaws was in order and was constant in that view. I am hopeful and certain the incoming Chair of the Advisory Committee, Susan Hughes, will consider the interest of the section and be more proactive.

Dropped Members Survey Results

(Response rate: 33.9% of 112 discontinued members with contact information)

Top 3 Reasons for Not Renewing IAS Membership

Answer	Responses – up to 3 per respondent	% out of 38 respondents
Too expensive (my institution will not support)	17	44.74%
Only joined for Annual Meeting	9	23.68%
No value (programs, etc. do not meet my needs)	8	21.05%
Retired	5	13.16%
I did not know I was a member	4	10.53%
No time to participate	4	10.53%
No longer employed in this specialty	3	7.89%
Did not know how to renew	1	2.63%
Disagree with section policies	1	2.63%
Other*	13	34.21%

Top 3 Reasons for Joining IAS

Answer	Responses – up to 3 per respondent	% out of 32 respondents
Gain new knowledge	19	59.38%
Networking	18	56.25%
Opportunities to present research	13	40.63%
Access to association resources	11	34.38%
Opportunities to serve the profession	6	18.75%
Promotion and tenure related	3	9.38%
Membership came with journal submission	2	6.25%
Planned to do international research	1	3.13%

Dropped Members Survey Results, continued

(Response rate: 33.9% of 112 discontinued members with contact information)

The degree to which the IAS provides tools and resources to promote career success

Question	Responses - 32	%
Excellent	-	-
Very Good	5	15.63%
Good	7	21.88%
Fair	3	9.38%
Poor	8	25.00%
Not Applicable	9	28.13%

Overall satisfaction with the IAS

Answer	Responses	% out of 38 respondents
Very Dissatisfied	2	5.26%
Somewhat Dissatisfied	2	5.26%
Neutral	23	60.53%
Somewhat Satisfied	8	21.05%
Totally Satisfied	3	7.89%

Selected Suggestions for Encouraging Renewal

- Be more relevant to the CPA professional as well as to the Academic
- Better publication opportunities
- Cheaper membership fee
- Decoupling from rest of AAA membership fees
- I am primarily not a member because AAA dues are pretty high and since we have departmental budget constraints, I opted to be a member of the ACFE and IMA instead.
- I would like to join, but I already attend enough conferences. So it is matter of conference priorities, including funding. Travelling from NZ Ito anywhere in the Northern Hemisphere is expensive from New Zealand.
- If I ever rejoin the AAA, I'll probably join the IAS because it incremental cost is low.
- Just be open to Canadian members and not focus only on US ones
- Pay my basic AAA membership fee.
- Send gentle reminders
- The overall AAA membership fee should be more valuable.



Call for Volunteers!!

Dear Members,

We are seeking volunteers for the following committees and positions for the 2013-2014 academic year. If you are interested in volunteering or would like to find out more about the volunteer opportunities, please contact Betsy Gordon, President-elect at egordon@temple.edu

Continuing Professional Education (CPE) Committee

Information Technology

International Relations Committee

Membership Committee

Outstanding Dissertation Award Committee

Outstanding Educator Award Committee

Outstanding Section Service Award Committee

Practice Issues Committee

Research Committee

Strategic Planning Committee

Teaching and Learning Committee

Regional Coordinators

International Coordinators



You Must Try This

I expect that, like me, when you include international cases in your courses, you make every effort to be sensitive to how cultural differences affect the perception of viable and effective courses of action for the businesses discussed. Huong N. Higgins, Associate Professor at Worcester Polytechnic Institute, has some advice for those of us including cases related to China. For a more complete discussion, see the teaching notes for her case “Teaching Internal Controls Using a Fraud Case at Bank of China,” published in 2012 in volume 27, number 4, of *Issues in Accounting Education*. ~GC

This note discusses aspects of Chinese culture using Hofstede’s (1980) cultural dimensions. Hofstede defines culture as a kind of programming of the mind, which distinguishes one category of people from another. According to Hofstede (1980), culturally-based value systems are comprised of four dimensions: power distance, individualism/collectivism, masculinity/femininity, and uncertainty avoidance. The fifth dimension, added by Bond (Bond and Hofstede 1989), is long/short term orientation.

China has notably large power distance (i.e., a strong tendency for centralization of power), strong collectivism, and long-term orientation. China’s ranking on these three dimensions should mean that Chinese enterprises are relatively freer from the manipulations of financial numbers often committed by managers in the West, particularly in the U.S., which ranks opposite to China in these dimensions. Specifically, U.S. managers have incentive to modify quarterly financial numbers to report better performance than true, to meet analysts’ expectations, inflate stock price, and mislead investors. This type of numbers game is pervasive in the U.S. corporate culture (Levitt 1998). In the U.S., small power distance results in dispersed ownership, individualism correlates with a desire for individual gain, and short-term orientation by both investors and company managers provides pressure on U.S. managers to engage in such manipulations. On the contrary, in China, large power distance results in concentrated ownership and control, collectivism mitigates the need to show individual merit, and long-term orientation negates the need to show immediate performance. Overall, these dimensions of Chinese culture theoretically create less room for the above-described financial number manipulations.

Power distance is the degree of inequality that a country’s people considers normal, from relatively equal (small power distance), to extremely unequal (large power distance). China is among the countries with high power distance, consistent with a tendency for centralization. Other countries ranking high in power distance include Russia, West Africa, Indonesia, Hong Kong, and France. Low power distance countries include Germany, the Netherlands, and the U.S., where decentralization of power is preferred.

Individualism is the degree to which people in a country prefer to act as individuals rather than as members of groups. The opposite of individualism is collectivism. China ranks among the countries

with low individualism, together with Indonesia, West Africa, and Hong Kong. On the contrary, high individualism countries include the U.S., the Netherlands, Germany and France.

