

Collected Abstracts: Research Forum Sessions

FRG

**Financial Reporting
(regulation and accounting
method choice)**

Code: **FRG R01**
Abstract ID: **0160**

Day: **Thursday**
Time: **9.00-10.30**
Room: **Q116**

The use of non-GAAP balance sheet measures in the Netherlands

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I investigate a non-GAAP (pro forma) solvency measure that is often used in the Netherlands. 'Guarantee capital' comprises besides equity several long term subordinated liabilities. Firms often present this measure in their financial statements to indicate the financial cushion of the firm from the perspective of credit analysis. I test whether firms use this non-GAAP measure more frequently if equity is below average. Although I find that solvency ratios based on guarantee capital revert to the market average of GAAP-based solvency ratios, a peer analysis that may adjust for underlying financing decisions does not show a significant indication of overstating solvency. These findings are in line with previous studies on pro forma *earnings* measures.

Code: **FRG R02**
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Day: **Thursday**
Time: **9.00-10.30**
Room: **Q116**

Earnings management around Malaysian initial public offerings (IPOs)

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Prior research on post-IPO operating performance in Malaysia shows that accrual-based profit deteriorates more than cash-flow, with IPO earnings management as a possible explanation. This study investigates earnings management for a sample of 254 Malaysian IPOs listed on the Main Board and the Second Board during the period 1990 to 2000. Time series analysis suggests that the level of earnings management is higher in the IPO year and in the year immediately following. Earnings management was also higher during the East Asian financial crisis years of 1997 to 1998 than other sample periods. This may reflect a greater need to improve confidence in IPO companies' performance to attract investors, and/or an attempt to meet the first and second year profit guarantees required in Malaysia. In addition, managers with higher share retention post-IPO are found to have a higher level of earnings management. Further analysis provides evidence to support the view that aggressive earnings management at the time of an IPO is associated with poor post-IPO stock market and operating performance. In sum, the results provide a degree of support for the earnings management hypothesis.

Code: **FRG R03**
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Day: **Thursday**
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Room: **Q116**

Factors Affecting Income Smoothing Practices Among Listed Companies on the Portuguese Stock Market

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A goal of manipulation widely ascribed to managers is the desire to smooth reported income, which consists of practices deliberately employed by them in order to reduce the variability of the income streams. The purpose of the present investigation is twofold. First, we seek to determine if the existence of alternative options in terms of accounting policies induces income smoothing behavior. Second, we pretend to identify the explanatory factors of the incidence of income smoothing. Our research sample comprises companies listed on the Main Market of the presently Euronext Lisbon, over a period of five years. The results of this study confirm that our sample companies are actively engaged in accounting income smoothing practices. Furthermore, among the many variables considered, the systematic risk, the market value, the size of the company, the proportion of supported interests, the ownership structure, and the economy sector proved to be the factors which have largely contributed to explain such behavior. **Keywords:** earnings management; accounting income smoothing; discretionary accounting.

Code: **FRG R04**
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Day: **Thursday**
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Room: **Q116**

The effect of relative earnings performance on firms' accrual decisions: Evidence from France

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This study empirically examines the relationship between relative earnings performance (REP) defined against industry and discretionary accruals (DA). We assume that the degree of DA depends systematically on REP. Our sample consists of 768 firm-year observations over the period 2000–2003. Three test methods are used: mean accrual difference tests, mean accrual distribution tests across 10 REP portfolios and regression analysis. After controlling for a potential "backing out problem", our results support the hypothesis that (1) poor REP firms tend to choose income increasing DA while good REP firms tend to make the opposite; (2) the variations of these DA depend directly and negatively on the variations of REP and (3) the negative relation between DA and REP is particularly more striking for firms with poor REP than for firms characterized otherwise. These results suggest that REP is an important factor affecting managers' accounting practices. **Keywords:** Relative earnings performance, Pre-managed earnings, Operating cash flows, Discretionary accruals, French accounting practices.

Code: **FRG R05**
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Determinants of specific accrual behaviour in Spain. How do they affect earnings management models estimation?

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Building on Dechow's 1994 seminal study and working with a sample of 22.000 Spanish firms, we incorporate alternate operating accruals to create Accrual Adjusted proxies for Earnings (AAE) which are subsequently compared with Operating Cash Flow (OCF) in descriptive and utility senses. We do not take stock prices as our utility benchmark for institutional reasons. Instead, we use prediction of future OCF (IASB, Conceptual Framework) and apply Vuong's test to compare R^2 of regressions of OCF_{it} vs. AAE_{it} on OCF_{it+i} .

