

INTERNATIONAL
ACCOUNTING SECTION
of the



American
Accounting
Association

NO. 90

FORUM

INTERNATIONAL ACCOUNTING

Spring 2007

EDITOR: Jeannie Johnson Harrington
Middle Tennessee State University

PRESIDENT'S MESSAGE

The 13th Annual Midyear Meeting of the International Accounting Section was held in Charleston, South Carolina, February 2-3, 2007. It was a great meeting. Hollis Skaife planned our doctoral/new faculty consortium and Tony Kang did an excellent job as moderator for the consortium. I especially enjoyed the wise counsel provided by Sid Gray, Fred Choi, and Lee Radebaugh. The doctoral/new faculty consortium concluded with a panel of international accounting experts including Paquita Davis-Friday, Tony Kang, Ann Tarca, and Ole-Kristian Hope. I want to especially thank Ole-Kristian for a tremendous job filling in on last minute's notice.

Ian Hague moderated the panel sessions held Friday afternoon to begin the conference. Mary Barth provided an update on International Financial Reporting Standards. Mary Tokar, David Cairns, and Ann Tarca then shared their experiences in the application of IFRS in Europe and Australia. The Friday panel sessions concluded with a discussion on the integration of accounting research with accounting practice. Robert Laux (Microsoft), Mary Tokar (KPMG-London), and Donna Street (President of the IAAER) each shared their insights into this important area.

The second day began with a plenary session by Peter Wysocki (Massachusetts Institute of Technology) entitled "Economic Consequences of Financial Reporting and Disclosure Regulation: What Have We Learned?" This was my favorite session at the meeting providing excellent ideas for discussion and future research. To be honest, my very favorite part of the meeting is the break times. While I definitely enjoy the Cherry Garcia ice cream bars and the Doubletree cookies, it's the close interaction with other faculty interested in international accounting research that I enjoy most. I think this close, intimate atmosphere with the sharing of ideas across cultures is the real strength of the international midyear meeting. Please congratulate Betsy Gordon, Ian Hague, and Tony Kang for planning the meeting and making it such a great success.

We announced the selection of the new editor for the *Journal of International Accounting Research* at the conference. I want to especially thank Teri Conover, Chair of the Publications committee and the other members of the publications committee

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Don Herrmann

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President's Message (continued from page 1)

(Tim Doupnik, Somnath Das, Shirley Hunter, Gary Meek, and Wayne Thomas) for all of their help in making this important decision for the journal. The new editor is Ken Ferris at Claremont Graduate University. Ken comes with a wealth of editorial experience having previously served as the editor of another AAA journal - *Behavioral Research in Accounting* from 1990-1993. He has over 50 publications in journals such as *TAR*, *AOS*, *CAR*, *Decision Sciences*, *JFQA*, *JBFA*, *ABR*, and *JAAF*. I think Ken is an ideal fit for editor of our journal. I look forward to our journal continuing to grow in status equaling and even exceeding that of other section journals such as *AJPT*, *BRIA*, and *JATA*. I also want to express our great appreciation to Lee Radebaugh for serving as editor of the journal the past three years.

Interest in the international area continues to grow. After holding steady at 1,000 members for many years, our membership has been recently increasing. Please send your thoughts and ideas to Mark Myring (mmyring@bsu.edu) as to how we can continue to grow our section membership. We had a record number of international paper submissions (>100) for the Annual Meeting in Chicago. This requires a tremendous number of reviewers of which many of you so willingly volunteer your expertise. We also had an overwhelming response to the call for international accounting cases to be published in *Issues in Accounting Education*. Gary Meek is serving as guest editor for the special issue(s). He is keeping very busy with 37 case submissions! This should provide great exposure to international accounting as AAA members will have easy access to new, high quality, international accounting cases for their classes.

Please mark your calendars for the 14th International Midyear Meeting in San Diego on February 8-9, 2008. The Doctoral/New Faculty consortium will be held on February 7 preceding the main conference. Jenice Prather-Kinsey already has a committee assembled and is making some exciting plans for next years meeting.

It is a real privilege to serve this year as president of the International Accounting Section. Please contact me if I can help in any way.

Best Regards,

Don Herrmann, President, International Accounting Section

International Accounting Section Forum Deadlines, Suggestions, Comments for 2007/08

Summer 2007 Issue - June 15, 2007

Fall 2007 Issue - September 30, 2007

Spring 2008—February 28, 2008

Please submit comments and items for publishing via email using a Microsoft Word file as an attachment. Submit to Jeannie Harrington at jharrington@mtsu.edu. If sending materials please send to:

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***Forum Editor Jeannie
Harrington***

Country Practice—United Kingdom

Accounting and Auditing in the United Kingdom: What is Happening?

Stella Fearnley and Tony Hines, University of Portsmouth Business School

The simple answer to the above question is rather a lot and some would say rather too much. UK practitioners are having to come to terms with what one practitioner described to us as a *perfect storm* of new and different regulation and this is combined with a growing awareness that the post-Enron rush for global convergence of accounting standards may fall foul of significant differences between the legal and governance frameworks of the UK and US. This great truth, which may have only recently dawned on practitioners, will come as no surprise to scholars in the AAA international section.

We first address the more straightforward issue of the changes which have already taken place. A reform of the regulatory structure in 2004, following a government review after the Enron collapse and subsequent changes, brought together the regulation of accounting, and auditing and actuarial practice under the roof of the Financial Reporting Council (FRC). FRC now comprises: the Auditing Practices Board (APB); the Accounting Standards Board (ASB) with the Urgent Issues Task Force (UITF); the Board for Actuarial Standards (BAS); the Financial Reporting Review Panel (FRRP) which is responsible for enforcement of accounting requirements for companies; the Professional Oversight Board (POB) which oversees the accountancy and actuarial professional bodies and via the Audit Inspection Unit (AIU) inspects the audits of public interest entities; the Accountancy Investigation and Discipline Board (AIDB) which investigates failures; and the Corporate Governance Committee (CGC) responsible for the Combined Code on Corporate Governance.

This changed structure leaves two principal regulators for the financial sector in the UK. The FRC deals with accounting, auditing and actuarial regulation and the Financial Services Authority (FSA) regulates the financial services sector and is also the regulator of the listed markets. Obviously there is some overlap between roles relating to accounting and auditing of listed companies but there is good co-operation between both organisations and it holds together well. The Alternative Investment Market (AIM), focused on growing companies, is regulated by the London Stock Exchange and is subject to a much lighter touch. Both regulators take a risk-based approach to their regulatory strategies.

Accounting has changed with the conversion to IFRS for companies listed on the main market. Not all UK companies are applying IFRS. The EU Regulation passed in 2002 only applies to the group accounts of companies listed on a main market in the EU. It does not apply to their subsidiaries or to non-listed entities (although they have all been allowed the option of converting to IFRS). AIM companies only have to change from UK GAAP for accounting periods beginning after 1 January 2007. It is worth pointing out that all UK companies, including subsidiaries of all groups and small companies have to produce GAAP compliant accounts and file them on public record. This is widely regarded as the price of limited liability. Thus two GAAPs are in force in UK. IFRS for group accounts of listed companies (but not necessarily their subsidiaries) and UK GAAP for the rest. Thus the ASB finds itself playing a dual role. The board is responding to IASB consultations and trying to influence the direction of IFRS and at the same time maintaining standards for non-listed entities, some of which are quite large. For some years now the UK ASB has produced a consolidated accounting standard for small entities. It was a long term ASB objective for all UK standards to be based on IFRS but there is now recognition that full IFRS is too complex for small companies and the costs outweigh the benefits. The IASB has recently issued a standard for intended for non-listed entities and this is currently the subject of a consultation process in the UK. However there is some anecdotal evidence that this standard may not be appropriate for small (or even medium) companies and another solution may have to be found. But we wait the results of the consultation.

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Country Practice—United Kingdom *(continued from page 3)*

The FRRP has reviewed the first year of the application of IFRS in the UK. Overall the result has been deemed satisfactory, although not without considerable effort on the part of accountants within companies and their auditors.

However, this does not mean that all is entirely well. In a number of public forums in London, there has been criticism of the complexity of IFRS, particularly the two standards on financial instruments, IAS 32 and 39, and there is concern about the use of fair values where there is no obvious means of external verification of the measures used.

There is also concern about two other issues. The Norwalk agreement was reached in 2002 between the IASB and the US Financial Accounting Standards Board (FASB) to converge their standards and both bodies have since then planned a roadmap to convergence. The holy grail seems to be to eradicate the need for foreign registrants on US markets who file IFRS accounts to prepare a reconciliation showing the differences between US GAAP and IFRS. This seems a rather limited justification for a holy grail as out of the 8,000 or so EU companies registered on EU markets currently preparing their accounts under IFRS, less than 10% are US registrants. Since the passing of the Sarbanes-Oxley Act, some European companies have been delisting from the US market, partly because of the Act's onerous provisions and partly because US capital is now flowing into London where the regime is less onerous. There has been criticism of the lack of public consultation about the Norwalk agreement itself and the accountability of the IASB. It is not a given that UK practitioners support convergence with US GAAP.

The second issue relates to disquiet over the joint conceptual framework which IASB and FASB are promulgating. There are a number of fundamental disagreements (shown in the responses to the joint discussion paper on the IASB website) about the objectives of financial statements and the principles underlying them. One key focus for UK respondents is the importance of stewardship as an objective of financial reporting. This arises from a fundamental difference between US and UK law. Stewardship and accountability of directors to shareholders is a fundamental principle of UK law. Under UK law, directors are required to retire by rotation every three years and shareholders can remove directors from office by vote at an Annual General Meeting. They can also call Special General Meetings to remove directors not retiring by rotation. This does not involve cost to the shareholders.

Auditing is just as busy as accounting. There have been major changes in auditing, two of which affect all audits regardless of listing status. The UK Auditing Practices Board decided that International Standards of Auditing (ISAs) as set by the International Audit and Assurance Standards Board (IAASB) should be adopted for all audits in the UK for December 2005 year ends. This coincided, for listed companies, with the changeover to IFRS, so auditors found themselves having to cope with changes both to accounting and auditing in the same year. Although most of the ISAs were fairly close to UK standards, there are some differences. The ISA standards are more prescriptive than previous UK standards and there are concerns that they may be too onerous for smaller company audits. All companies above a certain size in the EU (equivalent to revenue of £5.6 million, (approximately \$10.6 million) per annum) are required to have an audit and although the threshold has been increased there are concerns that companies below the threshold that want an audit may not do so because it is too expensive, particularly as the number of smaller accounting firms who are registered auditors is falling because of the increasing threshold. The IAASB has also recently embarked on a 'clarity project', redrafting some of the standards which may make them even more prescriptive.

In 2004 the APB issued a set of Ethical Standards for Auditors. These standards are not about ethics in the widest sense but about auditor independence. There are two key provisions in the standards which have generated criticism. First, a restriction on auditors providing accounting assistance to their clients has been very difficult to observe within listed

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Country Practice—United Kingdom *(continued from page 4)*

companies at a time when accounting standards have changed so radically and also difficult to observe in smaller companies where auditors have traditionally provided accounting help to their clients. Second the requirement for audit engagement partners of listed companies to rotate off the job after five years has had the unintended consequence that some of the most experienced audit partners in the larger firms are finding themselves rotating off clients in their late 50s and not in a position to take on new work because they will retire within a short time.