Masculinity is the degree to which values like assertiveness, performance, success, and competition, which often are associated with the role of men, prevail over tender values like quality of life, warm personal relationships, service, and care for the weak, which often are associated with the role of women. China's masculinity score is in the medium range, and may be considered as medium femininity. This is in contrast to Japan, Germany, and the U.S., which score higher than China on masculinity, and in contrast to the Netherlands and Russia, which score lower.

Uncertainty avoidance is the degree to which people in a country prefer structured situations over unstructured situations. China's score is in the medium range, indicating moderate risk-aversion. In contrast, Japan and Russia rank higher than China, consistent with high risk aversion, while Hong Kong, the U.S., and Indonesia rank lower, consistent with risk taking.

The fifth dimension is long-term orientation versus short-term orientation. On the long-term side one finds values oriented towards the future, like thrift (savings) and persistence. China, together with Hong Kong and Japan, rank high on this dimension, while Russia, West Africa, Indonesia, the U.S., and France rank low on this dimension.

References:

Hofstede, G. 1980. *Culture's Consequences: International Differences in Work-Related Values*. Beverly Hills, CA: Sage.

Bond, M. and G. Hofstede. 1989. The cash value of Confucian values. *Human System Management* 8: 195-200.



Other resources for intercultural issues in business:

Cultures and Organizations: Software of the Mind, 3rd ed., 2010. by Geert Hofstede, Gert Jan Hofstede, and Michael Minkoy.

Riding the Waves of Culture: Understanding Diversity in Global Business, 3rd ed., 2011. by Fons Trompenaars and Charles Hampden-Turner

2013 Annual Meeting Plenary Sessions

Monday : Jeffrey Selingo
The Future of Higher Education



Tuesday: Gregg Gordon, Michael Jensen, and Judy Luther
The Future of Academic Research



Wednesday: Adrian Sannier, Brian Bushee, and Michael Jensen
The Future of Accounting Teaching/Learning



2013 Annual Meeting

IA Section-Sponsored Concurrent Sessions

Many sections have internationally-themed sessions, but ours has a great line-up throughout. Thanks to Hsihui Chang (Drexel University) and Helen Kang (University of New South Wales), Annual Meeting Co-Chairs, for all their work!

The full program, with details about the papers, is now available online at the [annual meeting website](#).

Monday, 5 August

10: 15—11:45 a.m.

1.05 Panel: International Accounting Practice Challenges

1.27 Culture and Disclosure Practices

1.28 International Audit Quality

1.29 Global Financial Crisis and Accounting

1.30 International Corporate Governance I

12:00—1:45 p.m.: Section Luncheon with Business Meeting (ticket)

4:00—5:30 p.m.

3.32 Audit Quality and Firm Performance

3.33 Investment and Financial Reporting

Tuesday, 6 August

10: 15—11:45 a.m.

- 4.34 International Accounting Education
- 4.35 US GAAP versus IFRS
- 4.36 International Tax Accounting
- 4.37 Bank Studies
- 4.38 International Standard Setting

2:00—3:30 p.m.

- 5.09 Panel: The Pathways Commission: Implications for International Education Standards
- 5.34 International Public and Private Markets
- 5.35 Mandatory Adoption of IFRS
- 5.36 Analyst Behaviour and Financial Reporting
- 5.37 Politics, Corruption, and Accounting

4:00—5:30 p.m.

- 6.09 Panel: IFRS and Global Accounting Standards: What Does the Future Hold?
- 6.33 Relative Efficiency Analysis
- 6.34 IFRS Studies—Europe
- 6.35 IFRS Implementation



Congratulations!

Murphy Smith, with co-authors Katherine Smith and Tracy Brower, on receiving the KPMG 2012 Outstanding Published Manuscript Award from the AAA Gender Issues and Work-Life Balance Section! “An Examination of Work-Life Balance Perspectives of Accountants,” *International Journal of Critical Accounting* 3(4).

Wednesday, 7 August

10:15—11:45 a.m.

- 7.07 Panel: Chinese Companies Listed in the United States: Recent Evidence and Key Issues
- 7.30 Regulation, Policies, and Political Costs
- 7.31 Earnings Management I
- 7.32 Voluntary Disclosures
- 7.33 Earnings Disclosures and IFRS
- 7.34 IFRS and Governance
- 7.35 Cross Country Studies
- 7.36 Disclosure Studies

2:00—3:30 p.m.

- 8.04 Panel: Integrating IFRS in the Classroom
- 8.32 IFRS, Earnings Quality, and Mergers
- 8.33 Audit Fee and Financial Reporting
- 8.34 Accounting Quality—Country Studies
- 8.35 Ownership Structure and Financial Reporting
- 8.36 Firm Performance—International Perspective

4:00—5:30 p.m.

- 9.16 Financial Reporting in the Global Setting
- 9.17 Earnings Management II
- 9.18 International Corporate Governance II
- 9.19 IFRS Adoption and Financial Statements



Calls for Papers & Other Fun Stuff

Journal of Contemporary Accounting and Economics Symposium
2014 [Deadline August 30](#)

4th International Conference of the Japanese Accounting Review
[Deadline August 9](#)

7th Indian School of Business Accounting Research Conference 2013 [Deadline August 15](#)

Singapore Management University Accounting Symposium [Deadline September 15](#)

HKUST Accounting Research Symposium [Deadline September 30](#)

2014 UTS Australian Summer Accounting Conference [Deadline October 15](#)

International Journal of Public Information Systems special issue on privacy and information systems [Deadline November 1](#)

2014 Global Conference on Business and Finance [Deadline November 8](#)

International Journal of Business special issue on research in accounting practice
[Deadline November 30](#)

Annual International Conference on Social Sciences [Deadline January 6, 2014](#)

IFRS Education Initiative: Academic Fellow The Education team is seeking an Academic Fellow to fill a one-year term, with eligibility for renewal for a further year. The position will start from January 2015 for a duration of 12 months. Closing deadline Feb. 28, 2014. [Full details here](#)

Journal of International Accounting Research Support your section journal by submitting your research! The *Journal of International Accounting Research* publishes articles that increase our understanding of the development and use of international accounting and reporting practices or attempt to improve extant practices.