As factors potentially affecting accrual behaviour we include *measurement interval*, *life* and *operating cycles* and *margin*, following Dechow's 1998 analytical function. Exploring accrual behaviour in Spain is necessary for two reasons: the immediate incorporation of Cash Flow Statement (IAS 1) and the convenience of estimating specific earnings management models for the Spanish context. In this sense, we hypothesise that Spanish industry classification leads to a large intra-groups accrual dispersion, testing whether some of the above factors could be used as a better alternative for the cross-sectional estimation of the models. In general, we find that the role of accruals in improving Spanish OCF is very dependent on most of the factors proposed and on specific accruals or combinations of them. We also find industry classification is not the best criterion to create portfolios for the estimation contrary to what has been usually suggested in the literature.

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Financial Reporting and ICTs: Deliberating the Rhetoric and the Social Reality

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Numerous assertions state that information and communications technologies (ICTs), such as the internet, have 'democratised' financial reporting. These assertions of democratisation are unsupported by evidence and reflect a rhetoric of technological determinism and liberal economic philosophies. This paper presents explanations of 'democratisation' in a financial reporting context, outlines how assertions of technological democratisation are more likely to resonate in capitalist oriented societies, and considers whether research methodologies underpinned by social constructivism may be appropriate to a fuller understanding of the impact of ICTs on financial reporting. The accounting literature focusing on IFR and XBRL is reviewed. The predominance of positivist philosophies is highlighted. The paper then considers the methodological principles of critical theory and the sociology of scientific knowledge to highlight the roles that social factors play in the development of science and technology generally. This paper argues that even where technological developments may appear to play a critical role in financial reporting, the relationship between technology, financial reporting and democracy should not be viewed as uni-directional. This paper concludes that the output of the democracy/technology relationship depends on the type of democracy in place at the outset and that any 'democratisation' of financial reporting should be viewed as an artefact of human endeavour.

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Relevance of accounting figures and firms' technological level

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The objective of this paper is to determine if there is a relationship between the technical orientation of a company – in terms of market sector rather than technology enablement – and the relevance of its accounting information for reporting performance to stakeholders. In particular, we will look at the relevance and variation of book figures between high-tech and low-tech companies. Our study covers a sample of companies from 1993 to 2002 across sixteen European countries. We will apply our own methodology to define the technical level of each company and show that book figures are superior indicators of performance for low-tech compared to high-tech firms. This can be partially explained by the difficulty in accounting for Research and Development (R&D) expenses in high-tech organisations.

Code: **FRG R08**
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Day: **Thursday**
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Revenue recognition in Italy: a search for consistency between realization and recognition

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Much effort is currently devoted by accounting standard setters on revenue recognition, in order to overcome the deficiencies and inconsistencies affecting current standards or interpretations. In Europe and in particular in Continental countries like Italy, accountants are bounded within an area limited by: -Legal rules, strongly supporting realization and prudence, but not offering any guidance at all; Accounting standards, where realization seems increasingly neglected, when not definitely abandoned for revenue recognition, and the inconsistencies flourish. Unfortunately, little support is forthcoming from Italian academic research and most of international studies reflect the Anglo-Saxon context and are prevalently critical toward the realization principle and do not seem very concerned with the existing legal implications. This study analyzes Italian theory and practice, and the existing trends in international accounting standards and theoretical studies, focusing on their consistency and ability to provide plausible solutions. Also, the relationship between realization and revenue recognition is analyzed in order to examine their possible combination. The study is set in a measurement perspective; therefore contributions and research methodology coming from an information content perspective are not considered.