Auditors have been inspected in the UK by their professional bodies since 1994 but since the reform of the FRC in 2004, listed and public interest audits are inspected by the Audit Inspection Unit which belongs to the POB. Auditors find these inspections challenging and each year the POB issues a public report on its inspections but firms are not named. This is likely to change as the POB is now subject to the Freedom of Information Act in the 2006 Companies Act. Audit firms in the future may be named.

The 2006 Companies Act is a major piece of legislation although much of it is not yet in force. Some of the provisions derive from the need to introduce recent EU Directives. Significant changes for auditors include a requirement for the audit partner to sign a report personally, rather than simply giving the name of the firm and for ‘transparency reports’ to be published by audit firms. This is not such a big deal as it sounds as the UK firms, which are Limited Liability Partnerships (LLPs), have to produce GAAP compliant accounts under existing law and these may be found on the larger firms’ websites. A provision much welcomed by the audit firms is the limitation of auditors’ liability changing from joint and several to a proportionate liability model, subject to the agreement of shareholders. There has been some speculation as to whether shareholders will agree to this. But there is also general concern about the concentration in the audit market and the possibility of one of the large firms collapsing. The FRC has set up a working group to consider this. There is one provision in the Companies Act which has upset auditors and directors. This is the criminalisation of *knowingly or recklessly* issuing a misleading audit report or for the directors issuing misleading accounts. Some believe that this will lead to defensive auditing and boardroom behaviour which will simply make the lawyers richer. Proving these offences to a criminal standard may prove a challenge to the UK courts.

This article does not present a totally comprehensive picture of what is happening in the UK right now but we hope it raises awareness of the extent of regulatory change UK practitioners are currently having to cope with. Accountants in other EU countries are likely to be facing much of the same. When you add to this the impact of the Sarbanes Oxley Act for the US registrants, it is not difficult to understand why some practitioners are desperately looking forward to their retirement and others are expressing concern about who will want to become an accountant in the future with all this regulation to cope with.

We are currently engaged, with Professor Vivien Beattie from Glasgow University, on a major research project which investigates whether all this change has resulted in better quality accounting and auditing than we had before. It is already proving very interesting.

Stella Fearnley is Professor of Accounting and Tony Hines is a Principal Lecturer at the University of Portsmouth Business School, United Kingdom.

IFRS IS AT THE FOREFRONT OF SEC INITIATIVES

*Cheryl Linthicum, University of Texas, San Antonio
SEC Academic Fellow, 2005-06*

Since its inception, the SEC has recognized US GAAP as promulgated by the FASB as the primary basis for financial reporting. While non-U.S. GAAP is accepted for non-U.S. registrants, Form 20-F requires reconciliation of net income and stockholders' equity from non-U.S. to U.S. GAAP. The SEC's roadmap for possible elimination of the reconciliation for IFRS reporting companies was published in 2005, and outlines a plan for the SEC's examination of the reconciliation on a timetable through 2009 (Nicolaisen 2005). For the first time, the SEC is considering whether or not IFRS and US GAAP may coexist in the US capital markets, and whether or not to allow IFRS to stand alone as a basis for financial reporting by non-U.S. companies listed in the United States.

In March of 2007 the SEC hosted an IFRS Roundtable, a forum for members of the investment, academic, accounting and auditing and legal communities to discuss the potential costs and benefits of the elimination of the SEC's IFRS to U.S. GAAP reconciliation requirement. Christian Leuz of the University of Chicago represented the academic community and offered insights from empirical research examining the value relevance of 20-F reconciliations. A full transcript of the IFRS Roundtable may be accessed at www.sec.gov.

SEC Fellowship Opportunities

In 2005 – 2006, Cheryl Linthicum, current Treasurer of the International Section, served as Academic Fellow for the Securities and Exchange Commission in the Office of the Chief Accountant. In 2005- 2006, the Commission offered three fellowships: one each in accounting, auditing and international. Cheryl's year at the SEC included coordinating staff training on IFRS, evaluating 20-F filings, reviewing and evaluating pending IFRS's and IFRIC interpretations, and analysis of specific registrant issues.

Applications for fellowships in the Office of the Chief Accountant, the Division of Corporation Finance and the Office of Economic Analysis are available annually on a competitive basis. Fellowships are in-residence and typically extend from August 1 to the following July 31. The application deadline is typically in January of each year, although later applications may be considered. For more information regarding academic fellowships, check the AAA website, the SEC website, or contact Cheryl at cheryl.linthicum@utsa.edu.

STUDENT MEMBERSHIP RATES AVAILABLE ANYWHERE IN THE WORLD!!!!

Be sure to encourage all of your students to become members of the American Accounting Association, regardless of where you are located. Previously, the student rates applied only to U.S. students but this has been changed. Please help make everyone aware of this change. Students rates are as follows:

- 1 online journal—\$25
- 2 online journals—\$35
- 3 online journals—\$45

For more information, go to aaahq.org/membership/student_member.htm

WHAT DOES THE INTERNATIONAL ACCOUNTING SECTION DO? WHICH COMMITTEES AND POSITIONS ARE INVOLVED?

The International Accounting Section-

Organizes international accounting sessions/panels at AAA Annual and Regional meetings:

- Annual Program Committee
- Regional Programs Committee and Regional Coordinators (one for each AAA region)

Organizes international accounting continuing education seminars at AAA annual and regional meetings:

- Continuing Education Committee

Sponsors and organizes a Midyear Meeting:

- Midyear Meeting Committee

Publishes the newsletter *Forum* and the *Journal of International Accounting Research*:

- *Forum* Editor
- *Journal* Editor
- Publications Committee (oversight role)

Maintains a web site:

- Information Technology Committee (Webmaster)

Makes information available on the web site including:

- Teaching materials (Teaching Resources Committee)
- Data sources (Research Committee)

Recruits new members:

- Membership Committee

Presents awards:

- Outstanding International Accounting Dissertation Award Committee
- Outstanding International Accounting Educator Award Committee
- Outstanding International Accounting Service Award Committee

Cooperates with other organizations (including co-sponsoring conferences outside the U.S.) and solicits AAA gift memberships for developing countries:

- International Relations Committee

Is administered and maintained through:

- Executive Board (President, Vice President-Academic, Vice President- Practice, Secretary, Treasurer, Advisory Board Chair)
- Advisory Board (responsible for proposing changes to bylaws)
- Nominations Committee (responsible for nominating executive board members)
- Section Historian (responsible for preserving the history of the Section)
- Strategic Planning Committee (responsible for obtaining input from Section membership to develop long-range plan)

CALL FOR MEMBERS TO SERVE ON IAS COMMITTEES FOR 2007-2008

Below is a list of IAS committees for the period August 2007 to August 2008. Section members interested in serving on a committee should complete the form and send it to the address below:

Jenice J. Prather-Kinsey
School of Accountancy
324 Cornell Hall
University of Missouri-Columbia
Columbia, MO 65211
Phone: (573) 882-3671
Fax: (573) 882-2437
Email: prather@missouri.edu

To increase your chances of serving on a committee, please mark three choices and indicate your preference (1 = first choice; 2 = second choice; 3 = third choice).

Annual Program

Midyear Meeting

Continuing Education

Research

Teaching Resources

International Relations

Information Technology

Outstanding Dissertation Award

Outstanding Educator Award

Outstanding Service Award

Publications

Strategic Planning

Membership—Indicate United States Outside U.S, Country: _____

Regional Programs

Northeast Region

Mid-Atlantic Region

Ohio Region

Midwest Region

Southeast Region

Southwest Region

Western Region

Name _____

Affiliation _____

Address _____

Phone: _____ Fax: _____

Email: _____

AAA International Accounting Section Officers and Chairs Meeting
Doubletree Guest Suites, Charleston, South Carolina
February 2, 2007
5:00 – 6:00 pm

Members Present: Ervin Black, Greg Burton, Teresa Conover, Paquita Davis-Friday, Gary Entwistle, Stella Fearnley, Sid Gray, Ian Hague, Jeannie Harrington, Don Herrmann, Tony Kang, Rob Larson, Pat Poli, Jenice Prather-Kinsey, Lee Radebaugh, Donna Street, Mary Tokar, Hao Zhang

- Treasurer – Cheryl Linthicum: No report
- Midyear meeting - Tony Kang and Ian Hague: There were 105 preregistrations and an additional four on-site. Additionally, 12 guests were in attendance. There were 47 papers submitted and 28 were accepted for presentation.
- Doctoral/New Faculty Consortium (Don Herrmann for Hollis Hashbaugh): Approximately 20 participants registered. However, travel complications reduced the number in attendance to 15-16 participants. There was discussion about how to increase the number of participants in the future. Some of the suggestions included soliciting participants from the AAA's New Faculty Consortium as well as KPMG's Accounting Doctoral Association.
- *JJAR* – Lee Radebaugh: Volume 5, No. 2 of the journal will contain four articles and three book reviews. Lee's term as editor will end this summer.
- *Issues in Accounting Education* – Gary Meek (not present): Don Herrmann reported that 37 cases were submitted and that there will likely be more than one special issue.
- Membership – Mark Myring: There are almost 1,100 members. In order to recruit more members, Mark will search Hasselback for those indicating an interest in international accounting and also send information to non-US Ph.D. granting institutions to inform them about the new AAA student rate of \$35.
- Advisory Board – Rob Larson: The By-laws have been revised and should be posted to the Section's website.
- Annual Program – Greg Burton: 115 papers were submitted and three were withdrawn. Of the 112, 34 papers were submitted by new scholars. There were also three panel submissions. 107 persons volunteered to serve as a discussant, moderator, or reviewers.
- Information Technology - David Senteney: No report
- International Relations - Ian Hague: Two gift memberships were awarded to Kuwait and Indonesia. Stella Fearnley secured funding from E&Y for a non-US academic to attend this year's Midyear meeting.
- Outstanding Dissertation Award - Erv Black: Two dissertations have been received. The committee consists of Mahmud Hussein, Sudipta Basu, Carol Frost, and Gilad Livne.
- Outstanding Educator Award - Gary Entwistle: No nominations have been submitted, however there are two holdovers from last year. The deadline for submission is February 28. Don will send a reminder to members of the Section.
- Outstanding Section Service Award - Sid Gray: The committee is awaiting nominations. The deadline for submissions is February 28.

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Midyear Officers and Chairs Meeting *(continued from page 9)*

- *Forum* - Jeannie Harrington: Items for the Spring (midyear meeting) issue should be submitted by 2/28/07.
- Regional Programs – Pat Poli: The Northeast Regional Meeting to be held in Hartford, CT needs a panel of experts. The Southeast Regional Meeting to be held in Atlanta, GA needs panels. The Western region also needs panels.
- Historian – Norlin Rueschhoff: No report
- Strategic Planning – Hao Zhang: No report
- Teaching and Curriculum – J. Shaw: No report
- Publications - Teresa Conover: The committee selected an Outstanding manuscript from the past year's publications in *JJAR*. The new editor, Kenneth Ferris, was announced at the luncheon.
- Plans for next year – Jenice Prather-Kinsey (President-Elect): Next year's Midyear meeting is tentatively scheduled for February 7-9, 2008 in San Diego. Betsy Gordon will be the conference coordinator and Carolyn Callahan will be the Consortium coordinator.

The meeting was adjourned at 5:58 pm.