International Accounting Section Forum Deadlines

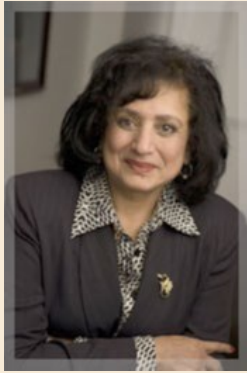
Fall/Winter 2013 Issue — September 30, 2013

Spring 2014 Issue—February 28, 2014

Please submit any memorials, calls for papers, articles, suggestions, etc. by the above dates for inclusion in future editions of the Forum to gia_chevis@baylor.edu.

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.

Ahmed, Kamran, Keryn Chalmers, and Hichem Khlif. 2013. A Meta-analysis of IFRS Adoption Effects, *The International Journal of Accounting*, 48 (2): 173.

The adoption of IFRS around the globe has stimulated empirical research that investigates the financial reporting and capital market effects associated with an accounting regime change. These studies differ in their analysis period, jurisdictional setting, and research design, and they report varying findings. We conduct a meta-analysis of IFRS adoption studies investigating financial reporting effects, namely value relevance and earnings transparency in the form of discretionary accruals, as well as capital market effects, specifically the quality of analysts' earnings forecasts. Our findings show that the value relevance of book value of equity has not increased post-IFRS adoption, whereas the value relevance of earnings has generally increased when assessed using price models. Our results also suggest that discretionary accruals have not reduced, but analysts' forecast accuracy has increased significantly post-IFRS adoption. Our findings are not affected materially after controlling for moderating factors including jurisdictional differences such as legal origin, the accounting and auditing enforcement regime, and differences between domestic GAAP and IFRS. However, these associations are moderated by the model used for empirical investigation of value relevance and discretionary accrual effects; they are also moderated by the adoption being voluntary or mandatory. The findings provide evidence to inform policy assessments and deliberations of the financial reporting and capital market effects of adopting IFRS.

Have you Seen

Apostolou, Barbara, et al. 2013. Accounting education literature review (2010-2012), *Journal of Accounting Education*, 31 (2): 107-111.

This review of the accounting education literature includes 291 articles and 104 instructional cases published over the 3-year period, 2010-2012, in six journals: (1) *Journal of Accounting Education*, (2) *Accounting Education: An International Journal*, (3) *Advances in Accounting Education*, (4) *Global Perspectives on Accounting Education*, (4) *Issues in Accounting Education*, and (6) *The Accounting Educators' Journal*. This article updates prior literature reviews by organizing and summarizing recent additions to the accounting education literature. These reviews are categorized into four sections corresponding to traditional lines of inquiry: (1) curriculum, assurance of learning (AOL), and instruction; (2) educational technology; (3) faculty issues; and (4) students. Suggestions for educational research in all content areas are presented. For the first time in this series of literature reviews, we assess the data collection and empirical analysis methods and recommend adoption of more rigorous techniques moving forward. Articles presenting teaching materials and educational cases published in the same six journals during 2010-2012 are presented in an appendix, categorized by the courses for which they are appropriate.

Appell, Douglas. May 13, 2013. Accounting changes are pushing Japanese companies to DC plans, *Pensions & Investments* 41 (10).

New accounting rules are prompting a growing number of companies in Japan to add defined contribution plans to their retirement programs or to expand existing ones. The same accounting rules that led U.S. companies to freeze or close defined benefit plans over the past decade look set to weigh on their Japanese counterparts as well. The international accounting standards coming into effect for Japan's fiscal year ending March 31, 2014, have become a huge issue for corporate management, said Haruka Urata, a Tokyo-based director of Towers Watson & Co.'s benefits business in Japan.

Bampton, Roberta and Christopher J. Cowton, 2013. Taking Stock of Accounting Ethics Scholarship: A Review of the Journal Literature, *Journal of Business Ethics*, 114 (3): 549-563.

The proportion of business ethics literature devoted to accounting and the proportion of academic accounting literature devoted to ethical issues are both small, yet over the past two decades there has been a steady accumulation of research devoted to ethical issues in accounting. Based on a database of more than 500 articles gathered from a wide range of accounting and business ethics academic journals, this paper describes and analyses the characteristics of what has been published in the past 20 years or so. It identifies and explores patterns and trends in publication outlets and the type of research conducted. Furthermore, through a comparison with issues that have been raised in the general business ethics literature, it offers guidance to researchers who intend to take the field of accounting ethics forward using empirical methods.

Have you Seen

Bokpin, Godfred A. 2013. Ownership structure, corporate governance and bank efficiency: an empirical analysis of panel data from the banking industry in Ghana. *Corporate Governance*, 13 (3): 274-287.

Purpose - The purpose of this paper is to document the effect of ownership structure and corporate governance on bank efficiency in the Ghanaian banking industry. Design/methodology/approach - The author applies both accounting data and efficiency measures from the period 1999-2007 via panel data analysis. Efficiency is measured by computing distances from the stochastic frontiers of estimated cost and profit functions. These efficiency measures are regressed on ownership and governance variables with dummy variables for bank types. Findings - The results show that foreign banks are more cost-efficient than domestic banks, but not necessarily more profit-efficient. Nevertheless, foreign banks are more profitable than domestic banks and enjoy better quality loans. Managerial ownership leads to the cost inefficiency of banks. Banks with inside ownership are unprofitable overall but maintain a high loan quality. Governance (a larger board size) strongly improves profit efficiency but slightly worsens banks' cost efficiency. Finally, the capital adequacy ratio and bank size are both significant predictors of bank efficiency in Ghana. Originality/value - Few, if any, studies have been carried out in the Ghanaian banking institutions.