Code: **FRG R09**
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**The design of share-based payments in Germany
after the introduction of IFRS 2 and SFAS 123R**

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Employee share options (ESOs) are a good example of how accounting rules influence real-life decisions. SFAS 123 and APB 25 left a widely used loop-hole for non-recognition of ESO costs. If ESO plans qualified as fixed plans under APB 25, cost recognition could be avoided. Before IFRS 2 was introduced, many IFRS users applied SFAS 123 and APB 25 as well. In 2004, IASB and FASB closed the loop-hole with IFRS 2 and SFAS 123R, both requiring all share-based payments to be expensed at fair value. Using hand-collected data from 110 German firms, we study the reaction to the new standards. Germany offers a special institutional setting for such a study. First, ESOs are tax inefficient for employers compared to share appreciation rights (SARs). Secondly, firms must use ESOs with performance conditions. To still have fixed plans, firms are restricted to choosing one special kind of performance condition. Nonetheless, many German firms used ESOs that qualified for non-recognition. For share-based payments introduced after the issuance of IFRS 2 and SFAS 123R, we document a shift towards SARs. Furthermore, we find that firms now often impose performance conditions that would not have allowed classification as fixed plans under APB 25. These results show that non-recognition of compensation costs has been a strong motive for the design of share-based payments prior to the new standards. After their introduction, firms have quickly adapted more tax and incentive efficient designs.

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**Rethinking Revenue Recognition –
Critical Perspectives on the IASB's Current Proposals**

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Acknowledging inconsistencies and loopholes in its current regulations, the IASB is conducting a joint project with the FASB to develop a general principle-based standard on revenue recognition. The tentative proposals feature a valuation-based asset-liability-approach relying on fair value or customer-based value measurement. This implies far reaching changes in revenue recognition compared to current IFRSs. Based on conceptual, analytical, and empirical evidence, this paper discusses the recent proposals with particular regard to decision usefulness, managerial incentives, and regulative consistency. Main results show that the proposals ambivalently prefer relevance over reliability. While this is consistent with most developments at the IASB, the proposals on revenue recognition may give rise to adverse incentives for investment decisions and earnings management. At least partially, this questions whether the proposals are consistent with both the objectives set out in the IASCF Constitution and the EU requirements of Art. 3(2) of Regulation 1606/2002.

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**Is the European accounting convergence project viable?
Dilemmas resulting from national regulators and standard
setters, the IASB's agenda and the treaty for an EU
constitution**

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2005 has seen the commencement of application of International Accounting Standards (IAS) in the EU. The adoption of common standards for the drawing up and reporting of financial statements by groups of companies listed on the European stock-exchanges is having numerous consequences and generating considerable unease in various circles. Firms are learning to solve specific problems arising from regulations based on principles rather than specific problems and allow considerable margin when it comes to recording operations and items as those problems come up. Analysis confirms their lack of experience in assessing the strength of businesses on the basis of indicators that do not follow the same paths as the figures produced under national accounting standards. Supervisors are sending out signals for markets to remain calm, in the trust that the instability caused by the reporting of new financial data will soon disappear. Government authorities are facing modifications in their tax legislation to prevent accounting changes from affecting taxes on company profits, a particularly sensitive aspect for company management teams. But other factors that currently lurk in the background may come forward to affect the process of international accounting convergence more significantly. This document is a preliminary version of a study that will subsequently be revised and extended. In it we have focused on analysing three of these factors, and intend to extend our analysis to others in future studies

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**Convergence of the FASB and IASB conceptual frameworks
An analysis of relationships between qualitative
characteristics**

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The FASB and IASB have begun a project to revisit their conceptual frameworks for financial accounting into a common, synthesized conceptual framework that should provide standard setters a sound, consistent and coherent basis for developing new and revising existing accounting standards. In addition, this conceptual framework aims to help users to better understand the information presented in the financial statements, assist preparers to apply the standards, and help auditors to form their opinions. However, on some aspects the FASB and IASB frameworks differ fundamentally. For instance, to make information provided in financial statements useful to users both Boards define four similar principal qualitative characteristics. The IASB ranks these characteristics equally, while the FASB framework structures them hierarchically. To converge the frameworks such essential differences have to be investigated and clarified. This paper aims to contribute to understanding the relationship between these main qualitative characteristics and the objective of financial reporting. Making a distinction between standard setters, users, preparers and auditors we analyze the FASB and IASB definitions of the qualitative characteristics and investigate the relationships between these characteristics and the objective of financial reporting. Our analysis, among others, shows that qualitative characteristics should be hierarchical structured and trade-offs made between characteristics are dependent on the type of interested party.