**14th Anniversary (2008) Midyear Conference
of the International Accounting Section of the
American Accounting Association
*Funding Provided by the KPMG Foundation***

1. Houston, Texas - March 4-5, 1995
2. Vancouver, British Columbia, Canada - March 29-30, 1996
3. New Orleans, Louisiana - March 13-15, 1997
4. Chicago, Illinois - April 3-4, 1998
5. Orlando, Florida - January 8-9, 1999
6. Tampa, Florida - January 9-10, 2000
7. Phoenix, Arizona - January 12-13, 2001
8. Fort Lauderdale, Florida - January 11-12, 2002
9. Orlando, Florida - February 7-8, 2003
10. San Diego, CA - January 30-31, 2004
11. San Antonio, TX – February 3-5, 2005
12. Los Angeles, CA – January 14-16, 2006
13. Charleston, SC – February 2-3, 2007
14. San Diego, CA—February 6-9, 2008 (Joint with IAEER)

Details coming on the IAS Website.

International Accounting Section		
Actual Cash Flows - Fiscal Year September 1, 2005 - August 31, 2006		
Unrestricted Fund		
Cash Inflows		
Dues-Full Members	\$10,047.50	
Dues-Associate Members	552.00	
Journal Submission Fees	1,250.00	
Journal Subscriptions, Royalties and Sale of Back Issues	1,881.41	
Journal Advertising	250.00	
Midyear Meeting Registration	10,700.00	
Interest Income	3,820.63	
CPE - Annual Meeting	858.00	
Contributions - Midyear Meeting**	20,000.00	
Contributions - Gift Membership	550.00	
Total Cash Inflow (unrestricted)		\$49,909.54
Cash Outflows		
Newsletter		
Printing	0.00	
Mailing	0.00	
AAA Staff Support/New Software	0.00	
Total Newsletter		\$0.00
Annual Meeting		
Luncheon Speaker Expenses		
Awards (see general/admin. Section)		
Program Chair: Admin Expenses		
Annual Meeting - Meeting Rooms, Food and Beverage	8,320.41	
Total Annual Meeting		\$8,320.41
Midyear Meeting		
AAA Staff Support	210.00	
Hotel-Rooms/AudioVisual/Food/Beverage - MYC	16,490.54	
Hotel-Rooms/AudioVisual/Food/Beverage - Ph. D./NFC	13,219.30	
Speakers - MYC		
Speakers - Ph.D./NFC		
Meeting Coordinator Expenses	937.67	
Printing and Postage	757.90	
IAS Case Competition	500.00	
Total Midyear Meeting		\$32,115.41
General/Administrative		
Postage & Printing	210.82	
Website Development	0.00	***
Awards - Dissertation, Educator, Service	555.00	
Council Fee	1,000.00	
Gift Memberships	925.00	
Officer Travel & Committee Meetings	0.00	***
Miscellaneous (credit card fees)	790.95	
Total General/Administrative		\$3,481.77
Total Cash Outflow		43,917.59
Net Change in Cash - Unrestricted Fund		\$5,991.95
Restricted Fund		
Cash Inflows		
Dues-Full Members (\$10 per member)*	10,047.50	
Total Cash Inflow		\$10,047.50
Cash Outflows		
Editor Expenses	33.25	***
Journal Promotion	0.00	
JLAR Paper Award	500.00	
Copying, Printing, Mailing	5,324.70	
AAA Staff Support	3,811.00	
Total Cash Outflow		\$9,668.95
Net Change in Cash - Restricted Fund		\$378.55
Total Change in Cash - Unrestricted and Restricted Funds		6,370.50
Beginning Balance: September 1, 2005		\$115,637.06
Ending Cash Balance: August 31, 2006		\$122,007.56
		\$53,022.11
		\$68,985.45
*The \$20 membership dues for full members include \$10 restricted for publication of the Section's journal and \$10 for Section operations.		

BEST JOURNAL OF INTERNATIONAL ACCOUNTING RESEARCH PAPER AWARD

INDER KHURANA, K.K. RAMAN AND DECHUN WANG



Dechun Wang, one of three coauthors, accepts the Best JIAR Paper at the IAS Midyear Meeting

“Does the Threat of Private Litigation Increase the Usefulness of Reported Earnings? International Evidence”

Abstract

In this cross-border study, we document the usefulness of reported earnings as conditioned by varying levels of litigation risk. We focus on litigation risk, since Ball (2001) suggests that although litigation rights are seldom discussed in the context of international accounting, the threat of private litigation can motivate corporate insiders to increase transparency in financial reporting. We operationalize the quality of reported earnings based on their ability to predict the firm's future cash flows. The focus on future cash flows enables us to examine the usefulness of reported earnings without having to assume pricing similarities across stock markets. We examine the relation between litigation risk and earnings quality for firms in a sample of 34 countries. We find that the higher the litigation threat, the greater the predictive ability of reported earnings for future cash flows.

(The complete manuscript can be found in the forthcoming *Journal of International Accounting Research*, Volume 5, No. 2.)

BIBLIOGRAPHIC INFORMATION



Inder K. Khurana

Inder K. Khurana* is the Deloitte Professor of Accountancy at the University of Missouri-Columbia. He received his B. Commerce degree from Delhi University in 1978, his M.I.M. from the American Graduate School of International Management in 1985, and his Ph.D. from Arizona State University in 1989. Dr. Kharana is a member of the AAA, Financial Management Association and the Institute of Chartered Accountants of India. His research interests are in the areas of financial accounting and auditing. His recent research has focused on financial statement disclosure issues facing regulated and unregulated industries. He has published in several other journals besides *JIAR*, including the *Accounting Review*, *Auditing: A Journal of Practice and Theory*, *Research in Accounting Regulation*, and *Advances in Accounting*. He recently received the 2005-06 MU College of Business Harry Hall Trice Research Award.

K.K. Raman* is the O.J. Curry Professor of Accounting at the University of North Texas (UNT). Professor Raman received a bachelor's degree in economics from the University of

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Best JIAR Paper Award Winners (continued from page 12)



K.K. Raman

Calcutta, an M.B.A. from the Indian Institute of Management, Calcutta, and a doctoral degree from Indiana University. He has been at UNT since 1981. His research and teaching interests are in the areas of U.S. and international financial accounting and auditing. At UNT, Dr Raman teaches introductory financial accounting, the second intermediate accounting course, and a doctor seminar on capital markets-based accounting research. Dr. Raman is widely published and has over 50 articles in leading academic and professional journals besides *JIAR* such as *The Accounting Review*, *Journal of Accounting Research*, *Contemporary Accounting Research*, *Journal of Accounting and Public Policy*, *Auditing: A Journal of Practice and Theory*, *Journal of Accounting, Auditing, and Finance*, *Asia-Pacific Journal of Accounting and Economics*, *Journal of International Accounting, Auditing, and Taxation*, *Advances in Accounting*, *Accounting Horizons*, *Journal of Accountancy*, and *Public Finance Quarterly*, among others. He has also presented papers at numerous conferences, including the AAA annual and midyear meetings, the New York University Conference on Intangibles and Capital Markets, the KPMG/JAAF Conference at NYU, and the *Asia-Pacific Journal of Accounting and Economics* Symposium. Dr. Raman served as Academic Fellow at the Governmental Accounting Standards Board during 1990-91. Dr. Raman is a winner of the AICPA doctoral dissertation award, the Best Research (Dysland) Paper Award from The International Consortium on Governmental Financial Management, and the UNT Professional Development Institute Business Administration Fellowship in 2004.



Teri Conover, chair of the Publications Committee presents the Best JIAR Paper Award for 2007.

Dechun Wang is an Assistant Professor of Accountancy at the University of Nebraska-Lincoln. Professor Wang received his Bachelor's degree in Land Management from Renmin University of China, his Master's in Science in Agricultural Economics and his Ph.D. in Accounting from the University of Missouri-Columbia. He has been at the University of Nebraska since 2004. Dr. Wang won the distinguished teaching award in 2006 from the College of Business Administration at the University of Nebraska-Lincoln and the Beta Alpha Psi Educator of 2005. He has several publications besides his *JIAR* article, including articles in *Contemporary Accounting Research* (forthcoming), *Journal of Accounting Research*, *Auditing: A Journal of Practice and Theory*, and *The Accounting Review*. Dr. Wang has made several presentations at the AAA annual and midyear meetings. He primarily teaches Intermediate Accounting II and Professional Responsibility.

*Some information obtained from College websites.

BEST PAPER - 2007 IAS MIDYEAR MEETING

SERENE SHI YUN SEAH, KPMG, LLP AND
ANN TARCA, UNIVERSITY OF WESTERN AUSTRALIA



“An Investigation of International Comparability of Management Discussion and Analysis Reports”

Abstract

The aim of this study is to investigate firms' disclosure in narrative reports in response to mandatory requirements and voluntary recommendations. We compare the amount and type of information disclosed in Management Discussion and Analysis (MD&A) or Operating and Financial Review (OFR) reports by firms from the United States of America (USA), Canada, the United Kingdom (UK) and Australia. Using a matched sample of 174 firms from five industry groups for the 2003 financial

Program Committee Chair Tony Kang presents Ann Tarca with the Best Paper at the 2007 IAS Midyear Meeting.

year, we found differences in amount of disclosure between firms from different countries and industries. However, there were few significant differences in type of disclosure (historical or forward looking; financial or non-financial; quantitative or qualitative; and brief or substantial). SEC-registered firms disclosed the greatest amount, and firms subject to mandatory requirements (those from the USA and Canada) provided more disclosure than firms following voluntary guidelines (UK and Australia). However, in several categories UK firms did not disclose less than their US and Canadian counterparts, indicating that under the UK voluntary regime firms provided comparable disclosure to firms subject to mandatory requirements.

BIBLIOGRAPHIC INFORMATION

Serene Shi Yun Seah* of KPMG, LLP, is a graduate intern at the Australia Accounting Standards Board.

Professor Ann Tarca* gave up a potentially rewarding career as a Chartered Accountant for the actually rewarding career of university teacher and researcher. Her work experience included accounting and computer services, and a stint as an economic researcher. She spent several years in the vast North-West and enjoyed teaching accounting and other subjects at Karratha College. Dr. Tarca received her Bachelor of Commerce, her Master of Accounting and her Ph.D. from the University of Western Australia. She is a senior lecturer and teaches mainly financial accounting. Her research interests include international accounting, accounting harmonization, financial reporting regulation and standard setting. She has publications in *Abacus*, *Australian Accounting Review*, *Accounting Research Journal* and *Accounting Theory*. Dr. Tarca has made several presentations at AAA meetings.

*Some information obtained from College websites.

ERNST & YOUNG BURSARY AWARD ADMINISTERED THROUGH THE BRITISH ACCOUNTING ASSOCIATION

JILL COLLIS, KINGSTON UNIVERSITY



Stella Fearnley, representing the British Accounting Association, announces the Ernst & Young Bursary Award, to recipient Jill Collis

In recognition of the need for more interaction between the United Kingdom and United States academics, in 2007, Ernst & Young offered a bursary of £1000 to enable a UK academic to take a paper to the AAA IAS Midyear Meeting. The subject of the paper could be any aspect of the impact of globalisation on financial reporting, auditing, corporate governance or financial markets and the selection process was managed by the British Accounting Association (BAA) International Section.

The 2007 bursary was awarded to Dr Jill Collis of Kingston University, London for her paper entitled 'Progress

Towards Harmonisation of Audit Exemption in the EU and the Case of the UK'. This paper was presented on February 3 at the IAS Midyear Meeting. For copies, please contact Jill Collis at jcollis@kingston.ac.uk.

