

Collected Abstracts: Research Forum Sessions

INA

International Accounting

Code: **INA R01**
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Day: **Wednesday**
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Room: **Q119**

Harmonization, Comparability and Fair Value Accounting

Benzion Barlev
(benzion.barlev@huji.ac.il)
The Hebrew University and Baruch College
Co-author(s): Joshua Rene Haddad

In this paper we focus on the relationships between international accounting harmonization (IAH) and the paradigm of fair value accounting (FVA). Accountants rely on the accounting concept of *comparability* for defining IAH, and they agree that a 'complete harmonization' exists only in a situation where an identical set of generally accepted accounting principles (GAAP) is utilized across countries. We argue, however, that a second requirement, that is, (2) a common denominator for measuring and recording business transactions, assets, liabilities and equities, is necessary to reach a state of a 'complete IAH'. We explain the logic behind the requirement of 'a common denominator' and assert that IAH is feasible under the paradigm of FVA, but not under that of historical cost accounting (HCA), because the concept of *fair value*, which is central to the FVA, provides a common denominator needed for a meaningful comparison of accounting data. We analyze and discuss the infrastructure required for IAH and emphasize the importance of international financial and commodities markets. We, then, argue that the paradigm of FVA acts as a catalyst in a 'harmonization cycle': FVA propels IAH; IAH fosters, in turn, efficient global markets; and efficient global markets improve the quality of the FVA figures.

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A Conceptual Framework in Japan: Presentation and Comments

Clemence Garcia
(clemence_garcia1@yahoo.co.jp)
Universite Paris Dauphine

After different English-speaking countries and the IASB, Japan has endowed its accounting system with a «Conceptual Framework of Financial Accounting», modestly presented as a «Discussion Memorandum» in July 2004. In this document, the Japanese standard setter clarifies its position in the global trend of accounting harmonization. We propose a presentation of the content and original features of this accounting framework, then some elements of commentary based on the large amount of literature that followed the publication, some interviews with Japanese academics, and our own reflections.

The striking features of the text are its resemblances with earlier famous examples, and the defence of a certain accounting tradition. On the one hand, it is voluntary close to the IASB's framework in the perspective of further harmonization. On the other hand, the importance of net income information is emphasized in the Japanese version. A new concept is also introduced in qualitative characteristics: "accounting information is considered to have *internal consistency* if it is generated based on rules consistent with the basic way of thinking underlying accounting standards as a whole."

Key Words: Conceptual Framework, Japanese Accounting, Internal Consistency.

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An empirical evaluation of the costs of harmonising Romanian accounting with international regulations (EU Directives and IAS/IFRS)

Lavinia Olimid
(ion_ionascu@hotmail.com)
Academy of Economic Studies, Bucharest
*Co-author(s): Ion Ionascu, Daniela Calu,
Mihaela Ionascu*

After the fall of communism, Romanian accounting has undergone two waves of reform. The first began with the 1991 Accounting Law and its 1993 Regulations implementing a French-inspired accounting chart and guidelines. The second wave of reform produced Regulations (in 1999 and 2001) for the harmonisation of 'big entities' accounting with EU accounting directives and IAS/IFRS. An interesting feature was the inclusion of IASB's conceptual framework into the text of these Regulations. Separate rules were issued in 2002 for smaller entities, requiring compliance with European accounting directives only. Our study seeks to identify and evaluate the costs of harmonising Romanian accounting with international regulations (EU Directives and IAS/IFRS). We hypothesize that three types of costs are prevalent: personnel training costs, consultants' fees and costs to adjust existing information systems. We also hypothesize that harmonisation benefits are noticeable for those entities that make frequent use of foreign finance and for those entities with majority foreign shareholders. For the other companies, harmonisation benefits are outweighed by the related costs. To gather data, we sent out questionnaires to the finance directors of listed companies. As full application of IAS/IFRS by non-financial companies has recently been postponed until 2007, we also comment on the benefits and costs of gradual reforms as opposite to a one-step adoption of IAS/IFRS.