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The Role of the Intellectual Capital in the Public Sector

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With a name like Intellectual capital we try to recognise a group of intangible assets owned by an organisation. The managers of public enterprises manage intangible assets, as much or more than managed by their colleagues in private enterprises, therefore their increasing interest in the progress of the Intellectual Capital. The models designed for enterprises are in a certain way a little difficult to apply to the public sector, especially because the goals of the public administration differs from those of the private enterprises, such as maximising the profits or the creation of wealth for the shareholder. The human resources, with their know-how, skills and attitudes are fundamental for the entity to reach its goals. Defining the Intellectual Capital allows for the establishment of real goals as well as the prompt resolution of the problems. This study has a double aim: analyse the distinct criteria proposed in the literature to differentiate between the types of intellectual capital and propose a model of Intellectual Capital adapted to the special characteristics of the public sector. We also show some Intellectual Capital management indicators for the public sector, grouped under various categories.

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Implementation of the IFRS by French listed companies: implications for external and internal reporting

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During the year 2005, listed French companies have reported about the effect of the transition from French GAAP to IFRS on their consolidated financial statements. Especially, they provided reconciliation statements of shareholders' equity and net result as of 31 December 2004. The first aim of the study is to review the situation on the basis of the latest and most comprehensive data available and to analyse the way these French companies have used the options given by IFRS 1. For example, several companies have exercised their choices (i.e. fixed assets revaluation or financial instruments "carve out") in an opportunistic manner. The study attempts to explain that thanks to a review of the literature and previous studies (Flower 2004, Jermakowicz 2004, Nobes & Parker 2004, Mazars 2005, KPMG 2005). The second part of the research presents the result of a study conducted with managers of the French companies responsible for the transition to IFRS. An electronic mail survey was administered. Responses to this questionnaire were analysed and updated through interviews. The main results indicate that (1) companies expect increased volatility in financial results, (2) the process is costly and consumes significant resources, (3) the IFRS implementation affects many functions in the group and enhances the financial reporting systems. The results of this study should help to understand better the dynamics of the IFRS implementation processes taking place within French listed companies.

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Deferred tax: recognition of a temporary difference from the initial recognition of goodwill and the effect of financial statements conversion on a deferred tax

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This article is divided into two main sections both of them dealing with the intricate issue of deferred tax from an essential though rather advanced point of view. The first part concerns the question whether Business Combinations give rise to deferred tax and, especially, whether a deferred tax shall be recognised for a temporary difference which arises from the goodwill arising in a business combination. The answer is developed by analysing the rudimentary building blocks of the IAS 12 *Income taxes* and simultaneously heeding the definitions and concepts (mainly the basis for conclusions) of the IFRS 3 *Business Combinations*. After evaluating three possible scenarios: not accounting for the temporary difference arising from goodwill, including the resulting deferred tax within the equity or affecting the carrying amount of goodwill itself; the consequences of choosing a particular method are shown. Surprisingly, the choice itself may affect the equity so substantially that it may end up in red. The second part focuses on an empirical case study. It shows the possible complications originating in the process of adopting the IFRS or US GAAP. During the financial statements conversion many assets cannot be recognised and therefore have to be expense. The resulting deferred tax asset is subject to strict recognition principles which, however, do not suit such a specific case. Another interconnected issue is the process of computing the average effective tax rate.

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Intellectual Capital Disclosures in Corporate Annual Reports: A European Comparison

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The extent of intellectual capital (IC) disclosures in corporate annual reports has received increasing investigation in recent years. Typically, results of studies indicate that the IC disclosure is relatively low and is positively associated with size and type of industries. However, little is known about IC disclosure practices of firms within the banking and financial services sector and the extent of variation across countries. This paper is an exploratory study of the IC disclosures in annual reports of leading firms within the banking and financial services sector in Western European countries. Using content analysis and disclosure measured by an index score as well as number of words, our preliminary results suggest that while the total IC word count as a proportion of total annual report word count is fairly consistent among leading firms in the countries examined, the form of IC varies considerably. IC information is to be found in virtually all sections of the Annual Report, although extent of disclosure varies significantly. Structural and relational capital disclosures are generally more prominent than human capital. Further results and discussion are reported in the paper. The paper then proceeds to explain such variations in terms of selected predictor variables and to explore the implications of such

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UK corporate reporting of intellectual capital: evidence from large firms

