The British Accounting Review 48 (2016) 297–315

Contents lists available at ScienceDirect

The British Accounting Review

journal homepage: www.elsevier.com/locate/bar

The timeliness of UK private company financial reporting: Regulatory and economic influences☆

Mark A. Clatworthy [a,*], Michael J. Peel [b]

[a] Department of Accounting and Finance, School of Economics, Finance and Management, University of Bristol, 8 Woodland Road, Bristol, BS8 1TN, UK

[b] Cardiff Business School, Cardiff University, Aberconway Building, Colum Drive, Cardiff, CF10 3EU, UK

A R T I C L E I N F O

Article history:
Received 9 April 2015
Received in revised form 27 April 2016
Accepted 17 May 2016
Available online 18 May 2016

Keywords:
Private company financial reporting
Regulation
Voluntary audit
Timeliness
Late filing

A B S T R A C T

This paper investigates the extent to which the timeliness of UK private companies' accounting information reflects regulatory and economic influences by studying the impact of a one month shortening of the statutory regulatory filing deadline. Using the financial reporting lag and propensity to file late as measures of timeliness, we find that although reporting behaviour is largely driven by regulatory deadlines, companies conjectured to be producing accounting information for reporting to outside investors publish their accounts significantly more quickly, and are substantially less likely to file beyond the statutory deadline (late), than their counterparts lacking similar incentives. However, in terms of this reporting lag differential, the change in regulation had a homogeneous impact. We report a significant reduction in the mean and median filing time, but an increase of 46% in the proportion of firms filing late, in the year following the regulatory change. Our results are robust to the employment of a number of different estimation methods, including matching and Huber and median regression.

© 2016 Elsevier Ltd. All rights reserved.

1. Introduction

This paper studies the timeliness with which UK private companies publish their annual financial statements and examines the influence of regulation and economic factors on financial reporting.[1] Timeliness is a central qualitative characteristic of accounting and is a fundamental element of the relevance of financial reporting information. We study an important regulatory change where the UK Companies Act reduced the time permitted for private firms to file their accounts by one month. We examine the impact of regulation on companies conjectured to be producing accounting information to report to outsiders compared with those without similar incentives. As well as providing an assessment of the impact of an important and substantive change in reporting legislation, the study aims to address the question of the relative roles of regulation and economic demand for information from outsiders in influencing corporate financial reporting (Ball, 2008).

☆ We are grateful to Joachim Gassen, Andrew Lennard, Katherine Schipper, Ian Tonks, Stephen Zeff, seminar participants at the University of Bath, Brunel University, University of Edinburgh, HEC Paris, KU Leuven, the University of Warwick, Queen's University Belfast, the London School of Economics, the Spanish Workshop in Empirical Research in Financial Accounting, the Academic Panel of the Financial Reporting Council, and the Financial Reporting and Business Communication, BAFA and EAA annual conferences for helpful comments on earlier versions of this paper. We also thank Natasha Stone for excellent research assistance.

* Corresponding author.
E-mail addresses: Mark.Clatworthy@bristol.ac.uk (M.A. Clatworthy), Peel@cardiff.ac.uk (M.J. Peel).

[1] Our focus is on financial reporting timeliness and not on timely loss recognition as in Basu (1997) and Ball and Shivakumar (2005).

http://dx.doi.org/10.1016/j.bar.2016.05.001
0890-8389/© 2016 Elsevier Ltd. All rights reserved.

Although prior research documents that private companies have lower accounting quality compared with their public counterparts due to a lack of demand for information (e.g. Ball & Shivakumar, 2005; Burgstahler, Hail, & Leuz, 2006; Hope, Thomas, & Vyas, 2013), it is unlikely that demand and incentives for financial reporting in the private corporate sector are universally low. Most public companies start life as privately owned and even if they remain private, they often need to attract significant levels of outside capital (e.g. Brav, 2009). Where capital is raised externally, accounting information is useful for reducing information asymmetries between private firms and their investors (Minnis, 2011). The timelier the publication of such information, the higher is its utility to external users (Feltham, 1972). For example, research shows that outsiders rely on the financial statements of private firms for debt contracting purposes (Niskanen and Niskanen, 2004; Peek, Cuijpers, & Buijink, 2010) and for the provision of trade credit (Collis, Jarvis, & Skerratt, 2004). Moreover, Collis, Jarvis, and Page (2013) find that the timing with which UK private firms file their accounts is an important consideration for trade creditors. Accordingly, private firms have been found to voluntarily employ external auditors where agency costs are high and/or when they plan to raise outside finance (Collis et al., 2004; Dedman, Kausar, & Lennox, 2014), with private firms appointing auditors facing fewer financing constraints and a lower cost of capital (e.g. Hope, Thomas, & Vyas, 2011; Minnis, 2011).