Bryant-Kutcher, Lisa A., David A. Guenther, and Mark Jackson, 2012. How do cross-country differences in corporate tax rates affect firm value? *The Journal of the American Taxation Association*, 34 (2): 1 – 17.

We examine how differences in corporate tax rates across countries affect firm value for U.S. multinationals. Although competition for tax benefits may increase non-tax costs, in an international setting, transaction costs and other frictions may prevent tax differences from being completely competed away. We find that firm value, as measured by Tobin's q, is negatively related to foreign effective tax rates. This result is robust to the presence of growth and risk proxies and other control variables in the model. Our results provide empirical evidence that (1) differences in corporate tax rates are not completely offset by non-tax costs, and (2) the differences in tax costs are reflected in higher firm value for the low tax rate firms.

Caban-Garcia, Maria T., and Haihong He, 2013. Comparability of earnings in Scandinavian countries: the impact of mandatory IFRS adoption and stock exchange consolidations. *Journal of International Accounting Research*, 12 (1): 55 – 76.

This study examines the impact on the comparability of earnings of two important events that occurred in 2005 in the Scandinavian region: the European Union-mandated adoption of International Financial Reporting Standards (IFRS) and the mergers between the three national exchanges of Denmark, Finland, and Sweden. Our tests follow two approaches. The first approach relies on mean-centered earnings/price multiples following Land and Lang (2002) to determine if the multiples converge in the 2005–2008 period. Our results show that all countries except

Have you Seen

Finland experienced a lower mean-centered earnings/price ratio in the 2005–2008 period. Additionally, in the 2005–2008 period, the mean-centered earnings/price ratio in Norway deviates from the region's mean more than it deviates from the mean in Finland, Denmark, and Sweden, even after controlling for other firm and country factors. Our second approach uses a firm-year comparability measure (De Franco et al. 2011) calculated during the 2001–2004 and 2005–2008 periods to assess whether comparability increases during the 2005–2008 period. Since the two events in our study are contemporaneous, we use Norway as a benchmark to separate the effect of IFRS from that of harmonized regulation after the merger. The results generally show that comparability is significantly higher during the 2005–2008 period in all countries. Our multivariate tests also confirm that comparability increases (although marginally) for all OMX Nordic Exchange countries, relative to Norway, from the 2001–2004 to the 2005–2008 period.

Carter, Kelly E. 2013. Capital Structure, Earnings Management, and Sarbanes-Oxley: Evidence from Canadian and U.S. Firms. *Accounting Horizons*, 27 (2): 301-318.

I examine Sarbanes-Oxley's (SOX) effect on capital structure. I find that SOX is associated with higher long-term debt ratios, as firms listed in the U.S. raise their long-term debt ratios by 2 to 3 percentage points. This finding is consistent with the idea that, although the reduction in information asymmetry associated with SOX could prompt managers to increase equity financing, debt is still safer and less costly than equity in the SOX era. Further analysis shows that the increase in debt occurs in the two quarters prior to SOX, suggesting that firms anticipate a higher cost of debt after SOX and acquire debt while it is relatively cheap. Also, firms that heavily (lightly) manage earnings prior to SOX use less (more) debt after SOX. This result is consistent with the view that firms that aggressively manage earnings before SOX reveal intrinsically weaker earnings after SOX, casting doubt on those firms' ability to repay debt and relegating those firms to issue equity for financing purposes.

Chen, Chen, Danqing Young, and Zili Zhuang, 2013. Externalities of mandatory IFRS adoption: evidence from cross-border spillover effects of financial information on investment efficiency. *The Accounting Review*, 88 (3): 881 – 914.

This study examines the externalities of mandatory IFRS adoption on firms' investment efficiency in 17 European countries. We use the ROA difference between the firm and its peers to proxy for the information on the peers' investment performance. We find that the spillover effect of a firm's ROA difference versus its foreign peers, but not domestic peers, on the firm's investment efficiency increases after IFRS adoption. We also find that increased disclosure by both foreign and domestic peers after IFRS adoption has a spillover effect on a firm's investment efficiency. Further, a firm's investment changes induced by its ROA difference versus foreign peers are more value-relevant after IFRS adoption, and those induced by increased disclosure by foreign peers under IFRS are value-relevant. Additional analyses reveal that our results are affected by legal enforcement strength, peer composition, and industry competition. Overall, we document positive externalities of mandatory IFRS adoption.

Have you Seen

Chen, Zhihong, Yuyan Guan, and Bin Ke, 2013. Are stock option grants to directors of state-controlled Chinese firms listed in Hong Kong genuine compensation? *The Accounting Review*, Forthcoming

We examine the determinants and consequences of stock option compensation to directors of state-controlled Chinese firms that are incorporated outside China and listed in Hong Kong, referred to as state-controlled Red Chip firms, over the period 1990-2005. We find that state-controlled Red Chip firms granted directors a significant number of stock options in response to the demand of foreign investors. However, state-controlled Red Chip firms forced the directors to forfeit a significant percentage of their vested in-the-money stock options due to a conflict between the high-powered stock option compensation and state-controlled Red Chip firms' unique managerial labor market. We find little evidence that directors' stock option compensation changed the behavior of state-controlled Red Chip firms. Overall, our results are consistent with the media's allegation that the stock options granted to directors of many, if not all, state-controlled Red Chip firms are not genuine compensation.

Christy, Jonathan A., Zoltan P. Matolcsy, Anna Wright, and Anne Wyatt, 2013. Do board characteristics influence the shareholders' assessment of risk for small and large firms? *Abacus* 49 (2): 161 – 196.