BIBLIOGRAPHIC INFORMATION

Dr. Collis* is a Senior Lecturer in the School of Accounting and Finance at Kingston University. She holds a BA (Honours) in Business Administration and a PhD. Jill joined Kingston University in 1998 from the University of West of England, Bristol, where she was a full-time researcher. Prior to her university career, she conducted consultancy research and wrote training materials and text books for managers and business students. Jill continues to write text books on accounting and business research, and has given a number of guest lectures in the U.K. and abroad. Her writing reflects her experience both as a lecturer and as a mature student, which has given her considerable insight into students' needs. Since joining the staff at Kingston Business School, Jill has undertaken research for the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants and the Department of Trade and Industry and has

(continued on page 16)



*E & Y Bursary Award Recipient
Jill Collis*

ERNST AND YOUNG BURSARY AWARD *(continued from page 15)*



published widely on financial reporting by smaller entities. Her research interests focus on financial reporting by small companies. Her teaching focuses on financial and management accounting, and she has a particular interest in teaching research methodology. She joins the AAA and BAA International Sections in thanking Ernst & Young for providing this valuable opportunity.



Ernst & Young Bursary Award Recipient Jill Collis

Stella Fearnley, representing the British Accounting Association, presents the Ernst & Young Bursary Award for funds to attend the IAS Midyear Meeting



*Some information obtained from College website.

INTERNATIONAL ACCOUNTING SECTION

2007 – 2008 Nomination Slate

Vice President – Academic [President Elect]

_____ Cheryl L. Linthicum [University of Texas – San Antonio]

Vice President – Practice (one-year term)

_____ Mary Tokar [KPMG]

Treasurer (two-year term)

_____ Ian Hague [Accounting Standards Board-Canada]

Advisory Board (2 new members needed, plus chair needs to be selected; 1 year terms)

_____ Rob Larson [University of Dayton]

_____ Asheq Rahman [Massey University]

Chair:

_____ Rob Larson [University of Dayton]

Publications Committee (2 new members needed, 2 year terms):

_____ Judy Hora [University of San Diego]

_____ Kevin Chen [Hong Kong University of Science & Technology]

Nominations (three new members needed, 1 year terms):

_____ Somnath Das [University of Illinois-Chicago]

_____ Pat Poli [Fairfield University]

_____ Victoria Krivogorsky [San Diego State University]

NEW EDITOR – JIAR

KENNETH R. FERRIS, CLAREMONT GRADUATE UNIVERSITY

Kenneth R. Ferris, Professor at the Peter F. Drucker and Masatoshi Ito Graduate School of Management at the Claremont Graduate University has been appointed the new editor of the *Journal of International Accounting Research*, effective July 1, 2007. Dr. Ferris received his Bachelor's degree and M.B.A. from George Washington University and his Master's of Arts and Ph.D. from The Ohio State University. He previously held accounting faculty positions at The Ohio State University, Northwestern University, Southern Methodist University, and Thunderbird's Garvin School of International Management. He was also the Associate Dean for Academic Affairs and the Director of Research and Development at Southern Methodist University. Dr. Ferris has held visiting scholar appointments with Monash University in Melbourne, Australia, the Chisholm and Swinburne Institutes of Technology in Melbourne, Australia, the Kwansai Gakuin University Graduate School of Business in Nishinomiya, Japan, Griffith University in Brisbane, Australia, the University of Otago, Dunedin, New Zealand, the City Polytechnic of Hong Kong in Kowloon, Hong Kong, and the Curtin University of Technology in Perth, Australia. He has held professional appointments with Price Waterhouse & Co. and Harbridge House, Inc. in Chicago and has a private consulting practice with many internationally known clients including several banks and John Deere & Co. He has given expert witness testimony and litigation support in many court cases. He has held directorships in Sybra, Inc., 40-Plus Inc., Texas Mercantile Bancorporation, Waterloo Furniture Components, Ltd., National Cabinet Lock of Canada, Inc., Arizona Women in International Trade, Valcor, Inc. and Valhi, Inc.

Dr. Ferris has published over 50 articles in various publications including the *Accounting Review*, *Accounting and Business Research*, *Journal of Business Finance and Accounting*, *Accounting, Organizations and Society*, *The International Journal of Accounting Education and Research*, *Accounting and Finance*, *The Australian Accountant*, *Financial Analysts Journal*, *The Internal Auditor*, *Auditing: A Journal of Practice and Theory*, *Journal of Accounting Literature*, *Journal of International Financial Management and Accounting*, *Journal of Accounting, Auditing, and Finance*, *Advances in Quantitative Analysis of Finance and Accounting*, *Issues in Accounting Education*, and many others. He has written, co-written, or edited 12 books including *Financial Accounting and Corporate Reporting: A Casebook*, *Management Planning and Control: The Behavioral Foundations*, *Behavioral Accounting Research: A Critical Analysis*, *Accounting for the Human Factor*, *Corporate Financial Reporting: Text and Cases*, *How to Understand Financial Statements: A Nontechnical Guide for Financial Analysts, Managers, and Executives*, *Financial Accounting and Reporting*, *International Financial Reporting and Analysis*, *International Financial Reporting and Analysis: A Casebook*, *Fundamentals of Accounting for Decision Making*, *Valuation—Avoiding the Winner's Curse*, and *Financial Accounting and Reporting: an Introduction*. Additionally, he has written over 80 cases throughout his career.

Dr. Ferris was the recipient of the Senior Fulbright Award to Australia in 1982, the Faculty Research Excellence Award from Southern Methodist University in 1982, the Distinguished Graduate Teacher Award from SMU in 1985 and 1991, and the Associated Student Legislative Council Outstanding Professor Award at Thunderbird's Garvin School of International Management in 1995, 2000 and 2001.

Dr. Ferris was the editor for *Behavioral Research in Accounting* in the years of 1990-93. He has also served on editorial review boards for *the Accounting Review*, *Accounting, Organizations and Society*, *Advances in Accounting*, *Accounting, Auditing and Accountability*, *Journal of Managerial Issues*, *Issues in Accounting Education*, *Behavioral Research in Accounting*, *Asia-Pacific Journal of Accounting*, and *Journal of International Accounting Research*.

He has served on several committees at his various universities. For the American Accounting Association, Dr. Ferris has served as chairman on the Committee to Select the Distinguished International Lecturers, and the Chairman and Secretary-Treasurer of the Accounting, Behavior and Organizations section.

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NEW JIAR EDITOR (continued from page 18)

We are very honored to have Dr. Ferris serve as editor for *JiAR*. Correspondence regarding *JiAR* and submissions after June 30, 2007, should be sent to:

Professor Kenneth R. Ferris
The Peter F. Drucker and Masatoshi Ito
Graduate School of Management
1021 North Dartmouth Avenue
Claremont, CA 91711
Phone: 909-607-9501
Fax: 909-621-8543
Email: kenneth.ferris@cgu.edu



Publications Committee Chair Teri Conover gives Lee Radebaugh a gift at the Mid-year Meeting to thank him for his service as editor for JIAR.



Thank you so much, Lee, for your outstanding service as editor of JIAR from July 1, 2004— June 30, 2007.

**AMERICAN ACCOUNTING ASSOCIATION
THE INTERNATIONAL ACCOUNTING SECTION
CALL FOR PAPERS
FOR
*THE JOURNAL OF INTERNATIONAL ACCOUNTING RESEARCH***

Editor: Lee H. Radebaugh, Brigham Young University (Through June 30, 2007)

Editorial Policy

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 is broadly interpreted to include the reporting of international economic transactions; the study of differences among practices across countries; the study of interesting institutional and cultural factors that shape practices in a single country but have international implications; and the effect of international accounting practices on users. The *Journal* has a diverse readership and is interested in articles in auditing, financial accounting, managerial accounting, systems, tax, and other specialties within the field of accounting. The *Journal* is open to research using a wide variety of research methods, including empirical-archival, experimental, field studies, and theoretical. The *Journal* may include sections for Notes (shorter articles) and Commentaries. Education articles should be sent to a journal such as *Issues in Accounting Education*.

All manuscripts are sent to two reviewers, although one or more additional reviewers may be consulted in some instances. Reviews will be double-blind (i.e., to both the author and reviewer). A strong effort will be made to complete the initial review within two to three months. The review process is intended to provide constructive comments that improve the quality of manuscripts by focusing on critical issues. The editorial team recognizes that the nuances of a paper are better left to the authors.

Submission Of Manuscripts

1. Manuscripts currently under consideration by another journal or other publisher should not be submitted. At the time of submission, the author must state that the work is not submitted or published elsewhere.

2. To expedite the process, an electronic submission and review process can be employed. To preserve anonymity, place the cover page and the remainder of the document in separate Microsoft® Word or PDF files. In the case of manuscripts reporting on field surveys or experiments, the instrument (e.g., questionnaire, case, interview plan) should also be submitted in a separate file, with the identity of the author(s) deleted. Email the cover page, manuscript, and, if applicable, the instrument as attached files to Lee H. Radebaugh, Editor, at: Lee_Radebaugh@byu.edu. The submission fee is \$25.00 in U.S. funds for members of the AAA International Section, or \$50.00 for others, made payable to the American Accounting Association. The submission fee is nonrefundable. To charge the fee, access the AAA web site at: <https://aaahq.org/AAAforms/journals/jiarsubmit.cfm>. Please indicate in the email that you have charged the fee. Alternatively, the submission fee may be paid by check to the American Accounting Association, and mailed to Lee H. Radebaugh, Editor, *Journal of International Accounting Research*, KPMG Professor, School of Accountancy and Information Systems, Marriott School, Brigham Young University, 516 TNRB, Provo, UT 84602-3068, USA.

3. If electing to submit hard copies, four copies of manuscript should be mailed to Bruce K. Behn at the address above. In the case of manuscripts reporting on field surveys or experiments, four copies of the instrument (e.g., questionnaire, case, interview plan) should be submitted. Information that might identify the author(s) must be deleted from the instrument. The submission fee should be enclosed or charged at the AAA web site (per above).

4. Revised manuscripts must be submitted within 12 months from request; otherwise they will be considered new submissions.

Books for review should be sent to the Book Reviews Editor: Dr. Robert Larson, School of Business Administration, University of Dayton, Dayton, Ohio, 45469-2242, USA. Scholars interested in reviewing books are requested to forward their names and particular interests to the Book Reviews Editor.

Manuscript Preparation Style

These practices are based on *The Accounting Review*. The primary difference is the acceptability of international standard size A4 paper and a 150 word abstract. For initial submission, any widely used style is acceptable.