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Although intellectual capital is increasingly recognised as a key value driver in the knowledge economy, many of its aspects are not captured in traditional accounting metrics. A number of academic studies have recently recognised this, and have analysed different aspects of accounting for intellectual capital. This paper, which reports upon part of the data collected for a major research study funded by the Institute of Chartered Accountants in England & Wales, contributes towards this developing literature by conducting an in-depth analysis of the intellectual capital disclosures in the annual reports and on the websites of a number of large UK companies – a country where there has been relatively little academic work of this nature to date. The sample of 15 companies whose intellectual capital reporting practices are analysed has been structured to enable a comparison of companies in sectors where intellectual capital is likely to be a highly significant value driver (pharmaceutical/biotechnology and software/information technology), a moderately important value driver (retailing) and a less significant value driver (real estate). A broad definition of intellectual capital, drawn from several prior studies, was used to construct the research instrument, capturing a wide range of intellectual value drivers and enabling a comparison of the empirical results with results of other intellectual capital content analyses conducted in other countries in recent years. Empirical analysis shows that the extent of intellectual capital disclosures appears to depend upon sector, and indicates that some of the value drivers reported upon are sector-specific whereas others are company specific.

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Competitor Analysis and Knowledge Management: A Case Study of the Perceived Usefulness, and Extent of Implementation of Knowledge Management

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A resource-based view of organisational capability suggests that the ability to mobilise data and information and transpose it into actionable knowledge may potentially be a firm's most significant sustainable competitive advantage (Zack, 1999). While many firms do develop, codify and store considerable amounts of operating and strategic information from their accounting systems and other sources, it also appears that many struggle with how to make the leap from having a database full of data to implementing a coherent knowledge strategy. This paper describes a case study of a large Australian hospitality/gaming organisation that recognised a need for what it described as Competitor Analysis (CA) for developing and implementing its strategy. Despite recognising this need, it had not mobilised its already extensive data into an actionable knowledge management system. Their reasons for not implementing a knowledge management system were subtle, revolving around an inability to define the desired body of knowledge as well as organisational behavioural issues associated with implementation. We discuss these and conclude that implementation of a knowledge management system will be as much about behavioural and cultural issues as knowledge and its strategic applications. We propose the next step in moving the organisation forward in its quest for actionable CA knowledge will be to develop its strategy map.

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Emotional Intelligence and Emotional Organisations

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Companies quoted in the Stock Exchange, very often reach a value well above their assets. This is a sign that they have invisible or intangible assets. In the 21st Century, the majority of the companies will most probably show in their accounts the emotional capital as an important asset. In order to determine the worth of their enterprise, many Managers will ignore the parameters used till now and will explore innovative assets, such as Knowledge and the emotions. Knowledge is presently used by the companies with a clear aim in mind: to create wealth. Its development aims at generating intellectual capital. The Emotional Capital, also keeping in mind the intellectual capital, is expected in the very near future to gain importance. The scientific and technological evolution shows the importance of the emotions in the optimization of the brain and consequently productivity. The present time is characterized by a sócio-economic context which affects humanity. Access to knowledge has never been easier. The company managers put increasing trust in the emotional assets and are prepared to support them, and promote its healthy development. In order to achieve this aim and to maximise the intellectual and emotional assets of the companies, they have to develop communication strategies, procedures and tools that allow for the flow of emotions. The Entrepreneurial excellence is the maximization of the potential of their human resources.

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Intellectual capital reporting and the ambivalence of accounting theory

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The existence of differences between informational demands of financial statements users is commonly accepted in accounting theory. However, instead of searching for the solution to this problem the assumption about the investors' informational interest representativeness for the rest of stakeholders was made. This simplification enables us to attribute accounting practice and foundations with ambivalence, though it is not a frequent phenomenon to formulate this objection. Moreover it gives to non-accountants a ground to formulate other objections toward accounting practices. Statements of Leif Edvinsson, the first intellectual capital director, are the example of those. The objections refer to irrelevance of applied accounting methodology resulting in uselessness of financial information leading to misrepresentation of potential growth of an entity. The author formulates the thesis that solution to both problems is to prepare a set of single purpose financial statements instead of multi (general) purpose financial statement. Theoretical background for this approach to financial reporting can be found in considerations of R. Mattesich. Two projects coordinated by Danish Ministry of Science, Technology and Innovation regarding reporting and analyzing intellectual capital of an entity ("Intellectual Capital Statements – The New Guideline" and "Analysing Intellectual Capital Statements", published in 2003) are concerned as a good example of single purpose statement.