This paper investigates the association between board characteristics and shareholders' assessment of their exposure to economic and agency risks as reflected in the volatility of stock returns. Our hypotheses incorporate prior evidence that small and large firms have 'dramatically' different board structures, reflecting the firms' different monitoring and advising needs. We hypothesize and find evidence that only the shareholders of well-established large firms are able to generate positive net benefits, in the form of lower equity risk, from independent boards and well-connected independent directors with multiple directorships. We also find professional and formal industry degree qualifications on the board are associated with shareholders' risk assessment for some small firms consistent with the focus of small firms on building growth and scale. While we find evidence that formal industry professional affiliations (weak evidence) and MBAs provide benefits for the shareholders of large firms, there is limited evidence that financial expertise on the board systematically influences shareholders' risk assessments for small or large companies. The key conclusion from the evidence in this paper is that a 'one size fits all' approach to governance in relation to the board of directors may not meet the diverse needs of companies at different stages of economic development.

Cordazzo, Michela. 2013. Impact of IFRS transition on company financial reporting: the case of Italy and Germany, *International Journal of Business Performance Management*, 14 (1).

The purpose of this paper is to study the impact on company financial reporting of IFRS mandatory transition in Italy and Germany. The study investigates the global and partial impact of each individual accounting adjustment that occurs on company financial reporting during IFRS

Have you Seen

transition. The analysis of such impacts is conducted in order to highlight how Italian and German companies have experimented IFRS adoption, and whether there are differences and similarities between Italian and German companies by moving to an international accounting regime. The results show that the global effect on equity is not significant for both Italian and German companies, while that on net income shows a stronger impact on Italian than on German ones. With regard to the individual accounting adjustments, the most significant partial impacts are those concerning employee benefits, provisions, and intangible assets for both Italian and German companies.

Cormier, Denis, Sylvain Houle, and Marie-Josée Ledoux, 2013. The incidence of earnings management on information asymmetry in an uncertain environment, *Journal of International Accounting, Auditing, and Taxation*, 22 (1): 26-38.

In this study, we investigate the association between earnings management and information asymmetry considering environmental uncertainty. Results show that a complex and dynamic environment weakens the relationship between discretionary accruals and information asymmetry measured as share price volatility and bid-ask spread. More specifically, the positive relationship between earnings management and information asymmetry is weakened for diversified firms, those intensively investing in R&D, and those facing high sales volatility. This highlights the difficulty for investors to assess earnings management in an uncertain environment. Finally, in such a context, discretionary accruals are more likely to be detected by investors for firms cross-listed on a U.S. stock exchange, a more liquid and transparent stock market compared with the Canadian stock market.

Dekker, Henri C., Junya Sakaguchi, and Takaharu Kawai, 2013. Beyond the contract: managing risk in supply chain relations, *Management Accounting Research*, 24 (2): 122-139.

As a consequence of the development of intensified relations with suppliers, for many firms the supply chain has become a significant source of risk exposure. In this paper we examine firms' use of control practices to manage risks associated with intensified collaboration with supply chain partners. Specifically, we examine how buyers manage risks associated with inter-firm transactions through their choice of supply partner, in terms of perceived goodwill and competence trust, and their use of multiple interrelated supply chain management (SCM) control practices. These control practices include contractual contingency planning, performance target setting, operational reviews, information sharing, supplier support and joint problem solving. We collect survey data from Japanese manufacturing firms about their relations with part suppliers to test hypotheses about the associations between transaction risks, selection of trusted suppliers and use of SCM practices. Our results support that transaction characteristics that are at the basis of transaction risks significantly affect the selection of trusted partners to collaborate with as well as their use of various control practices to manage relationships. We also find that in particular competence trust facilitates the use of control practices to support effective SCM.

Have you Seen

Denis, David J., and Jin Xu, 2013. Insider trading restrictions and top executive compensation. *Journal of Accounting and Economics*, 56 (1): 91 – 112.

The use of equity incentives is significantly greater in countries with stronger insider trading restrictions, and these higher incentives are associated with higher total pay. These findings are robust to alternative definitions of insider trading restrictions and enforcement, and to panel regressions with country fixed effects. We also find significant increases in top executive pay and the use of equity-based incentives in the period immediately following the initial enforcement of insider trading laws. We conclude that insider trading laws are one channel through which cross-country differences in pay practices can be explained.

Dou, Yiwei, Ole-Kristian Hope, and Wayne Thomas, 2013. Relationship-specificity, contract enforceability, and income smoothing. *The Accounting Review*, Forthcoming.

Contracting parties, such as the firm and its supplier, have cost-reducing incentives to make investments which support the unique transactions between them. However, to the extent that one party may renege on its contractual obligations, the other party incurring the cost of the relationship-specific investment bears additional risk and is less willing to invest such that sub-optimal investment occurs. In countries where enforceability of explicit contracts is particularly weak, parties have incentives to signal their willingness to fulfill implicit claims and maintain long-term relationships. We predict that firms engage in income smoothing to send such a signal to their suppliers. Consistent with these expectations, we find that firms that both reside in countries with weak contract enforceability and operate in industries with a greater need for relationship-specific investments tend to smooth reported income more. We further decompose income smoothing into "informational" and "garbled" components and find that results are driven by the informational component of income smoothing. Our results support the important role that accruals play in providing information in the presence of incomplete contracts.

Gift, Michael J, Paul Gift, and Qinqin Zheng. 2013. Cross-Cultural Perceptions of Business Ethics: Evidence from the United States and China, *Journal of Business Ethics*, 114 (4): 633-642.