13TH ANNUAL INTERNATIONAL ACCOUNTING SECTION MIDYEAR CONFERENCE AND 3RD ANNUAL DOCTORAL/NEW FACULTY CONSORTIUM

Sponsored by the International Section of the American Accounting Association and the KPMG Foundation

Doubletree Guest Suites Hotel
Charleston, South Carolina
February 2-3, 2007

2007 International Accounting Section Doctoral/New Faculty Consortium

Friday, February 2, 2007

8:00 am – 8:15 am

Welcome

Paquita Davis-Friday, Baruch College

8:15 am – 9:00 am

International Financial Reporting Issues

Sidney Gray, University of Sydney

9:00 am – 9:45 am

Editors' Panel

Fred Choi, New York University,

Editor, *Journal of International Financial Management & Accounting*

Lee Radebaugh, Brigham Young University,

Editor, *Journal of International Accounting Research*



Paquita Davis-Friday commences the 3rd annual Doctoral/New Faculty Consortium



Consortium Speaker Sid Gray



Consortium Speakers Fred Choi and Lee Radebaugh

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Midyear Meeting Program *(continued from page 21)*



Consortium Speaker Paquita Davis-Friday



Consortium Speaker Tony Kang



Consortium Speaker Ole-Kristian Hope

10:00 am – 11:30 am

International Accounting – A Panel of Experts

Paquita Davis-Friday, Baruch College
Tony Kang, Singapore Management University
Ole-Kristian Hope, University of Toronto
Ann Tarca, University of Western Australia

Midyear Conference

1:10 pm- 1:55 pm

Plenary Session 1

International Financial Reporting Standards
Mary Barth, IASB and Stanford University



Consortium Speaker Ann Tarca

1:55 pm- 3:15 pm

Plenary Session 2

Application of IFRS in Europe and Australia

Moderator: Ian P. N. Hague, Accounting Standards Board—Canada

Mary Tokar, KPMG LLP
David Cairns, London School of Economics
Ann Tarca, University of Western Australia



Plenary Speaker Mary Barth



Plenary Moderator Ian Hague

(continued on page 23)

Midyear Meeting Program *(continued from page 22)*

3:30 pm- 4:45 pm

Plenary Session 3

Integrating Research with Practice

Moderator: Mary Tokar, KPMG LLP

Mary Tokar, KPMG LLP

Robert Laux, Microsoft Corporation

Cheryl L. Linthicum, University of Texas – San Antonio

Donna Street, University of Dayton

Saturday, February 3, 2007

9:00 am – 10:00 am

Plenary Session 4

*Economic Consequences of Financial Reporting and Disclosure Regulation:
What Have We Learned?*

Peter Wysocki, Massachusetts Institute of Technology

10:00 am – 10:30 am

Concurrent Session A

Reporting under International Financial Reporting Standards

Moderator: Ian P. N. Hague, Accounting Standards Board—Canada

*Usefulness and Relevance of Reporting Comprehensive Income under
International GAAPs: Insights from Major European Financial Markets*

Olivier Ramond, Universite of Paris Dauphine, France

Steve Lin, Florida International University

Discussant: Victoria Krivogorsky, San Diego State University

Are US GAAP and IFRS in Harmony?

Frederick Lindahl, George Washington University

Hannu Schadéwitz, Turku School of Economics, Finland

Discussant: Victoria Krivogorsky, San Diego State University

*Evidence of the European IFRS Adoption: The Effect on
Goodwill and Intangible Assets*

Mattias Hamberg, Göteborg University, Sweden

Jiri Novak, Uppsala University, Sweden

Mari Paananen, University of Hertfordshire

Discussant: Justin Jin, University of Toronto

*Compliance with International Financial Reporting Standards
and Auditor Choice: New Evidence on the Importance of the
Statutory Audit*

Christopher Hodgdon, The University of Vermont

Rasoul H. Tondkar, Virginia Commonwealth University

Ajay Adhikari, The American University

David W. Harless, Virginia Commonwealth University

Discussant: Justin Jin, University of Toronto



Plenary Speaker David Cairns



Plenary Speaker Ann Tarca



Plenary Speaker Mary Tokar

(continued on page 24)

Midyear Meeting Program *(continued from page 23)*

10:30 am – 12:00 pm

Concurrent Session B

Analysts Activity

Moderator: Kingsley O. Olibe, Texas A&M University-Commerce

Analyst Activity, Forecast Accuracy and Investors' Demand for Information

Ran Ron Barniv, Kent State University

Discussant: Sam Han, Singapore Management University

Determinants of Horizons of Analysts Earnings Forecasts

Chien-Ju Lu, National Chengchi University

Chen-Lung Chin, National Chengchi University

Discussant: Sam Han, Singapore Management University

Political Connection, Legal Enforcement and Analysts' Forecast Attributes

Charles J. P. Chen, City University of Hong Kong

Yuan Ding, China-Europe International Business School (CEIBS)

Chansog (Francis) Kim, Old Dominion University

Discussant: Giorgio Gotti, The University of Tennessee

Cross-Listing, Information Environment and Market Value: Evidence from U.S. Firms that List on Foreign Stock Exchanges

Li Li Eng, Oklahoma State University

Sandeep Nabar, Oklahoma State University

Mujtaba Mian, National University of Singapore

Discussant: Giorgio Gotti, The University of Tennessee

10:30 am – 12:00 pm

Concurrent Session C

Panel on Issues in Teaching International Accounting

Nancy Christie, Western Washington University

Judi Hora, University of San Diego

Robert Larson, University of Dayton

Patricia Poli, Fairfield University

1:30 pm – 3:00 pm

Concurrent Session D

Issues in Auditing

Moderator: Paquita Davis-Friday, Baruch College

Progress Towards Harmonisation of Audit Exemption in the EU: The Case of the UK

Jill Collis, Kingston University

Discussant: Flora Niu, Wilfrid Laurier University



Plenary Speaker Robert Laux



Plenary Speaker Donna Street



Plenary Speaker Peter Wysocki

(continued on page 25)

Midyear Meeting Program (continued from page 24)

Auditor Liability Reforms in UK and US: Who Benefits?

Tim Bush, Hermes Focus Asset Management Limited, London

Stella Fearnley, University of Portsmouth

Shyam Sunder, Yale University

Discussant: Flora Niu, Wilfrid Laurier University

*The Influence of Cultural Differences on Auditor Risk Assessments:
Implications for Global Audit Methodologies*

Jenice Prather-Kinsey, University of Missouri – Columbia

Ed O'Donnell, University of Kansas

Discussant: Gary Braun, University of Texas – El Paso

1:30 pm – 3:00 pm

Concurrent Session E

International Accounting Cases and Teaching Resources

Moderator: Pat Poli, Fairfield University

Making the Right Comparisons: Novartis AG's Case Study

Elaine Henry, University of Miami

Ya-wen Yang, University of Miami

*International Accounting Convergence on Foreign Currency
Translation: A Case Study Based on New Accounting Standards in
Australia*

Eva K. Jermakowicz, Tennessee State University

Svetlana Vlady, Griffith University, Australia

Selected Examples on Accounting for Financial Instruments

Warrick Van Zyl, University of the Witwatersrand, South Africa

1:30 pm – 3:00 pm

Concurrent Session F

Issues in Corporate Disclosure

Moderator: Li Li Eng, Oklahoma State University

*An Investigation of International Comparability of
Management Discussion and Analysis Reports*

Serene Shi Yun Seah, KPMG LLP

Ann Tarca, University of Western Australia

Discussant: Maria Carban-Garcia, University of South
Florida-Sarasota/Manatee

*Information Environment and the Informativeness of
Dividend Changes for Future Earnings: Evidence from
ADR Firms*

Jian Cao, Kent State University

Feng Chen, Columbia University

Discussant: Maria Carban-Garcia, University of South Florida-
Sarasota/Manatee



Panelist Nancy Christie



Panelist Judy Hora



Panelist Rob Larson

(continued on page 26)

Midyear Meeting Program *(continued from page 25)*

Environmental Disclosure Within Legal and Accounting Contexts: An International Perspective

Bjorn Jorgensen, Columbia University

Naomi Soderstrom, University of Colorado at Boulder

Discussant: Nabil Elias, The University of North Carolina at Charlotte

Managerial Empire Building and Firm Disclosure

Ole-Kristian Hope, University of Toronto

Wayne B. Thomas, University of Oklahoma

Discussant: Nabil Elias, The University of North Carolina at Charlotte

3:30 pm – 5:00 pm

Concurrent Session G

Culture and Institutional Influences

A Cross-Country Study on the Effects of National Culture on Earnings Management

Sam Han, Singapore Management University

Tony Kang, Singapore Management University

Stephen Salter, University of Cincinnati

Yong Keun Yoo, Korea University

Discussant: Christopher Hodgdon, University of Vermont

The Influence of Investor Protection and National Culture on Earnings Management: Preliminary Findings

Timothy Douppnik, University of South Carolina

Discussant: Christopher Hodgdon, University of Vermont

Shades of Gray: An Empirical Examination of Gray's Model of Culture and Income Measurement Practices Using 20-F Data

Philip A. Lewis, Eastern Michigan University

Stephen B. Salter, University of Cincinnati

Discussant: Eva K. Jermakowicz, Tennessee State University

Motivation to Cross-list in the U.S. and the Effect of Regulatory Intervention, the Italian Case

Giorgio Gotti, The University of Tennessee

Stacy Mastrolia, The University of Tennessee

Discussant: Eva K. Jermakowicz, University of Southern Indiana



Panelist Pat Poli



One of the many beautiful mansions in Charleston

(continued on page 27)

Midyear Meeting Program (continued from page 26)



Some of Charleston's colorful row houses on East Bay Street

3:30 pm – 5:00 pm

Concurrent Session H

Issues in Corporate Governance

Moderator: Tony Kang, Singapore Management University

Corporate Governance, Investor Protection, and Auditor Choice in Emerging Markets

Mahmud Hossain, Nanyang Technological University

C. Y. Lim, Nanyang Technological University

Patricia M. S. Tan, Nanyang Technological University

Discussant: Kathleen Dunne, Rider University

Ownership Structure, Nonaudit Fees and the Informativeness of Accounting Earnings

Flora Niu, Wilfrid Laurier University

Discussant: Kathleen Dunne, Rider University

Corporate Governance: Trading off Improved Performance Against the Ability to Expropriate

Annelies Renders, Universiteit Maastricht

Ann Gaeremynck, K.U.Leuven

Discussant: Adel N. Ibrahim, University of Illinois at Urbana-Champaign

Earnings Quality, State

Ownership, and Cost of Equity

Capital - The Role of Securities Law

Patricia Tan, Nanyang Technological University

Gillian Yeo, Nanyang Technological University

Liandong Zhang, Nanyang Technological University

Discussant: Adel N. Ibrahim, University of Illinois at Urbana-Champaign



East Battery mansions in Charleston

(continued on page 28)

Midyear Meeting Program *(continued from page 27)*

3:30 pm – 5:00 pm

Concurrent Session I

Lobbying and Constituency Interests

Moderator: Elizabeth A. Gordon, Rutgers University

Constituent Participation, Legitimacy and the IASB's International

Robert K. Larson, University of Dayton

Discussant: Gary Entwistle, University of Saskatchewan

Lobbying of the International Accounting Standards Board: An Empirical Investigation

Bowe Hansen, Emory University

Discussant: Gary Entwistle, University of Saskatchewan

International Convergence of Accounting Standards: "Hot Topics" and Constituents' Views in Japan

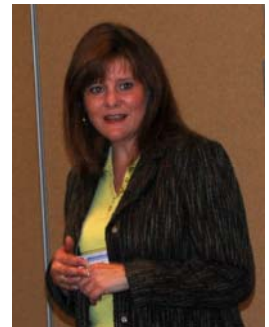
Sei-Ichi Kaneko, The Securities Analysts Association of Japan

Ann Tarca, University of Western Australia



A cruise ship in Charleston Harbor

DOCTORAL/NEW FACULTY CONSORTIUM PARTICIPANTS



DOCTORAL/NEW FACULTY CONSORTIUM PANELISTS AND PARTICIPANTS



MIDYEAR MEETING LUNCHEON



HAVE YOU SEEN?

