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Developments in accounting regulation: A synthesis and annotated bibliography of evidence and commentary in the 2014 academic literature

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ABSTRACT

In this article, we synthesize, in annotated bibliography form, recent regulation-related findings and commentaries in the academic literature. This annotated bibliography is one in a series of bibliographies that summarizes regulation-related academic research. We reviewed articles published in *The Accounting Review*, *Journal of Accounting Research*, *Journal of Accounting and Economics*, *Contemporary Accounting Research*, *Accounting Horizons*, *The Journal of Accounting, Auditing & Finance*, *Journal of Accounting and Public Policy*, *Journal of Business, Finance & Accounting*, *Auditing: A Journal of Practice and Theory*, and *Research in Accounting Regulation*. We annotate results of regulation-related research studies and key points from regulation-related commentaries. The literature featured some strong regulation-related threads in 2014 including the foundations of financial reporting, international financial reporting standards, retrospectives on Sarbanes-Oxley and the Public Company Accounting Oversight Board ten years out, corporate governance and audit quality.

Introduction

In this article, we develop an annotated bibliography of research findings in the 2014 academic literature that relate to accounting regulation. We surveyed key academic outlets including *The Accounting Review, The Journal of Accounting Research*, *The Journal of Accounting and Economics*, *Accounting Horizons, The Journal of Accounting, Auditing & Finance, The Journal of Accounting and Public Policy, The Journal of Business, Finance & Accounting, Auditing: A Journal of Practice and Theory*, and *Research in Accounting Regulation*. While research in these journals is aimed primarily at informing the academic audience, the findings are often relevant to the regulatory debate. To this end, our paper provides a convenient summary and analysis of the regulation-related literature for the benefit of practitioners and regulators, and a literature overview for academics.

Our time period for this article is 2014. Obviously, we could not review every article related to the regulatory debate. However, we discuss the articles that are particularly relevant to key regulatory topics during the year. Our annotations are organized as follows:

- Foundations of Financial Accounting and Reporting
- International Financial Reporting Standards
- Sarbanes-Oxley: An Assessment after 10 Years
- The PCAOB: An Assessment after 10 Years
- The Impact of Sarbanes-Oxley on Governance and Audit Quality
- Auditing: General

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Foundations of financial accounting and reporting

Several authors provided perspectives and findings regarding the foundations of financial accounting and reporting. Barth emphasizes the importance of enhanced conceptual guidance for accounting measurement. Hennes and Schenck use the gift card setting and draw on organizational theory to examine how acceptable accounting measures can evolve in the absence of accounting guidance. Correia provides evidence that outcomes in SEC review of accounting and financial reporting can be influenced by political connections. The AAA's Financial Reporting Section's Financial Reporting Policy Committee offers views about the proposal to offer expedient accounting alternatives for private companies (Bradshaw et al.). The Committee's members were split down the middle in support of and in opposition to the proposal. The paper sets forth the points and counterpoints made in their deliberations. Hansen et al. examine the interaction between reporting incentives and accounting choice and find evidence that managers with incentive to maximize information content will use accounting discretion to maximize information content of the accounting and reporting. In the absence of such incentives, however, the authors find evidence that managers tend to use discretion opportunistically. Regarding the fair value versus historical cost measurement debate, Liang and Riedl use real estate firms in the U.S. and the U.K. to examine the relevance of fair value-based balance sheet and income statement measures. They find that fair value-based measures produced more relevant balance sheet information, but income statement information is not substantially more relevant than historical cost-based measures. Finally, Bauman and Shaw examine the extent to which firms complied with exhortations in SEC Financial Reporting Release No. 72 using the case of critical accounting estimates in pension accounting (Table 1).

Table 1
Foundations of financial accounting and reporting.

Barth (2014)	Argues for the development of Statements of Accounting Concepts related to measurement.
Hennes and Schenck (2014)	Use the setting of gift card accounting to examine how acceptable accounting practices evolve in the absence of specific guidance.
Correia (2014)	Provides evidence that SEC outcomes can be influenced by political connections.
Bradshaw et al. (2014)	The Financial Reporting Policy Committee of the AAA's Financial Reporting Section sets forth points and counterpoints regarding the Financial Accounting Foundation's proposal to offer simplifying accounting alternatives for private companies. The points and counterpoints are the product of a committee that split down the middle regarding support or opposition to the proposal.
Hansen, Pownall, Prakash, and Vulcheva (2014)	Examine the interaction between accounting rules and reporting incentives and find that firms with incentives to maximize earnings information content will use accounting freedom to maximize information while firms with less incentive to provide informative reports may use accounting choices opportunistically.
Liang and Riedl (2014)	Use firms that invest in real estate in the U.S. and the U.K. as a natural setting to examine the relevance of fair value versus historical cost-based balance sheet and income statement measures. They find evidence of heightened relevance for balance sheet fair value measures but not income statement measures of unrealized gains and losses.
Bauman and Shaw (2014)	Use the pension accounting setting to examine the extent to which firms complied with requests in SEC Financial Reporting Release No. 72 to provide greater MD&A disclosures about critical accounting estimates.

Barth

In this thought piece, Barth laments that neither a definition of accounting measurement nor a cohesive set of concepts exists for accounting measurement. Of course, there is a Conceptual Framework for accounting but it does not address the objective of accounting measurement, provide a definition for accounting measurement, nor provide a conceptual basis that would guide standard setters in selecting among alternative measurement bases when promulgating standards. She says the lack of such concepts to date has led to the *ad hoc* nature of accounting measurement bases in existing guidance.

Barth begins by assessing three measurement bases for valuing assets and liabilities subsequent to their acquisition or incurrence: (1) unmodified historical cost; (2) modified historical cost (historical cost less depreciation, amortization, or impairment); and (3) fair value (amount received to sell an asset or settle a liability in an arm's length transaction on the measurement date).

Barth concludes that the fair value basis of subsequent measurement is most consistent with the qualitative characteristics and best reflects the definition of an asset or a liability. She concludes that a case can also be developed for the unmodified historical cost of assets and liabilities. Barth is not able to strongly support modified cost especially given the many ways that modified cost measurements are currently made.

A key concern for fair value is the extent to which it is free from error, which is one dimension of faithful representation. Barth begins this analysis by pointing out that she is not sure that measurement error rates are greater with fair value than modified cost or even unmodified cost. To assess the degree of error in a measure, one must understand what the error is relative to. To know this, one must specify the objective of the measurement. An objective for the measurement is present with fair value and with unmodified cost, but is not present with modified cost.

A key issue with accounting measurement is that such measurements get aggregated in financial statement disclosures. She argues that aggregated modified or unmodified cost lacks meaning. She concludes that aggregate fair values of financial assets have meaning but acknowledges that aggregated fair values of non-financial assets fail to reflect any synergies among the assets. Barth wonders if separately reporting the difference between aggregate fair values of non-financial assets and the value of aggregate groups of non-financial assets that do attempt to reflect synergies among assets would provide useful information to financial statement users.