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How comparable are quarter reports in Europe?

Luisa Anacoreta
(lanacoreta@porto.ucp.pt)
Universidade Católica
Co-author(s): Isabel Lourenço

This paper evaluates the process of accounting harmonization in quarter reports of listed companies in United Kingdom, Germany and France between 2001 and 2005. The final aim of the research is to assess the degree of successful of the European Commission strategy designed to achieve more comparability within European listed firms. We calculated the degree of harmony of disclosures in each moment using index T (Taplin 2004) and, to assess the process of harmonization, we analyzed the variations on index values using Taplin (2003) suggestions. We used first quarter reports published between 2001 and 2005 in order to identify if there is a relevant raise in comparability in this period and, if so, if there is a clear date of transition to a more comparable accounting context. The research, which explores disclosure practices rather than measurement practices, is useful for accounting literature because there is a lack of papers evaluating merely disclosures and, furthermore, is exactly on disclosure practices where a substantial increase in comparability is expected. We used quarter reports because there is no consensus about the information that they should include. Considering the option provided by IAS 34 to disclose in a format with more detailed information or in a format with more condensed information, there is an uncertainty about the way the degree of comparability will evolve.

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How adequate are the different categorization models for the income statement proposed by the IASB in respect of its current projects?

Nadine Antonakopoulos
(nadine@antonakopoulos.de)
University Siegen

Since 2001 the IASB, jointly with the FASB since 2003, has already been working on a project regarding significant performance reporting. The origins of their considerations can even be seen in 1994 when the AICPA published a discussion paper dealing with this subject followed by various pronouncements of other important standard setters. Still, the project is not even remotely in the final stages. Out of the multiple problems associated with the project I selected the most pressing for a detailed analysis: Shall the income currently recognised directly in equity (often referred to as other comprehensive income – OCI) be qualified as “regular” income and therefore be displayed on the income statement together with traditional income components or not. Since the boards pursue an asset and liability approach in their latest pronouncements (e.g. phase II of the business combinations project, proposals regarding revenue recognition), most of the OCI-components will qualify as “regular” income in the future. Referring to the current euphoria of fair valuation of the boards on the one hand and to the concerns of preparers and users towards this trend on the other hand, I propose taking up the boards’ categorization model where cash-accruals are segregated from market-based and model-based metrics. This presentation concept could smooth the way for federating the positions of standard setters, preparers and users.

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Probable impact of proposed rules for provisions and contingencies on certain ratios – beyond all probabilities?

Christine Rossbach
(christine.rossbach@db.com)
Deutsche Bank AG
Co-author(s): **Andreas Duhr**

In June 2005, the IASB issued an Exposure Draft (ED) proposing revisions to IAS 37 that would fundamentally change the accounting for provisions and contingent liabilities. Eliminating those terms and introducing ‘non-financial liabilities’ reinforces the IASB’s focus on assets and liabilities as primary elements of financial statements along with a clear shift towards a dominant fair value measurement basis. By moving the probability criterion from recognition to measurement, the current accounting treatment (recognition as provision vs. disclosure of a contingent liability) will be superseded. The ED asserts that any unconditional obligation satisfies the criterion. Hence, items that fulfil the definition of a liability are recognised unless they cannot be measured reliably. To assess the potential maximum impact of proposed rules on companies’ accounts, we analyse the annual reports of European companies already applying IFRS and constructively recognise contingent liabilities currently disclosed under IAS 37.86. This allows key ratios to be calculated as if the contingent liabilities had been recognized, yet. Our evidence suggests that under the new rules companies will have to consider a substantially higher population of liabilities for recognition and measurement. Current disclosure also indicates that companies will face serious practical difficulties implementing such an approach which might run contrary to the IASB’s objectives of improving relevance and reliability.