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Noncontrolling interests in subsidiaries: a value relevance study

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This study examines the value relevance of noncontrolling interests in subsidiaries accounted for under the entity concept *versus* the parent company concept. Nowadays, noncontrolling interests are at the centre of an international debate. While American standards still require noncontrolling interests to be measured according to the parent company concept, UK standards and even the IASB standards require the adoption of the entity concept. However, both FASB and IASB had issued exposure drafts to replace existing standards, as a part of a joint effort to promote international convergence on this topic. These drafts contain proposals that will have a fundamental effect on the measurement of noncontrolling interests. Instead of being measured partially at fair values (based on the percentage of ownership acquired), and partially at carryover basis, noncontrolling interests will be measured totally at fair value as if 100% of the subsidiary had been acquired. We used data from the consolidated financial statements of North American and European listed companies and we applied a set of regressions based on the Ohlson (1995) residual income valuation framework. These regressions were used to identify whether the effect of the new manner of measuring noncontrolling interests results in price-relevant information. Our results will support the beliefs of both Boards in the improvement of relevance of information provided to users of financial statements.

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Risk reporting in annual reports of Japanese companies and its association with corporate characteristics

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This study examines the practices of risk reporting in annual reports and its relations with corporate characteristics for a sample of 100 non-financial Japanese companies enlisted with Tokyo Stock Exchange. Their published annual reports have been used for content analysis. The findings show that in absence of any regulatory guidance Japanese companies are voluntarily reporting risk information in their annual reports. We find that, consistent with prior research, the size of the company and the number of risk disclosure are positively correlated i.e., larger companies are disclosing more risk information than smaller companies. On the other hand, no significant relation exists between number of risk disclosure and other corporate characteristics such as, level of risk, relative profitability, share distribution (ownership) pattern, and cross corporate shareholdings. The study also finds that there is no significant difference in disclosure of risk information among different types of industries. It reveals that companies are used to disclose more past information and reluctant to disclose future risk information which is treated as more useful for the stakeholders for their economic decisions. It is also seen by the study that most of the companies are disclosing descriptive risk information and are not quantifying the risk. This study also attempts to find whether there is any significant change in risk reporting after introducing risk reporting guidelines from 2004.

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Balance sheet conservatism and earnings conservatism in the Nordic countries, UK and Germany

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Conservatism is one of the major reasons for international differences in financial reporting. Firms in code-law countries with creditor-oriented finance tend to be more balance sheet conservative, while firms in common-law and equity market-oriented countries show more earnings conservatism. Previous research has analysed conservatism mainly in the USA, the UK, Germany, France, and Japan. Also some other central countries have been studied, but in recent literature little attention has been paid to conservatism in the Nordic countries and especially to the changes in accounting regulation environment.

The objective of this paper is to examine balance sheet and earnings conservatism in Finland, Sweden, Norway and Denmark. Especially the focus is to investigate, how conservatism has changed when accounting legislation is moving towards IFRS. This study contributes previous literature by examining conservatism under major changes in accounting regulation. In 2005 the consolidated financial statements of listed companies must be prepared in accordance with IFRS. Accounting legislations in the Nordic countries have same origins. However, accounting regulation and practices have developed in each country in different speed towards Anglo-Saxon reporting practices. For instance, accounting legislation in Norway is regarded even less conservative than IFRS. The data of listed companies in the Nordic countries is analysed statistically during the period from 1995 to 2005.

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Accounting for Goodwill and Other Intangible Assets: The Effects of the New U.S. Rules Thus Far

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FASB Statement No. 142, *Goodwill and Other Intangible Assets*, was issued in June 2001. Along with Statement No. 141, *Business Combinations*, this Statement dramatically changed U.S. accounting for business combinations and goodwill. In particular, periodic amortization of purchased goodwill is no longer necessarily required under FAS 142. Rather, affected companies must test for goodwill impairment at least annually. Prior to the application of these two pronouncements, many analysts, investment bankers, and others focused on the capital markets speculated that these changes would have profound effects on both earnings and acquisition activity in the United States. FAS 141 and 142 were effective for fiscal years beginning after December 31, 2001, with early adoption available under certain circumstances. Compliance with Statement 142 began for most companies in fiscal year 2002, and we now have a much better understanding of the effects this statement has had on affected companies. This paper presents the results of a continuing examination of companies that have been affected by these pronouncements.