Christopher D. Hodgdon

University of Vermont



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 Chris Hodgdon at chodgdon@bsad.uvm.edu.

Barontini, Roberto, and Lorenzo Caprio, “The Effect of Family Control on Firm Value and Performance: Evidence from Continental Europe,” *European Financial Management* (Volume 12, Issue 5, 2006): 689-723.

We investigate the relation between ownership structure and firm performance in Continental Europe, using data from 675 publicly traded corporations in 11 countries. Although family-controlled corporations exhibit larger separation between control and cash-flow rights, our results do not support the hypothesis that family control hampers firm performance. Valuation and operating performance are significantly higher in founder-controlled corporations and in corporations controlled by descendants who sit on the board as non-executive directors. When a descendant takes the position of CEO, family-controlled companies are not statistically distinguishable from non-family firms in terms of valuation and performance.

Boonlert-U-Thai, Kriengkrai, Gary K. Meek, and Sandeep Nabar, “Earnings Attributes and Investor Protection: International Evidence,” *The International Journal of Accounting* (Volume 41, Issue 4, 2006): 327-357.

This study explores the effects of investor protection on reported earnings quality assessed on the basis of four accounting-based earnings attributes (accruals quality, earnings persistence, earnings predictability, and earnings smoothness). We test the hypothesis that favorable values of each earnings attribute (considered individually) occur in countries whose institutional characteristics provide relatively strong investor-protection. The results based on K-means cluster analysis of institutional characteristics are mixed. Earnings smoothness is less prevalent in strong investor-protection countries, as hypothesized. However, both accruals quality and earnings predictability are better in countries whose institutional characteristics are relatively weak. No association is found between investor protection and earnings persistence, except that countries with low ownership concentration appear to have high earnings persistence. The results based on regression analysis are consistent with those based on the cluster analysis. These results imply that conclusions about the impact of institutional characteristics on earnings quality depend on how earnings quality is measured.

Buijink, Willem, “Evidence-Based Financial Reporting Regulation,” *Abacus* (Volume 42, Issue 3-4, 2006): 296-301.

In this introductory paper at the *Abacus* Forum on International Financial Reporting, I contend that it is difficult to argue that financial reporting and disclosure regulation around the world is evidence-based. Anecdotes and references to more systematic research and surveys of research are used to demonstrate this. 'Evidence-based' is a term that I borrow from medicine. There the term stands for basing medical patient care and health policy choices on the 'current best [scientific] evidence'. I contend that financial reporting and disclosure regulation (and perhaps practice as well) are currently not evidence-based in the specific sense of not being based on the current best scientific evidence available

(continued on page 33)

Have You Seen...? (continued from page 32)

about accounting and auditing. Next I discuss possible causes of this state of affairs and look at future possibilities for financial reporting and disclosure regulation to become (more) evidence-based. The discussion ends by providing a link with the papers that follow in that issue of *Abacus*.

Burgstahler, David C., Luzi Hail, and Christian Leuz, “The Importance of Reporting Incentives: Earnings Management in European Private and Public Firms,” *The Accounting Review* (Volume 81, Issue 5, 2006): 983-1016.

This paper examines how capital market pressures and institutional factors shape firms' incentives to report earnings that reflect economic performance. To isolate the effects of reporting incentives, we exploit the fact that, within the European Union, privately held corporations face the same accounting standards as publicly traded companies because accounting regulation is based on legal form. We focus on the level of earnings management as one dimension of accounting quality that is particularly responsive to firms' reporting incentives. We document that private firms exhibit higher levels of earnings management and that strong legal systems are associated with less earnings management in private and public firms. We also provide evidence that private and public firms respond differentially to institutional factors, such as book-tax alignment, outside investor protection, and capital market structure. Moreover, legal institutions and capital market forces often appear to reinforce each other.

Capstaff, John, Andrew Marshall, and Julie Hutton, “The Introduction of the Euro and Derivative Use in French Firms,” *Journal of International Financial Management & Accounting* (Volume 18, Issue 1, 2007): 1-17.

In January 1999 several European countries adopted a common currency, the "euro". This important economic event provided an opportunity to examine the determinants of risk management in an environment where exposure to foreign exchange (FX) risk was considerably reduced. For a sample of French firms we found the decline in the use of FX derivatives was greater for firms with substantial sales within the euro zone and less for firms in industries that still had significant imports from outside the euro zone. The focus on derivatives adds to existing research, as it is a more explicit indicator of a reduction in the resources devoted to hedging. The reduction in hedging was not in direct proportion to the reduction in FX exposure, implying that euro risk was hedged more intensely than French franc risk in the sample of French firms over the chosen years.

Chow, Chee W., Joanna L. Ho, and Phyllis Lai Lan Mo, “Toward Understanding Chinese Auditors' Structuring of Audit Approaches, Client Acceptance Decisions, Risk Assessment, and Stringency of Imposed Reporting Standards,” *Journal of International Accounting Research* (Volume 5, Issue 1, 2006): 1-23.

This study seeks insights into determinants of Chinese audit firms' ability to ensure high quality financial reporting. Its scope of investigation encompasses the extent to which Chinese audit firms employ structured audit processes, their evaluation of potential clients, factors that impact their risk assessment, and the stringency of the reporting standards that they seek to impose on clients. The factors investigated include ones suggested as being important by extant research, as well as unique characteristics of the Chinese setting (e.g., the importance of interpersonal relationships [“guanxi”] and most listed companies' origins as state-owned enterprises). Structured interviews and questionnaire surveys are used to solicit quantitative and open-ended responses from 102 Chinese auditors at the partner, manager, and senior levels of Big 4 affiliates and local public accounting firms.

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Covrig, Vicentiu M., Mark L. Defond, and Mingyi Hung, “Home Bias, Foreign Mutual Fund Holdings, and the Voluntary Adoption of International Accounting Standards,” *Journal of Accounting Research* (Volume 45, Issue 1, 2007): 41–70.

We test the assertion that a consequence of voluntarily adopting International Accounting Standards (IAS) is the enhanced ability to attract foreign capital. Using a unique database that reports firm-level holdings of over 25,000 mutual funds from around the world, our multivariate tests find that average foreign mutual fund ownership is significantly higher among IAS adopters. We also find that IAS adopters in poorer information environments and with lower visibility have higher levels of foreign investment, consistent with firms using IAS adoption to provide more information and/or information in a more familiar form to foreign investors. Taken together, our findings are consistent with voluntary IAS adoption reducing home bias among foreign investors and thereby improving capital allocation efficiency.

Dargenidou, Christina, Stuart McLeay, and Ivana Raonic, “Expected Earnings Growth and the Cost of Capital: An Analysis of Accounting Regime Change in the European Financial Market,” *Abacus* (Volume 42, Issue 3-4, 2006): 388–414.

This study focuses on the relation between the cost of equity capital and earnings expectations when the properties of accounting that determine earnings vary across different regulatory regimes. More particularly, it addresses the European setting where different types of GAAP regime have continued to function in the presence of the gradual harmonization of the underlying legal framework, and where the adoption of internationally recognized accounting standards by certain firms has anticipated the requirement for International Financial Reporting Standards. On the basis of estimates of the cost of equity that are implied by analysts' earnings forecasts, the article provides evidence that financial market integration may have already contributed to mitigating the economic consequences of accounting diversity, and that switching to IFRS could have a short lived impact on capital markets. Moreover, based on firm level transparency and disclosure rankings provided by Standard and Poor's, it is shown how the quality of financial reporting conditions the implied cost of equity under different GAAP.

Daske, Holger, and Günther Gebhardt, “International Financial Reporting Standards and Experts' Perceptions of Disclosure Quality,” *Abacus* (Volume 42, Issue 3-4, 2006): 461–498.

From 2005, over 7,000 listed firms in the European Union and many more around the world are required to adopt International Financial Reporting Standards (IFRS). The introduction of a uniform accounting regime is expected to ensure greater comparability and transparency of financial reporting around the world. However, recent research has questioned the quality of financial statements prepared under IFRS standards, particularly in the presence of weak enforcement mechanisms and adverse reporting incentives (Ball et al., 2003). In this paper, we assess the quality of the financial statements of Austrian, German and Swiss firms which have already adopted internationally recognized standards (IFRS or U.S. GAAP). The study makes use of available disclosure quality scores extracted from detailed analyses of annual reports by reputed accounting scholars ('experts'). This work complements other contemporary research on the quality of IFRS financial statements where the properties of earnings are used as an evaluation metric (Barth et al., 2005). Our evidence shows that disclosure quality has increased significantly under IFRS in the three European countries we analyse. This result holds not only for firms which have voluntarily adopted IFRS or U.S. GAAP, but also for firms which mandatorily adopted such standards in response to the requirements of specific stock market segments. Although we cannot establish direct causality due to the inherent self-selection

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issues for most of our sample firms, the evidence shows that the quality of financial reports has increased significantly with the adoption of IFRS.

De Lange, Paul, and Bryan Howieson, “International Accounting Standards Setting and U.S. Exceptionalism,” *Critical Perspectives on Accounting* (Volume 17, Issue 8, 2006): 1007-1032.

This paper explores the relationship between the institutional arrangements for setting financial accounting standards in the United States of America (U.S.) and the International Accounting Standards Board (IASB) with a view to exploring the likelihood that the U.S. will adopt IASB standards in place of its own. Our paper highlights the role of nationalistic and political influences on international standard-setting. Although the Financial Accounting Standards Board (FASB) and the IASB have formally agreed to work towards “convergence” of their two sets of accounting standards, we argue that the form of the final outcome of that arrangement remains highly uncertain. The result may either be the continued existence of significant differences between U.S. and IASB accounting standards or, perhaps more likely, a “domination” of IASB accounting standards by the FASB. Our reasons for this belief are derived from the relatively short-term nature of the political incentives currently driving convergence efforts between the U.S. and the IASB; most notably the lack of clear incentives for U.S. firms to adopt international standards, regulatory capture as a result of the relative power of the U.S. in international affairs vis-à-vis other nations, power struggles between the various regulatory bodies in the U.S., and a well documented history of “American exceptionalism” as a means of defending U.S. sovereignty in matters of U.S. foreign policy.

DeFond, Mark, Mingyi Hung, and Robert Trezevant, “Investor Protection and the Information Content of Annual Earnings Announcements: International Evidence,” *Journal of Accounting and Economics* (Volume 43, Issue 1, 2007): 37-67.

We draw on the investor protection literature to identify structural factors in the financial reporting environment that are likely to explain cross-country differences in the information content of annual earnings announcements. Using data from over 50,000 annual earnings announcements in 26 countries, we find that annual earnings announcements are more informative in countries with higher quality earnings or better enforced insider trading laws, and that annual earnings announcements are less informative in countries with more frequent interim financial reporting. We also find that, on average, earnings announcements are more informative in countries with strong investor protection institutions.

Ding, Yuan, Ole-Kristian Hope, Thomas Jeanjean, and Hervé Stolowy, “Differences Between Domestic Accounting Standards and IAS: Measurement, Determinants and Implications,” *Journal of Accounting and Public Policy* (Volume 26, Issue 1, 2007): 1-38.