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Conservatism in Italian GAAP: some evidence from first time adopters of IFRS

Michele Bertoni
(michele.bertoni@economia.unitn.it)
University of Trento
Co-author(s): **Bruno De Rosa**

The Italian accounting system has often been classified as “Continental-European”, creditor-oriented and strictly focused on prudence and historical cost (Nobes and Parker, 1998; Glaum and Mander, 1996). IFRS, on the other hand, introduce fair value measurements in financial statements, producing a “mixed model” accounting system, where historical and current values coexist. The Italian stock market regulator (CONSOB) requires listed companies to prepare consolidated interim financial statements according to IFRS. This requirement is mandatory starting from 2006; in the meantime, listed companies are still allowed to use Italian GAAP for their 2005 interim reporting, provided that a restatement of the annual 2004 financial statements according to IFRS is presented, in order not to impair comparability. This paper aims to investigate whether, consisting with previous literature in the field, the switch from Italian GAAP to IFRS has generated less conservative accounting estimates. We apply measures of conservatism specifically developed in order to assess the degree of conservatism of different accounting standards, such as those employed by Gray (1980), on the financial statements of companies included in the Milan Stock Exchange S&P/MIB index. The paper also highlights the main financial items that are most affected by the adoption of IFRS in Italy.

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Characteristics of firms restating financial statements. Evidence from non-US firms

Chris Knoops
(knoops@few.eur.nl)
Erasmus University Rotterdam
Co-author(s): **Dirk-Jan van Dijk**

We investigate the characteristics of non-US firms that file a restatement of their financial statements at the Securities and Exchange Commission (SEC). We focus on restatements referring to fraud and accounting irregularities. Prior research on restatements (GAO, 2002; HCG, 2005) concludes that the number of restatements due to accounting irregularities grew significantly, that among the restating companies, the number of large companies has grown rapidly, and that the announcement of a restatement leads to a large decrease of stock prices of restating firms. Our sample consists of non-US firms that have filed a restatement of financial statements in the period January 1, 2002 till June 15, 2005. We searched the database 10kwizard of SEC EDGAR filings. We found 104 non-US restating firms and we selected a control firm from US non-restating firms based on industry, age and size. Through hypotheses testing on firm characteristics we find that restating firms differ significantly from the control firms in leverage ratio and in growth of earnings, but not in profitability. Further we investigate whether non-US firms differ from US firms in number and nature of restatements. We conclude that there are relatively much less non-US restating firms, although their number is growing faster than the number of US restating firms. On average non-US restating firms are larger than US restating firms. The reasons for restating differ substantially between non-US and US restating firms.

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May the fair value to improve the utility of the financial statements? An empirical study in companies of the Spanish real-estate sector

M^a Carmen Pérez López
(marialo@ugr.es)

Universidad de Granada

Co-author(s): **Andrés Navarro Galera**

At present, Spain has begun the process of reform of its accounting standards, to adapt them to the international standards adopted by the European Union. In general, the International Financial Reporting Standards include accounting treatments and valuation criteria that are different from those currently used by Spanish companies, among which the fair value stands out. The real-estate sector has a great economic and social influence in the Spanish economy. The financial reporting of its companies turns out to be very interesting for a wide range of users, as agents, financial institutions, investors, shareholders, creditors, auditors, public administrations and employees, among others. On this basis, this paper aims to investigate the influence of the application of the fair value accounting in the utility of the financial statements of the real-estate companies, as well as its level of viability. Therefore, we have carried out an empirical study, based on a survey directed to 200 real-estate companies to obtain the opinion of the those persons responsible for elaborating the financial statements.

This paper intends to know if the use of the fair value accounting might improve the informative content of the financial statements in relation with the implementation of the characteristics of relevancy, comprehensibility, comparability, verifiability and profitability.