Code: **FRG R25**
Abstract ID: **0867**

Day: **Friday**
Time: **9.00-10.30**
Room: **Q116**

Determinants of IAS disclosure compliance in emerging economies: Evidence from exchange-listed companies in Bangladesh

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The study is an attempt to examine empirically the level of disclosure of financial information upon adoption of International Accounting Standards (IASs) in Bangladesh and the association between a number of corporate attributes and levels of disclosure in corporate annual reports in Bangladesh. An unweighted disclosure index comprising 411 items was prepared and applied to 188 corporate annual reports for years ending between January and December 2003. The association between the extent of disclosure and various corporate characteristics was examined using multiple linear regression models. It was found that corporate size, profitability, stock exchange security category (Z-category or not), size and international link of company's auditor, and multinational subsidiary are all significantly associated with the extent of disclosure. The results were consistent with some previous studies while they contradict with the findings of some other studies.

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Room: **Q116**

Earnings Management and Incentives for Lobbying the Standard Setter

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It has long been recognised that accounting standard setting is an activity subject to political pressures. Lobbying research is therefore an established area of research in accounting. Following the EU's IAS regulation, lobbying of the accounting standard setter becomes an interesting field of study also for European researchers. Most of the lobbying research assumes self-interested behaviour on the part of those lobbying. However, few attempts have been made of theoretically deriving conditions under which managers will find it advantageous to lobby the standard setter. This paper uses a two-period analytical model to combine theories of earnings management and lobbying. In the second stage, a simplified Fischer/Verrecchia (2000) structure is used to derive conditions under which managers find it to their benefit to have the opportunity to manipulate reported earnings. Before that, managers have to decide in the first period whether to lobby the standard setter on a proposed new standard which would eliminate this possibility. The model shows that if lobbying is observable, self-interested lobbying against the standard will not be an equilibrium strategy under many reasonable parameter combinations. This is consistent with results from a number of empirical studies which do not find significant correlation between hypothesized measures of a standard's economic consequences affecting the manager and his lobbying posture.

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Room: **Q116**

**Voluntary disclosure about R&D activities:
a longitudinal study**

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The aim of this paper is to explain voluntary disclosure about R&D activities in the French context. We have analysed, over three successive years (2002, 2003 and 2004), the annual reports of 120 firms belonging to the SBF 250 index in order to determine annual R&D disclosure levels for each company. Using two very different operational definitions for measuring these levels (a score and an index), we find that our two measures are both (and for the three years of observation) positively related to R&D intensity, size (or, alternatively, quotation on a British or American market) and belonging to certain high-tech sectors; on the contrary, they are both negatively associated with a proxy for proprietary costs. More importantly, our multivariate analyses (regressions) consequently show that the principal results of this study are stable over time and that the use of two very different operational definitions for measuring the disclosure levels engenders no difference concerning these results. These two methodological findings are innovative and appear to remove two limits often invoked in the whole field of research studying the determinants of voluntary disclosure, as previous researches were conducted at one point in time and with a unique operational definition for the dependent variable.

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Day: **Friday**
Time: **11.00-12.30**
Room: **Q116**

**Financial Reporting on the Internet - Analysis of the
Companies Listed on the Prague Stock Exchange
(Index PX50)**

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Since May 1st, 2004, the Prague Stock Exchange (PSE) and all Czech listed companies have been following the same requirements as their counterparts within the European Union. The presented paper summarizes outcomes of a project which has surveyed Internet financial reporting patterns of a sample of Czech listed companies included in the main index PX-50 of the PSE. The scope of the research includes: Empirical research based on the statistical and qualitative analysis of financial reports of leading Czech companies listed on the PSE. Development of a comprehensive set of recommendations for high quality financial reporting on the Internet for the PX-50 companies as well as for those not included in PX-50. Comparison with a similar survey made regularly since 2000 in order to determine the tendency of the financial reporting on the Internet in the Czech Republic and to make a comparison with Slovakia. The aim of the project is to explore and identify weak elements of digital financial reporting in the Czech Republic and to specify a set of recommendations (drafted standard) for financial reporting on the Internet in the Czech Republic whose acceptance by financial statement preparers as well as users would be reasonably ascertain. Moreover, a XBRL jurisdiction in the Czech Republic shall be formed as a part of the project. The project is supported by the Czech Security Exchange Commission and professional bodies joined in the Czech National Accounting Board.