A number of empirical studies have examined business ethics across cultures, focusing primarily on differences in ethical profiles between cultures and groups. When managers consider whether or not to develop a business relationship with those from a different culture, their decision may be affected by actual differences in ethical profiles, but potentially even more so by their perceptions of ethicality in the counterpart culture. The latter issue has been largely ignored in extant empirical research regarding cross-cultural ethical profiles. In this study, we employ a design that allows for a more complete analysis of cross-cultural perspectives, examining both the manner in which selected cultures view themselves and the manner in which those same cultures perceive the ethical profiles of others. To this end, we surveyed master's students in business fields at several universities in the United States and China--two countries/cultures that engage in a significant amount of business transactions--and examined differences

Have you Seen

in personal ethical profiles across cultures, differences in one group's ethical profile and the way it is perceived by the other group, and differences in perceived ethical profiles across cultures; that is, differences in how groups view each other. Findings suggest meaningful discrepancies in the ethical perceptions formed toward the counterpart culture. Results support a role for ethical perceptions in future research, and further examination and inquiry into the development and adaptation of ethical perceptions in cross-cultural business dealings.

Herz, Thomas Ph., Florian Hamel, Falk Uebernickel, and Walter Brenner, 2013. Toward a model of effective monitoring of IT application development and maintenance suppliers in multi-sourced environments. *International Journal of Accounting Information Systems*, 14 (3): 235 – 253.

Many international corporations are now adopting multisourcing approaches to information technology (IT). Multisourcing is described as the disciplined provision and blending of services from multiple suppliers both outside the company and within the company. This approach to meeting business goals is primarily concerned with the relationship between the client organization and the multiple suppliers. To date, aspects relating to performance measurement and governance have scarcely been covered in the literature, and established IT frameworks such as control objectives for information and related technology (COBIT) provide imprecise approaches for monitoring suppliers. In this study, we intend to sharpen the existing understanding of how corporations manage and monitor suppliers in a multisourced environment and of why specific key performance indicators (KPIs) are utilized. We provide insights using a real-life example of the monitoring of IT application development and maintenance (IT ADM) suppliers and suggest monitoring dimensions based on a cross-case analysis. Based on inter-rater reliability, we further derive a minimum set of corresponding IT ADM KPIs. This study is expected to help corporations facing similar challenges by providing a set of essential KPIs to monitor IT ADM suppliers.

Higgins, Huang N., 2012. Teaching Internal Controls Using a Fraud Case at Bank of China. *Issues in Accounting Education*, 27 (4).

This case provides an opportunity to discuss principles of internal control, the process by which an entity's board of directors, management, and other personnel provide reasonable assurance that fraud and theft are prevented and detected. The case also facilitates discussion of the unique corporate governance and internal control environments in China, a fast-growing economy. Readers will be asked to apply the fraud triangle theory to identify internal control weaknesses and to design control activities for preventing fraud. The case is intended for beginning auditing students but is also suitable for a more general audience such as accounting, management, and business students at the MBA or undergraduate level.

The case introduces Bank of China (BOC) against the backdrop of China's banking sector. It describes the proliferation of non-performing loans in Chinese banks, the failure to report these

Have you Seen

loans correctly, and the way in which these conditions create a climate where fraud and theft might be easily hidden. These problems and the need for internal controls become evident in the description of a major fraud scheme at BOC. After relating this scheme, the case concludes by reviewing recent reform initiatives to modernize internal controls in Chinese banks.

Higgins, Huong N., 2013. Do Stock for Stock Merger Acquirers Manage Earnings: Evidence from Japan. *Journal of Accounting and Public Policy*, 32 (1).

This paper examines the earnings management behavior of Japanese merger acquirers on the Tokyo Stock Exchange. Most Japanese mergers are transacted via stock swaps, when acquirers have incentive to manage pre-merger earnings to reduce the cost of acquisition. Consistent with this incentive, Japanese acquirers have significantly positive long-term abnormal accruals in the year prior to the merger announcement. Further analyses suggest that acquirers' extent of earnings management is an increasing function of their economic benefit at stake, and a decreasing function of monitoring by banks and foreign investors.

Higgins, Huong N., 2013. Conflicts of Interest between Banks and Firms: Evidence from Japanese Mergers. *Pacific-Basin Finance Journal*, Forthcoming.

This paper assesses conflicts of interest between banks and their client firms via the merger transaction by examining the wealth gain of merger acquirers who were listed on the Tokyo Stock Exchange in 1990-2004. The paper reports two main findings. First, acquiring firms did not gain from their acquisitions. Second, acquirers with stronger bank ties experienced larger wealth loss than those with weaker bank ties. These results are consistent with the hypothesis that banks played a conflicted role in mergers during the examination period.

Hostak, Peter, Thomas Lys, Yong George Yang, and Emre Carr, 2013. An examination of the impact of the Sarbanes-Oxley Act on the attractiveness of U.S. capital markets for foreign firms. *Review of Accounting Studies*, 18 (2): 522 – 559.

We examine whether voluntary deregistrations after the passage of Sarbanes–Oxley Act of 2002 (SOX) were intended to benefit common shareholders by avoiding firms' costs of complying with SOX or to protect the control rents of managers or controlling shareholders (MCOs). We find that, compared with foreign firms that maintained their SEC registrations, foreign firms that voluntarily deregistered on average had weaker corporate governance, had a significantly less negative stock market reaction when SOX was passed, and suffered a significant price decline when they announced their decision to deregister. We also find evidence indicating that the deregistrations were (to a lesser extent) motivated by firms' compliance costs related to SOX. Taken together, our results suggest that both agency costs (that is, private benefit of control of the MCOs) and the compliance cost of SOX play a role in motivating foreign firms to withdraw from the U.S. market.

Have you Seen

Huerta, E., Y. Petrides, and G. P. Braun. 2013. Translation of IFRS: language as a barrier to comparability. *Research in Accounting Regulation*, 25: 1 – 12.

