



Interpretation of probability expressions in accounting: The effects of frame switching



Esperanza Huerta^a, Yanira Petrides^b, Gary P. Braun^{c,*}

^a San José State University, Lucas College and Graduate School of Business, Business Tower 950, One Washington Square, San José, CA 95192-0065, United States

^b Instituto Tecnológico Autónomo de México, Av. Camino a Sta. Teresa 930, Col. Héroes de Padierna, Del. Magdalena Contreras, CP 10700, México, DF, Mexico

^c California State University, Chico, College of Business, Tehama 313, 400 W. 1st Street, Chico, CA 95929-0081, United States

ARTICLE INFO

Article history:

Available online 30 June 2016

Keywords:

Culture
Language
IFRS
Frame switching
Interpretation of accounting standards

ABSTRACT

We report the results of an experiment that examines the interpretation of probability expressions included in the International Financial Reporting Standards by bicultural individuals. In particular, we examine the impact of a phenomenon known as frame switching, which occurs when the thinking processes of bicultural individuals are influenced by the language they use. We compared the interpretation of participants from two distinct cultures (Americans and Mexicans) and from participants who share both cultures (Mexican-Americans). We find, consistent with the expected effects of frame switching, that the interpretations of probability expressions by Mexican-Americans were influenced by the language in which they read the standards. The responses of Mexican-Americans reading the standards in Spanish tended toward those of Mexicans; whereas the responses of Mexican-Americans reading the standards in English tended toward the interpretations of Americans.

© 2016 Elsevier Inc. All rights reserved.

1. Introduction

The purpose of this study is to investigate whether the interpretation of probability expressions in accounting standards is influenced by a phenomenon known as frame-switching. Frame-switching is observed in bicultural individuals, those acculturated to two cultures, who among other things, are bilingual in the languages associated with each of the cultures. The essence of frame-switching is that the decision-making processes of bicultural individuals are influenced by the language in which they are thinking. When people from different cultures react differently to a particular stimulus, the reaction of biculturals depends on the language in which they are thinking. Language drives biculturals' reaction toward the culture associated with the language used.

Accounting researchers have been interested in culture and language due to their influence on the interpretation of accounting standards. The primary objective behind a single set of accounting standards worldwide (e.g. International Financial Reporting Standards (IFRS)) is to increase the comparability of financial statements across countries. However, comparability depends not only on using similar accounting standards, but also on how accountants interpret the contents of these standards. Probability expressions appear frequently in accounting standards and are typically used to establish

* Corresponding author.

E-mail addresses: esperanza.huerta@sjsu.edu (E. Huerta), petrides@itam.mx (Y. Petrides), gbraun@csuchico.edu (G.P. Braun).

thresholds for financial statement recognition and disclosure. The subjective nature of probability expressions results in variation in how they are interpreted. For example, one individual may interpret the term *probable* as a 70 percent probability, whereas another may interpret it as anything above 50 percent probability. The comparability of financial statements is compromised when accountants interpret the expressions within standards differently. IFRS are published in a number of different languages and to the extent to which interpretations of these standards varies between languages, comparability is likely to be diminished.

We extend prior research in the area of language and culture in accounting standards by including bicultural participants in our study. To the best of our knowledge, no study has investigated biculturals and the influence of frame-switching on the interpretation of probability expressions within the context of accounting standards. This paper also adds to current understanding on language-based differences. Specifically, we show that the responses of biculturals are influenced by the language in which they respond. This is important because it deepens our understanding of the effects of language and culture on the interpretation of uncertainty expressions, which are frequently encountered in the accounting standards.

To investigate this phenomenon in an accounting setting, we conducted an experiment involving two factors. The first factor was the cultural background of the participant, and we compared three groups: Americans, Mexicans, and Mexican-Americans. Mexican-Americans were bicultural individuals who spoke both English and Spanish. The second factor was the language in which participants read the accounting standards: English or Spanish.

We found that the difference in interpretation between Americans and Mexicans primarily occur in the income-decreasing and disclosure scenarios, which suggests both cultures are similarly conservative in the face of income-increasing probabilities. Also, as predicted by frame-switching theory, responses from biculturals fell between the responses of Mexicans and Americans. Furthermore, the interpretation of Mexican-Americans who read the standards in English tended toward the interpretation of Americans. Similarly, the interpretation of Mexican-Americans who read the standards in Spanish tended toward the interpretation of Mexicans. That is, the language in which Mexican-Americans read the accounting standards influenced their interpretation to be closer to the interpretation from the culture associated with that language.

The fact that interpretation of accounting standards is influenced by the language in which the standard is read should be of interest to standard setters as they attempt to implement a set of worldwide accounting standards. The influence of language on the interpretation of accounting standards is a threat that may limit the comparability of financial statements. Our results not only support the notion that both language and culture shape the decision-making process, but also extend the implications to settings involving bilingual-bicultural individuals. The degree of context (high vs low-context) used in a language is one distinct factor of the overall cultural-linguistic influence on the decisions made by bicultural individuals.

The remainder of this paper is organized as follows. In the literature review section, we summarize research pertaining to frame-switching and linguistic relativism, and develop our hypotheses. In the research method section, we explain our research design and procedure. Then, we present the results from our analyses and discuss our findings. We conclude the paper with summary comments and a discussion of the limitations of the research and areas for future investigation.

2. Literature and hypotheses

2.1. Influence of language on interpretation of probability expressions in accounting standards

When comparing the interpretation of probability expressions by participants from two cultures who read the standards in different languages, the differences can be attributed to either or both of the participants' cultural background and the language in which they read the standards. The influence of language can be observed when participants belong to the same culture and interpret probability expression in different languages, [Doupnik and Richter \(2003\)](#) found preliminary evidence of the influence of language. The interpretation of German accountants reading probability expressions in German differed from those of German accountants reading the expressions in English. The influence of language also was documented by [Davidson and Chrisman \(1993\)](#). They compared the interpretation of Canadian accounting students who read probability expression in either English or French. The interpretations of these expressions differed based on whether participants were responding in French or in English. While not testing for the presence of frame-switching, the results of both of these studies suggest the influence of language in the context of interpreting accounting standards. Although these studies identified differences in interpretation based on language, they cannot explain the nature of these differences. That is, these studies were not intended to explain and predict how language influences interpretation.

The influence of language on the interpretation of accounting standards can be partially explained by the theory of linguistic relativism. This theory argues that cognitive processing is affected by the language used ([Sapir, 1956; Whorf, 1956](#)). That is, language is more than a means of communication; language shapes how people think and interpret the world. Based on this theory, [Hall \(1976\)](#) classified languages in terms of the context needed to understand communications exchanged into two classes: low-context and high-context languages.

In low-context languages words carry relatively more of the significance of the message than in high-context languages. In the latter, the context of the message carries relatively more meaning. That is, in low-context languages the meaning of the words is more precise. Therefore, less additional information needs to be provided to understand a message. In contrast, in high-context languages the meaning of the words depends on the context in which the words are used. Therefore, relatively more additional information is needed to present the context and understand the message.

Download English Version:

<https://daneshyari.com/en/article/1001243>

Download Persian Version:

<https://daneshyari.com/article/1001243>

[Daneshyari.com](https://daneshyari.com)