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Day: **Friday**
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Room: **Q116**

**Lobbying on the proposed prohibition of goodwill
amortisation in ED3 "Business Combinations"**

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In 2004 IASB issued IFRS 3. One major difference between IFRS 3 and its predecessor IAS 22, is that goodwill amortisation in IFRS 3 is prohibited. IASB follows a due process where feedback is received from different interest groups before a final standard is issued. The most observable form of feedback is submitted comment letters. In this study all 127 submitted comment letters on Exposure Draft 3, which preceded IFRS 3, were examined. To be more precise one specific issue, the prohibition (or non-prohibition) of goodwill, was investigated. In 97 of the 127 submitted comment letters, the respondents' positions could be established. The respondents' positions and arguments regarding the prohibition (or non-prohibition) of goodwill was analysed with the purpose of gaining an insight into the lobbying strategy employed by two lobbying groups; preparers and non-preparers. The study revealed differences between the two groups with regard to the 1) stated positions, 2) the type of arguments put forth 3) the number of arguments put forth and 4) the length of the arguments put forth. 34% of the non-preparers and 56% of the preparers were in favour of a prohibition of goodwill amortisation. Both groups employed the "usefulness" argument extensively and the economic consequences argument rather sparsely even though the economic consequences argument was more commonly used by the preparers. Non-preparers used more arguments and more words to support their positions.

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**Looking for a better accounting representation of the
professional sports club assets: the new international
accounting standards**

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This communication aims at reflecting over the relevance of the balance sheet and, more particularly, the definition and assessment of the assets which are making it up within the specific frame of the professional sports clubs. At the moment, the French accountancy standards do not allow for an accurate representation of the wealth generated by this type of organisation, thereby dissuading any would-be investor. Faced with this observation, can managers hope that the emergence of new accountancy standards will enable them to better apprehend this value? This questioning leads us at first to define the wealth of the club: expertise, knowledge, image, team, players, results, merchandising..., and subsequently to appraise the contribution of new accountancy concepts to the assessment of this value. To achieve this aim, our reflexion will rest on the analysis of French as well as English practices in this field.
Key words: professional sports club, international accountancy standards, genuine worth, incorporeal assets, statements of accounts, balance sheet, accounting representation.

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Room: **Q201**

The value relevance of financial reporting and intangible assets: Portuguese evidence

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Unrecognised intangible assets (e.g., human resources and customer relationships) are important determinants of corporate value. Their non-recognition in balance sheets has led to claims that financial statements are losing relevance as aids to making decisions and explaining stock prices. We operationalize value relevance; first, based on the ability of earnings to explain market-adjusted returns; and second, based on the ability of assets and liabilities, book values and earnings, to explain market equity values. Then we introduce recognised intangible assets into those relationships to assess their influence -- particularly whether investors consider them to be important to firms' value creation. We test whether the relevance of recognised intangible assets differs between subclasses. We explore differences between the requirements of Portuguese accounting standards and IAS 38; and whether value relevance differs by type of industry and by the sign of the difference between a firm's market value and its book value. We analyse pooled data drawn from a sample of 35 firms that were listed on the main and second boards of the Portuguese Stock Exchange, 1995-2004. The findings contribute to empirical understanding of the value relevance of financial reporting and they will be pertinent in debates regarding proposals for improved financial reporting

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Room: **Q201**

Value relevance of German GAAP- and IFRS-consolidated financial reporting: An empirical analysis on the Frankfurt Stock Exchange

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It is assumed that accounting principles aiming at informing investors show a higher association with share prices (value relevance) than those aiming at protecting creditors. Empirical studies support this assumption by the majority. This study examines the value relevance of IFRS- and German GAAP. Regression analyses are employed to companies listing on the Frankfurt Stock Exchange and publishing exclusively either IFRS- or German GAAP-consolidated financial reports over the period 2000-2004. Because of the Regulation (EC) No 1606/2002 relating research is impossible after 2004 because German GAAP will no longer exist on European stock exchanges. Apart from the limitation to one capital market to eliminate pricing differences across capital markets domiciled in different countries which has already been done in prior research, basically the selection criteria for the listed companies of this study (emphasis on internationality, free float and market capitalisation) and the timing of the share prices (mid price around the end of the reporting period when the financial data is not yet published) constitute improved circumstances for investigating the above mentioned value relevance compared to prior research. The results of this study show German GAAP are statistically significantly more value relevant than IFRS. These results have to be interpreted in the light of the very specified selection criteria. It is an unexpected outcome calling for further research.