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Intangible Assets IAS 38: IASB, FASB, ASB, AASB

Mercedes Carro Arana
(malagueta3@terra.es)

University of Cantabria

Co-author(s): **Francisco Lloret Lupion**

There is a strong need for models that explicitly identify and measure the capacity to change and adapt as a crucial intangible asset. We need to consider the present debate about models for reporting and measuring intangibles. A wide array of different models is available, and each model has strengths and weaknesses. The nature of intangible possession makes the determination, recognition and measuring of intangible assets more difficult than it is in case of tangible assets. Most intangible assets are unique. So, a consequence is the difficulty (or, maybe, the impossibility) to standardize reporting models. On the other hand, if firm-specific models are used, it will not be possible to compare the value of intangible assets of different firms. This paper explores the above issue from a number of perspectives: International Accounting Standards Board (IASB), Financial Accounting Standards Board (FASB), United Kingdom Accounting Standards Board (ASB), and Australian Accounting Standards Board (AASB).

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Disclosure of Liabilities in Brazil in Light of International Accounting Standards

Aridelmo J C Teixeira
(aridelmo@fucape.br)

Fucape

Co-author(s): **Ivone Gonçalves Luiz ,Luciene Santana, Fabio Moraes**

This article investigates the use of liability disclosure concepts, according to the standards introduced by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (UN-ISAR) in 1997. We analyzed the financial statements of the ten best Brazilian companies classified by the ANEFAC/FIPECAFI/SERASA Transparency Award for 2003, considered by a committee of specialists as having the best accounting publications for that year. By examining the content of these financial statements, we determined the level of adherence of these companies to international liability disclosure standards, i.e., the classification of liabilities into legal, constructive and equitable obligations. We found that Brazilian companies still disclose liabilities in the traditional form, only considering legal obligations, not constructive and equitable ones. This is true even when these companies published statements in other countries.

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An empirical study of the accounting values shared by Romanian accountants aiming to become private practitioners

Daniela Artemisa Calu
(danielacalu@yahoo.com)

Academy of Economic Studies Bucharest

Co-author(s): **Lavinia Olimid**

Building on Hofstede's (1980) cultural model, Gray (1988) created a framework that explains the interaction between national culture and the accounting subculture. He hypothesized the relationships between societal values and the accounting values that he assumes to depict the accounting subculture. Gray's model has been tested empirically both at the country level and at the individual level. In this study, the testing is done at the individual accountant level through a questionnaire that develops measures of Gray's accounting values. After 1990, Romanian accounting went through two major reforms: the first has virtually implemented a translation of the French PCG and the second, enacted in 1999, was meant to achieve, for certain enterprises, harmonisation with EU Directives and IAS/IFRS. Romanian academics have described Romanian accounting system as being dominated by legal control, uniformity, conservatism and secrecy. The present study investigates the accounting values of two groups of Bucharest accountants at two points in time. The results of the 1999 group testing are compared with those of 2005 in order to identify any changes. The accounting values shared by these accountants are then contrasted with those hypothesized by Gray to depict accounting cultures that underlie IAS/IFRS.

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Accounting development in the Nordic countries: a comparative study

Arne Fagerström
(arnfa@eki.liu.se)

School of Management

Co-author(s): **Simon Lundh, Gary Cunningham**

Nordic countries are often viewed as a common group for accounting purposes because of cultural similarities and a high degree of economic integration. Actual accounting activity, however, varies substantially among the Nordic countries both theoretically and in practice. A major early step in harmonization of accounting practice across the EU is to identify reasons for differences in evolution. The first part discusses potentially relevant institutional factors. This discussion is based on commonly used factors, e.g. capital market and model of legislation, which are expanded in the study for a relevant analysis of the institutional factors. These factors are explored using methodologies presented by Gernon and Wallace (1995) for international accounting research. Two primary methodologies are the method of agreement and the indirect method of differences. These two approaches originated with the classic economics writer John Stuart Mill (1843 reprinted 1961). The results indicate which institutional factors are driving forces influencing the accounting practises of the Nordic countries. The results of the study can serve as a model for similar studies across Europe

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Compliance with group accounting standards, the vertical adjustment issues: field studies of Swedish Multinationals

Gary Cunningham
(g_m_cunningham@yahoo.com)
Bilkent University

Co-author(s): **Arne Fagerström, Lars Hassel**

Research at corporate level, the horizontal dimension shows companies do not comply with IFRS. The vertical dimension of data from foreign subsidiaries is more relevant for group accounting. Other research shows that companies and auditors state compliance. Yet, when asked directly about specific items say they do not comply. This study reports field studies of foreign subsidiaries of Swedish multinational companies to discover local factors affecting noncompliance. In sending information to the Swedish parent. Swedish multinationals are used because they are large, prominent, and have had diverse multinational operations for many years and all of them can be studied as a population. The results reveal important factors affecting non-compliance with IFRS. Results raise significant issues for the EU as a whole as IFRS become mandatory.