Notwithstanding these findings, regulation remains an important feature of the financial reporting environment, even in circumstances where demand for accounting information is high (Leuz, 2010).

For private companies without strong economic demand for financial statements, preparing and publishing accounts may be viewed largely as a regulatory (compliance) burden. Rather than for economic motives, such firms may prepare financial statements predominantly for corporate taxation purposes (e.g. Garrod, Kosi, & Valentincic, 2008; Szcsesny & Valentincic, 2013). If this is the case, the relevance of information for financial reporting to banks, trade creditors and outside shareholders is limited (Ball & Shivakumar, 2005). We argue that, for companies using accounting for reporting to investors, the timeliness of their accounting will be an important consideration. In consequence, they are expected to file their accounts more quickly and to be less influenced by regulatory filing deadlines.

We model reporting timeliness for a sample of 31,147 UK private independent companies surrounding the shortening of the statutory filing deadline by one month. After controlling for other factors (such as size, profitability and leverage) found in prior research to be associated with reporting lags for quoted companies, we investigate the impact of two new corporate characteristics which we argue are proxies for the economic demand for accounting information. First, we focus on a sample of firms having the choice of opting out of audit and identify those that still choose to have their accounts audited. Auditors' independent verification of financial reporting information enhances its credibility to outsiders – either directly through the audit process (Clatworthy & Peel, 2013), or via signalling (Chi, Dhaliwal, Li, & Lin, 2013; Hope et al., 2011). Even though an audit should, *ceteris paribus*, increase the reporting lag (the number of days it takes companies to publish their accounts after their year end), we expect audited firms to file more quickly to meet the demand for higher quality information that originally led to the voluntary auditor appointment.

Second, we examine whether companies report a non-zero deferred tax liability in their balance sheets. This is a novel measure designed to capture the extent of the alignment between the financial reporting and tax roles of accounting. Where there is a perfect alignment between tax and financial reporting, the balance on the deferred tax account is zero by definition. We expect this to be the case where companies are preparing accounts solely for tax purposes, rather than to satisfy outside demand by capital providers. However, if companies recognise a liability for deferred tax, we argue that there is a misalignment because companies are using accounting to report to outside investors and therefore have stronger incentives to publish their accounts on a timelier basis.[2]

The lower overall demand for private companies' accounting information reported in previous research (e.g. Ball & Shivakumar, 2005), suggests the effects of regulation on reporting behaviour to be substantial. We hypothesise that companies with stronger economic demand for accounting information, will publish their accounts more quickly, will be less likely to publish their accounts after the statutory deadline (file late) and will be less likely to change their reporting lags in response to the shortening of the statutory deadline.

Our results show that regulation has a significant influence over when UK private companies publish their accounts. The one month reduction in the reporting deadline affects reporting for a substantial proportion of companies, resulting in a mean (median) reduction in the filing time of around one week (two weeks). However, the new filing deadline also led to a substantial (46%) increase in the proportion of firms filing late. Importantly, our empirical models show that companies producing accounting for financial reporting purposes (those with audited accounts and/or with low book/tax tax alignment) exhibit significantly shorter reporting lags and are substantially (28–29%) less likely to file their accounts late. However, no convincing evidence is found to support hypotheses that reporting lags for these companies are less affected by the regulatory change. Our results are robust to the use of a number of different estimation methods, including Huber, median (least absolute deviation) and count (median) regression and matching estimators.

Our paper makes a number of contributions. First, it provides novel evidence on the effects of regulatory and capital market influences in an environment where demand for accounting information is low compared with public companies (Ball & Shivakumar, 2005; Burgstahler et al., 2006; Hope et al., 2013). This evidence helps inform the debate about the relative influence of regulation versus the market over accounting (Ball, 2008). Second, we conduct the first comprehensive study of

[2] Note that our measure does not capture disclosure effects of deferred taxation, since we focus only on companies disclosing an income statement along with the mandatory balance sheet. The prevailing accounting standards required firms to disclose components of deferred tax whenever material.

Download English Version:

https://daneshyari.com/en/article/1003933

Download Persian Version:

https://daneshyari.com/article/1003933

Daneshyari.com