This study examines the translation of International Financial Reporting Standards (IFRS) from the official English version into Spanish by Mexican professional accountants. The use of IFRS in languages other than English creates the potential for translation differences that may introduce variation in accounting outcomes when different languages are used. In particular, given the move toward principles-based standards, with the corresponding increase in the proportion of generic phrases, the consistent translation of these terms is likely to become increasingly important. Thirty-eight participants translated (from English to Spanish) a total of 47 phrases excerpted from five different IFRS. Consistent with our hypotheses, we find that translations of accounting-specific phrases have less variation in translation than generic phrases, as exhibited by greater inter-rater agreement and lower relative dispersion.

Jackling, Beverley, Bryan Howieson, and Riccardo Natoli. 2012. Some Implications of IFRS Adoption for Accounting Education, *Australian Accounting Review*, 22 (4).

This paper addresses challenges accounting educators face in their teaching following the adoption of International Financial Reporting Standards (IFRS). We use Australia as an example of a developed nation and 2005 adopter of IFRS, the United States as a potential adopter, and Romania as an emerging economy with a history of harmonization and adoption initiatives. Accounting educators globally need to strengthen their engagement with the principles-based approach to teaching IFRS. Teaching resources, educational research and Continuing Professional Development activities related to a principles-based approach to teaching IFRS are necessary for educators to enrich the learning experience of students given the move from a rules-based to a principles-based set of accounting standards.

Leventis, S., P. Dimitropoulos and S. Owusu-Ansah. 2013. Corporate Governance and Accounting Conservatism: Evidence from the Banking Industry. *Corporate Governance: An International Review*, 21 (3): 264–286.

In this paper, we empirically investigate whether US listed commercial banks with effective corporate governance structures engage in higher levels of conservative financial accounting and reporting. Using both market- and accrual-based measures of conservatism and both composite and disaggregated governance indices, we document convincing evidence that well-governed banks engage in significantly higher levels of conditional conservatism in their financial reporting practices. For example, we find that banks with effective governance structures, particularly those with effective board and audit governance structures, recognize loan loss provisions that are larger relative to changes in nonperforming loans compared to their counterparts with ineffective governance structures. We contribute to the extant literature on the relationship between corporate governance and quality of accounting information by providing evidence that banks with effective governance structures practice higher levels of accounting

Have you Seen

conservatism. The findings of this study would be useful to US bank regulators/supervisors in improving the existing regulatory framework by focusing on accounting conservatism as a complement to corporate governance in mitigating the opaqueness and intense information asymmetry that plague banks.

Martini, Jan Thomas, Rainer Niemann, and Dirk Simons, 2013. Transfer pricing or formula apportionment? – Tax induced distortions of multinationals' investment and production decisions. *Contemporary Accounting Research*, Forthcoming.

Within multinational corporate groups (MNCs) the international coordination of decisions and the allocation of taxable income among different legal entities is vital. Transfer prices (TPs) are a device of both coordination and international tax planning. For instance, by adequately selecting the TP all MNC members are willing to purchase an intermediate product internally instead of procuring from the market. By manipulating TPs the MNC tries to shift revenues to low-tax countries and expenses to high-tax countries. As a solution to such earnings management, formula apportionment (FA), where a common tax base is calculated and divided among the host countries on the basis of pre-defined factors, is proposed.

This paper analyzes the impact of different combinations of tax allocation and managerial accounting regimes on investment and production decisions of an MNC. Our results contrast with traditional views of TP and FA. We show that TP affects the production decision, so that a frequently cited advantage of TP does not hold true. However, the effects of TP are robust with respect to the internal decision-making structure. With respect to FA, we extend the results of the public finance literature by demonstrating that the MNC's decisions, and thereby tax revenue, crucially depend on the MNC's organizational structure and that there exist settings in which FA does not induce distortions. Therefore, it is ambiguous whether MNCs favor the introduction of FA.

Neu, Dean, Abu Shiraz Rahaman, and Jeff Everett, 2013. Accounting and sweatshops: enabling coordination and control in low-price apparel production chains. *Contemporary Accounting Research*, Forthcoming.

This study examines the use of accounting in a low-price apparel production chain involving Central American producers and large North American retailers. The analysis illustrates how a buyer intermediary gathers, verifies and uses accounting information to ensure that low-priced, acceptable quality garments are produced and delivered to North American retailers in a short time frame. The study highlights how the accounting practices of the buyer intermediary and factory owners are purposive and reasonable responses to the context of low-price apparel production. However these same accounting practices tend to transfer the time, quality, and monetary pressures that are inherent in this context to the factory floor, facilitating and reinforcing workplaces characterized by constant pressure, low wages, and verbal abuse. Thus the study shows how the purposive and reasonable use of accounting may inadvertently contribute to the maintenance of sweatshop working conditions within the low-price apparel industry.

Have you Seen

Persons, Obeua. 2013. A principles-based case for teaching international financial reporting standards (IFRS). *Global Conference on Business & Finance Proceedings*, 8 (1): 154-157.

IFRS has been widely used around the world with more than 120 countries permit or require IFRS. Although the SEC still requires US firms to follow US generally accepted accounting principles (US GAAP), it has allowed foreign companies to use IFRS for preparing their financial statements without reconciliation to US GAAP since 2007. Consequently, US accounting educators started to teach IFRS by discussing differences between IFRS and US GAAP, and how to apply IFRS from a technical standpoint. The case discussion involves six accounting topics: fundamental differences between IFRS and US GAAP; inventories; property, plant and equipment; intangibles; impairment of assets; and statement of cash flows. This principles-based approach should help stimulate classroom discussion, sharpen student critical thinking skill and develop professional judgment among students. This principles-based case could be used in an intermediate accounting class, and an international accounting course at both undergraduate and graduate levels.

Schrader, Richard W., and Julie F Toner. 2013. Revenue recognition under convergence: strategic implications for time value of money in reported income, *Journal of American Academy of Business*: 235-241.