This study analyzes determinants and effects of differences between Domestic Accounting Standards (DAS) and International Accounting Standards (IAS). We use an extensive list of differences between DAS and IAS to create two indices, absence and divergence. Absence measures the extent to which the rules regarding certain accounting issues are missing in DAS but are covered in IAS. Divergence applies in circumstances where the rules regarding the same accounting issue differ in DAS and IAS. It measures the extent of differences between DAS-based rules and IAS-based rules. Using a sample of 30 countries for 2001, we show that absence is (mainly) determined by the importance of the equity market and ownership concentration, while divergence is positively associated with the level of economic development and the importance of the accounting profession, but is constrained by the importance of equity markets. Our analysis suggests that a higher level of absence implies more opportunities for earnings management and for decreases in firm-specific information to investors. A larger divergence from IAS is associated with richer firm-specific information in capital markets.

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Douglas, Patricia Casey, Hassan HassabElnaby, Carolyn Strand Norman, and Benson Wier, “An Investigation of Ethical Position and Budgeting Systems: Egyptian Managers in US and Egyptian Firms,” *Journal of International Accounting, Auditing and Taxation* (Volume 16, Issue 1, 2007): 90-109.

The purpose of this paper is to investigate the possible impact of ethical position and national culture on budgetary systems. In particular, the present study examines the budgeting behaviors of Egyptian managers who work for Egyptian firms and Egyptian managers who work for US firms in Egypt. Based on a survey that was administered to 395 participants, our results suggest higher (lower) levels of budgetary participation for Egyptian managers working in US (Egyptian) firms, higher (lower) levels of incentive for Egyptian managers to create slack in US (Egyptian) firms, and more (less) frequent slack-creation behavior among Egyptian managers employed by US (Egyptian) firms. Significant differences were found in the ethical orientations of Egyptian individuals employed by US firms compared with those employed by Egyptian companies. Our results also suggest that ethical orientation helps mitigate slack-creation behavior.

Eng, Li Li, and Sandeep Nabar, “Loan Loss Provisions by Banks in Hong Kong, Malaysia and Singapore,” *Journal of International Financial Management & Accounting* (Volume 18, Issue 1, 2007): 18-38.

This paper studies loan loss disclosures by banks in Hong Kong, Malaysia, and Singapore for the period 1993 through 2000. We find that unexpected loan loss provisions are positively related to bank stock returns and future cash flows. This indicates that Asian bank managers increase loan loss provisions to signal favorable cash flow prospects, and bank investors bid bank stock prices up when unexpected provisions are positive. These results are consistent with those obtained by Wahlen (1994) for US banks. We also examine the impact of the Asian financial crisis of 1997 on the loan loss variables. The results indicate that the association between the unexpected loan loss provisions and bank stock returns and future cash flows was significantly lower in the crisis years, relative to the non-crisis period. Evidently, discretionary loan loss provisions had no signaling value during the crisis. This suggests that macroeconomic uncertainty influenced the strategic behavior of Asian bank managers and investors.

Goncharov, Igor, and Jochen Zimmermann, “Earnings Management When Incentives Compete: The Role of Tax Accounting in Russia,” *Journal of International Accounting Research* (Volume 5, Issue 1, 2006): 41-65.

We test the earnings management behavior of Russian companies in the years 2001 and 2002. We analyze the effects of ownership structure on the extent of tax management. We first hypothesize that Russian firms manage earnings downward to reduce income taxes. We test for irregularities in the distribution of earnings in the sub samples of the companies with relatively high and low marginal tax rates in 2001 and 2002, distinguishing between low incentives versus high incentives for tax management. Conducting univariate and multivariate tests, we find evidence consistent with our hypothesis. We secondly hypothesize that incentives to provide high quality financial information constrain tax management. Consistently we find that public companies manage taxes to a lesser extent than private companies. We thirdly test whether the interaction among market forces, political forces, and the changing tax law from 2001 to 2002 caused a change in the reporting practices. We find evidence consistent with public firms reporting earnings of a higher quality in 2002.

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Grambovas, Christos A., Begoña Giner, and Demetris Christodoulou, “Earnings Conservatism: Panel Data Evidence from the European Union and the United States,” *Abacus* (Volume 42, Issue 3-4, 2006): 354–378.

This paper focuses on earnings conservatism, and provides new evidence based on procedures that account for variability at the firm level, drawing a comparison between the European Union and the United States. A key finding is that the estimated responsiveness of earnings to bad news is substantially higher when unobserved firm-specific effects are modeled. Furthermore, it is shown that accounting has become more conservative not only in the U.S. but also in the EU when taken as a whole, and there is little evidence of marked differences in the asymmetric timeliness of earnings between the two. Indeed, any changes in this property of earnings are likely to be attributable to a common factor that influences firms similarly in both locations, and not necessarily to the process of economic convergence that has taken place in the EU.

Haverals, Jacqueline, “IAS/IFRS in Belgium: Quantitative Analysis of the Impact on the Tax Burden of Companies,” *Journal of International Accounting, Auditing and Taxation* (Volume 16, Issue 1, 2007): 69–89.

The adoption of International Accounting Standards and the International Financial Reporting Standards (IAS/IFRS) in the European Union is part of the European Commission's global tax harmonisation policy whose aim is to establish a common (consolidated) corporate tax base. The paper shows that the impact of an IAS/IFRS-based tax accounting on the effective tax burden of Belgian companies is large and not uniform across sectors. Some sectors, like construction and automotive vehicles, experience much larger increases in effective tax burdens than others. Globally the impact is relatively important. The analysis is conducted using the European Tax Analyzer (ETA), a multi-period forward looking program. In a European context, an IAS/IFRS-based tax accounting will increase the effective corporate tax burdens in all selected countries. However, it will most probably maintain the current tax competitive positions of EU countries. The expected broadening of the tax base could constitute an opportunity to reduce the corporate income tax rate without changing the overall effective burden.

Herrmann, Don, Tatsuo Inoue, and Wayne B. Thomas, “The Effect of Changes in Japanese Consolidation Policy on Analyst Forecast Error,” *Journal of Accounting and Public Policy* (Volume 26, Issue 1, 2007): 39-61.

Our broad research objective is to investigate whether convergence towards international standards improves the decision usefulness of information. Recent changes in Japanese consolidated reporting practices to better align with international standards provide an excellent setting to investigate this research objective. Specifically, we examine the effect of changes in Japanese consolidation policy on financial analysts' perceptions of the persistence of subsidiary earnings. Previous research provides evidence that, prior to the change in consolidation policy, consolidated financial information was not used efficiently in the Japanese capital market. Prior research finds a positive relation between subsidiary earnings and future stock returns in Japan, indicating that investors underestimate the persistence of subsidiary earnings. Consistent with prior research using stock returns, we find that financial analysts also underestimate the persistence of subsidiary earnings in Japan. We document a significant positive relation between subsidiary earnings and future forecast errors of consolidated earnings. However, following the changes in consolidation policy in Japan, we find that financial analysts no longer underestimate the persistence of subsidiary earnings. Changes in Japanese consolidation policy in conformance with international standards increase decision usefulness by improving the ability of financial analysts to predict overall firm (continued on page 38)

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performance. One limitation of our research design relates to the adoption of mandated accounting policy changes by all sample firms in the same calendar time. This makes it difficult to control for the impact of correlated omitted variables. While this concern can never be completely eliminated, we provide additional tests that examine sample partitions by firm size and industry. These additional tests support the primary findings that Japan's efforts to converge consolidation rules with international standards have improved analysts' consolidated earnings forecasts.

Isidro, Helena, John O'Hanlon, and Steven Young, "Dirty Surplus Accounting Flows and Valuation Errors," *Abacus* (Volume 42, Issue 3-4, 2006): 302–344.

For France, Germany, the U.K. and the U.S. for the period from 1994 to 2001, this study explores empirically the association between valuation errors from a standard empirical application of the residual income valuation model and violations of the clean surplus relationship (dirty surplus accounting flows). Motivated by concern that the effect of dirty surplus accounting on the applicability of accounting-based valuation models might vary across accounting regimes, the study also documents differences across pairs of countries in the relationship between valuation errors and dirty surplus flows. The study finds some weak evidence of predicted relationships between valuation errors and dirty surplus flows in the U.S., but finds little evidence of such relationships elsewhere. There is some limited evidence of cross-country difference in the relationship between valuation errors and dirty surplus flows, mostly involving the U.S.

Jaggi, Bikki, and Sidney Leung, "Impact of Family Dominance on Monitoring of Earnings Management by Audit Committees: Evidence from Hong Kong," *Journal of International Accounting, Auditing and Taxation* (Volume 16, Issue 1, 2007): 27-50.

This study examines whether the establishment of audit committees by Hong Kong firms would constrain earnings management, especially in firms with family-dominated corporate boards, a condition unique to Hong Kong. The study uses the methodology of three-stage (3SLS) regression analyses to control for endogeneity among earnings management, voluntarily established audit committee, and corporate board size. The results of regression analyses based on 523 observations for the period of 1999–2000 when the audit committees were first established by Hong Kong firms show that overall audit committees play a significant role in constraining earnings management even in the business environment of higher ownership concentration. The effectiveness of audit committees is, however, significantly reduced when family members are present on corporate boards, especially when family members dominate the corporate board.

Lapointe-Antunes, Pascale, Denis Cormier, Michel Magnan, and Sophie Gay-Angers, "On the Relationship Between Voluntary Disclosure, Earnings Smoothing and the Value-Relevance of Earnings: The Case of Switzerland," *European Accounting Review* (Volume 15, Issue 4, 2006): 465-505.

This paper examines whether voluntary disclosure by Swiss firms constrains the use of discretionary accruals to smooth earnings, and explores the effect of voluntary disclosure on the value relevance of earnings. We focus on Swiss firms because Switzerland's financial reporting system provides managers with extensive discretion in corporate disclosure, and there are important variations in the level of information provided in their annual reports. We consider that managers can choose two different ways to voluntarily convey information, either through the quality and quantity of annual report disclosure or, through compliance with International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) or US Generally Accepted Accounting Principles (GAAP). Relying on a simultaneous equations approach, our results suggest that Swiss firms use discretionary accruals to smooth earnings. However, this relation is reduced for firms that voluntarily disclose more information in their annual report

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or comply with IAS/IFRS or US GAAP. Moreover, we show that discretionary accruals of high disclosers or of firms voluntarily complying with IAS/IFRS or US GAAP receive a lower valuation weight.

Lara, Juan Manuel García, Beatriz García Osma, and Belén Gill de Albornoz Noguer, “Effects of Database Choice on International Accounting Research,” *Abacus* (Volume 42, Issue 3-4, 2006): 426–454.

Data availability is one of the traditional obstacles confronting researchers carrying out international empirical studies in accounting. In recent years several databases have claimed to offer comprehensive coverage of accounting and financial data of firms worldwide. We analyse whether the choice of database has an effect on the results of empirical studies. We find that the results of a simple empirical adaptation of the Ohlson (1995) model for fourteen member states of the European Union change significantly depending on the database chosen (Datastream, Global Vantage, Company Analysis, Worldscope, Thomson Financial, Financials and BvD Osiris). These differences are mainly attributable to differences in the samples across databases. When we match observations across all databases the differences persist but are much less pronounced. Our main conclusion is that database choice matters, as it leads to different results when the same research design is used.

Liu, Jing, “On International Accounting Valuation,” *Journal of International Accounting Research* (Volume 5, Issue 1, 2006): 67-87.