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The attitude of Belgian SMEs towards the implementation of IAS/IFRS: an inquiry into what Belgian SMEs know and expect, and how well they are prepared for IAS/IFRS

Katrien Van Wymeersch
(katrien.vanwymeersch@hogent.be)

Hogeschool Gent

Co-author(s): **Carine Coppens**

The regulation of the European Parliament and of the Council of 19 July 2002 requires that from 1st January 2005 all EU companies listed in a regulated market prepare their consolidated published accounts in accordance with those IAS that are adopted for application within the EU. Member States of the EU have the possibility to go further, by permitting or requiring the application of IAS to the individual accounts of companies including SMEs. If the Belgian government were to consider requiring SMEs to prepare their annual accounts in conformity with IAS/IFRS, the feasibility and impact of the implementation for Belgian SMEs must be examined. In this context we are investigating the attitude of Belgian SMEs towards the implementation of IAS/IFRS. Based on a literature study we identified a set of important items such as relevant differences between Belgian GAAP and IFRS and expected cost/benefits. The issues were marked out in interviews with representatives of key players within the Belgian and international financial reporting arena. In this paper we present an inventory of the results. This includes a ranking of issues for SMEs based on the significance of the differences and the expected frequency of operations within SMEs, the relevance of the costs/benefits of the implementation of IFRS and the preparedness of SMEs. We also present the methodology used in the next phase of the research project, a survey sent to a random sample of 3,000 non-consolidated Belgian SMEs.

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The disciplinary process of the accounting profession: a comparison between the United States and France

Ghislaine Garmilis
(ghislainegarmilis@yahoo.fr)
Université Paris Dauphine

A number of studies have attempted to compare modes of regulation of the accounting profession in different countries. Because of the wideness of their scope (accounting and professional norms, organisation of the profession ...), most of these studies don't achieve the level of insight given by local researches. Therefore, it appears necessary to focus on one of these topics. This paper presents a comparison of the disciplinary process of the accounting profession of two countries considered as extremely different: the United States and France. Baker et al. (2005) studied the differences in regulation of the accounting profession (especially the one of statutory audit) in these two countries. They found that the preponderant modes of regulation were a mix of associationism and legalism in the United States, while a mix of legalism and corporatism in France. If this interpretation seems mostly accurate, the paper suggests that this classification is not exactly true when considering the disciplinary process of the accounting profession in the United States (through the study of the New York State Office of the Professions) and in France (CNCC for auditors and CSOEC for public accountants). As a matter of fact, it appears that beyond differences, those countries are fairly close in matter of the power of the State within the disciplinary process, as well as in the nature and the number of disciplinary sanctions taken against public accountants and auditors.

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**Financial Statement Disclosure Practices in North America:
Changes 1993-2003**

Peter Secord

(peter.secord@smu.ca)
Saint Mary's University, Halifax, Canada

This paper reports on financial statement disclosure practices among a sample of public corporations in Canada, the United States and Mexico as they evolved over the ten years 1993 to 2003. A disclosure index approach encompassing 48 disclosure items is used to measure the relative extent of disclosure and to facilitate the empirical testing of differences among the countries and over time. The periods 1993 to 1997 and 1997 to 2003 are considered separately and together to highlight the immediate and significant effects of NAFTA on disclosure, and to look at further progress over the longer term. Nonparametric statistics are employed to determine if significant differences among the countries persist and to assess the magnitude of further changes over time. The paper concludes with comments on the broader applicability the findings and directions for further research.