As accounting firms and corporate accountants prepare for the converged [concurrent International Financial Reporting Standards (IFRS) and Financial Accounting Standards Board (FASB)] standard on Revenue Recognition, much attention has been paid to potential changes in the recording and reporting of sales transactions. Little research, however, has been done to address the strategic challenges these changes present to corporate leaders. Specifically, changes to Revenue Recognition procedures require managers to look at the timing of sales with consideration to effects on annual financial reports, payments related to revenues, and expenses. Training personnel in the accounting, sales, and human resource departments on the new rules of Revenue Recognition is crucial to the success of strategic implementation. Additional monitoring costs may be incurred as a means of dealing with disincentives to accept advance deposits under the converged standard. Finally, the authors propose a model to be implemented by top management to ensure that employees follow the converged standard correctly.

Singhvi, Meghna, V. Dasaratha, and Abhijit Barua Rama. 2013. Market Reactions to Departures of Audit Committee Directors. *Accounting Horizons*, 27 (1): 113-128.

The composition and functioning of audit committees have come under increasing scrutiny from legislators and regulators in recent years. We examine the market reaction to 107 audit committee director departures that occur (without any concurrent appointment to the board or other contemporaneous news) during 2005 to 2008. We find that there is a significant negative market reaction to the departure of accounting experts, but not for the departures of other types of experts or non-expert directors. Considering a subsample of expert director departures

Have you Seen

tures, we find that the market reaction is significantly negative for the departure of short-tenured directors, but not for the departure of long-tenured directors.

Soin, Kim, and Paul Collier. 2013. Risk and risk management in management accounting and control, *Management Accounting Research*, 24 (2): 82-87.

Recent world events, most notably the global financial crisis, have refocused and intensified interest on risk and the nature of systems that operate to manage risk. One area that has received relatively little attention is the interrelation between risk, risk management and management accounting and control practices. This editorial provides an introduction to the special issue of the journal on "Risk and Risk Management in Management Accounting and Control". It argues that risk and the way it is managed has become a feature of organizational life in both the public and private sectors. By changing organizational practices risk management can facilitate and legitimise certain ways of organizing. It has the potential to change lines of responsibility and accountability in organizations, representing a particular way of governing individuals and activities. The argument is further made that risk management has moved away from being an issue of narrow concern to finance (value at risk, derivatives, etc.) or accountants (financial statement disclosure, etc.) to an issue about management control and therefore a key area in which management accountants need to engage. This editorial also highlights the potential side-effects of risk management, including issues around trust and accountability, but also the focus on secondary or defensive risk management and the rise of reputation risk.

Tarca, Ann, Richard Morris, and Melissa Moy, 2013. An investigation of the relationship between use of international accounting standards and source of company funds in Germany. *Abacus*, 49 (1): 74 – 98.

This study examines the relationship between use of international accounting standards and companies' source of finance. We investigate the proposition contained in Nobes' (1998) model that postulates outsider companies (those with a higher level of public finance) in weak equity-outsider markets (capital markets where public equity finance is not the dominant source of finance) are more likely to change their type of accounting system from one focused on information for creditors and tax authorities to one that meets the needs of external financiers. We found strong support for Nobes' model. Using 408 German listed companies at 1999, we observed that companies with more outsider finance (the proportion of shares held by outsiders and the presence of public debt) were more likely to use international standards (U.S. GAAP or IAS). The results indicate the importance of controlling for source of finance at the company rather than country level in cross-country studies investigating the benefits of adoption of international standards.

Have you Seen

Verriest, Arnt, 2013. Auditor governance, institutions and analyst forecast properties: international evidence. *Journal of International Accounting Research*, Forthcoming.

This paper investigates how political and legal institutions affect the governance role of auditors for a sample of firms originating in 42 countries. Prior studies focus on investor protection, but I focus on political rights as well. Specifically, I investigate how institutions and audit quality affect financial statement users' decision-making by considering properties of analysts' earnings forecasts. The evidence shows that forecast accuracy is lower and forecast dispersion higher for firms operating in countries with fewer political rights. Of particular interest is the finding that the association between Big 4 audits and earnings forecast properties is stronger in weak political environments. This finding suggests that auditors play an important-and up to now undocumented-governance role when political rights are low and political forces influential. My results also indicate that reporting reliability increases as investor protection becomes stronger. However, this result only holds for Big 4 clients, consistent with the notion that audits play a greater governance role in stronger legal environments.



See you in Anaheim!

AAA GIFT MEMBERSHIP

Almost half the American Accounting Association's International Accounting Section's (IAS) members live outside the United States, representing 60 countries. The IAS administers the Gift Membership Program to provide sponsored gift AAA memberships to department chairs in universities outside the United States to be selected by the IAS's International Relations Committee or by individual contributors. The gift membership provides accounting departments at these universities with AAA and IAS Section membership, including much-needed access to *The Accounting Review*, *Accounting Horizons*, *Issues in Accounting Education*, *Accounting Education News*, and *Journal of International Accounting Research*.

The Gift Membership Program is funded entirely by contributions from AAA members. We urge all AAA members to contribute, including those who are not [yet] IAS members. Individuals contributing US\$200 or more may designate a specific non-US university, with which they are not affiliated, as the beneficiary of their contribution.

Mail your tax-deductible contributions to the American Accounting Association, 5717 Bessie Drive, Sarasota, FL 34233-2399. Checks should be made payable to the American Accounting Association. If you choose to pay by credit card, you may mail a signed photocopy of this page to the American Accounting Association or fax a signed photocopy to (941) 923-4093.

Amount of contribution: \$50 \$100 \$200 Other: _____

Only: Mastercard VISA

Name

Account number

Expiration date

Billing Address

City

State/County

Country

Zip/Postal code

Signature

AMERICAN ACCOUNTING ASSOCIATION

5717 Bessie Drive

Sarasota, Florida 34233