This paper develops an accounting-based equity valuation model for multinational firms, and uses the model to examine the forecasting and valuation properties of foreign currency translation gains and losses (TGL). It shows that TGL can be systematically decomposed into a core component and a transitory component; and because the two components are negatively correlated, the combined effect is that TGL is "more transitory" than transitory earnings, mapping into value with a weight between zero and one. The analysis helps to resolve the classical debate on the value relevance of TGL by showing that the opposing views are special cases of a more general framework.

Nichols, Nancy B., and Donna L. Street, “The Relationship Between Competition and Business Segment Reporting Decisions Under the Management Approach of IAS 14 Revised,” *Journal of International Accounting, Auditing and Taxation* (Volume 16, Issue 1, 2007): 51-68.

This research addresses the relationship between industry competition and managers' choice regarding whether to separately disclose a business segment following the adoption of International Accounting Standard 14 Revised (IAS 14R) and the management approach to segment determination. Logistic regression reveals a significant negative relationship between disclosure and company returns in excess of the industry average. Prior research indicated a significant relationship between disclosure and abnormal returns under the industry approach to segmentation. Our results provide evidence that this flexibility persists as managers maintain their ability to aggregate segments to protect excess returns under IAS 14R and the management approach. Our findings are timely as the IASB plans to modify its segment reporting requirements as part of the Board's convergence agenda and as thousands of companies worldwide, effective from 2005 onward, are now preparing financial statements using IFRS.

Othman, Hakim Ben, and Daniel Zeghal, “A Study of Earnings-Management Motives in the Anglo-American and Euro-Continental Accounting Models: The Canadian and French Cases,” *The International Journal of Accounting* (Volume 41, Issue 4, 2006): 406-435.

The purpose of this paper is to investigate factors that potentially influence earnings-management policy with reference to the Anglo-American and Euro-

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Continental accounting models. Canada and France, respectively, belong to those different socio-economic environments. Earnings-management practices detected in those countries are expected to be affected by specific socio-economic features of the Anglo-American and the Euro-Continental environments. We explain earnings-management practices by incentives suggested in the literature to reveal which motives are prominent within each environment. We tested our earnings-management motives (EMM) model using appropriate panel-estimation techniques over 1674 Canadian and 1470 French firm-year observations. Our results provide evidence that incentives for earnings management for French firms are specifically linked to contractual debt costs and effective tax rate. However, Canadian firms show specific incentives matched with a dynamic capital market. Issuing equity is a strong motive for earnings management in Canadian firms.

Pincus, Morton, Shivaram Rajgopal, and Mohan Venkatachalam, “The Accrual Anomaly: International Evidence,” *The Accounting Review* (Volume 82, Issue 1, 2007): 169-203.

We consider stock markets in 20 countries to investigate whether the accrual anomaly (Sloan 1996) characterized by U.S. stock prices overweighting the role of accrual persistence, is a local manifestation of a global phenomenon. We explore whether the occurrence of the anomaly is related to country differences in accounting and institutional structures, and examine alternative explanations for its occurrence. We find stock prices overweight accruals in general, with accruals overweighting occurring in countries with a common law relative to a code law tradition. Using firm-level data on a country-by-country basis, we document the occurrence of the anomaly in four countries, Australia, Canada, the U.K., and the U.S., and also in a sample of American Depository Receipts (ADRs) of firms domiciled in countries where we do not detect the anomaly. Using country-level data, we confirm the anomaly is more likely to occur in countries having a common law tradition, and also in countries allowing extensive use of accrual accounting and having a lower concentration of share ownership. Additional analyses reveal that earnings management and barriers to arbitrage best explain the anomaly.

Shuto, Akinobu, “Executive Compensation and Earnings Management: Empirical Evidence from Japan,” *Journal of International Accounting, Auditing and Taxation* (Volume 16, Issue 1, 2007): 1-26.

This study investigates the relation between discretionary accounting choices and executive compensation in Japanese firms. The results show that the use of discretionary accruals increases executive compensation. The analyses also show that firm managers receiving no bonus adopt income-decreasing accruals and extraordinary items. In particular, evidence shows that negative extraordinary items are strongly associated with no bonus payment. Finally, the research indicates that the association between discretionary accruals and executive bonus varies depending upon the circumstances of the firm. This study contributes to the literature on earnings management from an international comparative perspective since most previous studies on earnings management and executive compensation have focused on U.S. firms.

Suzuki, Tomo, “Accounting: Impacts of Internationally Standardized Accounting on the Japanese Socio-economy,” *Accounting, Organizations and Society* (Volume 32, Issue 3, 2007): 263-301.

This is a case study of the dissemination of internationally standardized accounting to a nation where standardized accounting was hitherto only loosely practiced under domestic conditions. Soon after World War II, a growing interest in socio-economic management, rather than microeconomic or corporate financing, accelerated the implementation of standardized accounting in Japan. In order to make unintelligible delineations of the economy and its constituent firms comprehensible, official and governable, both national and corporate accounting came to occupy an important position as a formal mode of economic data and management. The actors were the officials of the Allied Powers, economic statisticians and (continued on page 41)

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academic accountants, whose motives, political maneuvers and consequences are here reconstructed based on the primary archives of, and interviews with, those who were directly involved in this revolution. The revolution directed new courses of the Japanese economy and firms through the development of “statistical habits of thought”. In order to clarify the relevance of this history to today’s international accounting issues, a few comparative references are also made to the recent development and implementation process of International Accounting Standards and International Financial Reporting Standards (IAS/IFRS).

Tsakumis, George T., “The Influence of Culture on Accountants' Application of Financial Reporting Rules,” *Abacus* (Volume 43, Issue 1, 2007): 27–48.

The objective of this study is to examine the influence of national culture on accountants' application of accounting rules. Based on a refinement of Gray's (1988) framework, this study hypothesizes Greek accountants will be more likely (less likely) to recognize contingent liabilities (assets) than U.S. accountants (H1). It also hypothesizes that Greek accountants will be less likely to disclose the existence of both contingent assets and liabilities than U.S. accountants (H2). The results do not support H1. No significant differences are found between Greek and U.S. accountants' recognition decisions involving both contingent assets and liabilities. However, supplemental analyses show that U.S. accountants consistently exhibited more conservatism than Greek accountants. In line with expectations, Greek accountants are less likely to disclose information (i.e., were more secretive) than U.S. accountants, providing strong support for H2. Implications for both research and practice also are discussed.

Wang, Yue, Willem Buijink, and Rob Eken, “The Value Relevance of Dirty Surplus Accounting Flows in The Netherlands,” *The International Journal of Accounting* (Volume 41, Issue 4, 2006): 387-405.

Recently the Dutch financial reporting standard setters have taken steps to make dirty surplus accounting flows more visible to parties outside firms, either by eliminating their possibilities or by requiring comprehensive income-type statements. These steps are presumably based on the idea that dirty surplus accounting flows are relevant to investors and hence have to be visible to them. Whether dirty surplus accounting flows are indeed relevant in firm valuation is an empirical issue. This paper, therefore, explores both the incremental and relative value relevance of dirty surplus accounting flows for the Dutch listed firms in the period 1988–1997, when their existence was relatively unhindered. We find consistent evidence that both reported income and clean surplus income are relevant in explaining stock returns, though reported income seems a more relevant measure of returns in the period considered. The results suggest that aggregated dirty surplus flows are not associated with stock returns with accumulation intervals up to 10 years; however, asset revaluations and currency-translation differences are at times incrementally relevant to returns.

Wright, Charlotte J., J. Riley Shaw, and Liming Guan, “Corporate Governance and Investor Protection: Earnings Management in the U.K. and U.S.,” *Journal of International Accounting Research* (Volume 5, Issue 1, 2006): 25-40.

This study extends the work of Leuz et al. (2003) by examining the incidence of earnings management in countries where the level of investor protection provided by the legal environment is high. We question whether Leuz et al.'s (2003) country clusters are overly broad in seeking to effectively explain the relation between countries' legal environments and earnings management. Hofstede (2001) notes that, while the U.K. and U.S. are similar in numerous respects, various cultural and organizational differences exist. Accounting research identifies a number of differences in corporate governance between the two countries that could influence earnings management. We examine samples of U.K. and U.S. firms that were taken private in a management buyout (MBO) so as to focus on situations epitomizing

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U.S. firms that were taken private in a management buyout (MBO) so as to focus on situations epitomizing the conflict between corporate insiders and outside shareholders. Overall, our results indicate that managers in both the U.K. and U.S. manage earnings downward prior to an MBO, with U.S. managers being significantly more aggressive than U.K. managers. These results may be interpreted as indicating that Leuz et al.'s (2003) country cluster groupings are too broad to adequately explain the relation between countries' legal environments and the extent to which managers engage in earnings management.

Zeghal, Daniel, and Karim Mhedhbi, "An analysis of the factors affecting the adoption of international accounting standards by developing countries," *The International Journal of Accounting* (Volume 41, Issue 4, 2006): 373-386.

The purpose of this study is to identify the factors that could explain the adoption of international accounting standards by developing countries. The following factors have been selected: economic growth, education level, the degree of external economic openness, cultural membership in a group of countries, and the existence of a capital market. Our results indicate that developing countries with the highest literacy rates, that have capital markets, and that have an Anglo-American culture are the most likely to adopt international accounting standards.

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August 4-5, 2007: Chicago, IL

The Professionalism and Ethics Committee of the American Accounting Association invites submission of papers for presentation at the 12th Annual Ethics Research Symposium to be held August 4-5, 2007 in Chicago, IL. This Symposium will focus on ethics research and teaching within the field of accounting.

Highly publicized business and accounting scandals have prompted an increased interest in the ethical aspects of accounting practice. Accounting ethics research and education are seen to be important because one of the principal purposes of accounting is to foster the creation of credible and reliable information for purposes of decision-making throughout society. Honesty, integrity and objectivity are among the most important qualities of ethical accounting practice.

It has been 16 years since the Professionalism and Ethics Committee of the AAA offered its first seminar on teaching ethics in accounting curricula. The 12th Annual Ethics Research Symposium encourages thoughtful papers in a number of different areas of accounting ethics scholarship. Sample topics may include, but are not limited to, the following:

- Philosophical foundations of accounting and accounting ethics
- Theological foundations of ethical accounting practice
- Historical perspectives on the development accounting ethics
- The application of sociology, psychology and/or political theory to ethical issues in accounting
- Accountancy as an ethical profession
- Accounting ethics compared with professional ethics
- Critical studies of ethical lapses in business or accounting practice
- The ethical role of accounting in social and environmental reporting

The Symposium will take place as a Continuing Professional Education seminar immediately preceding the 2007 American Accounting Association Annual Meeting in Chicago. Authors wishing to have papers considered for presentation at the Ethics Symposium should send their papers as an e-mail attachment (please identify all authors, their positions, and affiliations in a cover page, but not in the body of the paper). A \$20 non-refundable fee is required with each submission. Fees are waived for doctoral students. Please make all checks payable to the American Accounting Association. **Papers should be sent by e-mail and checks should be sent to the following address no later than April 1, 2007:**

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Currently, the following journals are associated with the 12th Annual Ethics Symposium: *Accounting and the Public Interest*, *Global Perspectives on Accounting Education*, *Research on Professional Responsibility and Ethics in Accounting*. More journals may be added at a later date. Those presenting a paper at the Symposium may choose one these journal for submission of their paper. Authors who choose to designate a journal should contact that journal's editor to determine submission policies, including the timing of formal submission of the paper.

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 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 \$100 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.

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