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Developments in accounting regulation: A synthesis and annotated bibliography of evidence and commentary in the 2013 academic literature



Laurel Franzen^a, Michele Meckfessel^b, Stephen R. Moehrle^{b,*},
Jennifer A. Reynolds-Moehrle^b

^a Loyola Marymount University, Los Angeles, California, USA

^b University of Missouri, St. Louis, Missouri, USA

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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 2013 including the foundations of financial reporting, the role of financial reporting in the financial crisis, accounting disclosure, financial reporting choices, International Financial Reporting Standards, and Sarbanes–Oxley and its impact on accounting and audit quality.

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Introduction

In this article, we develop an annotated bibliography of research findings in the 2013 academic literature that relate to accounting regulation. We reviewed 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 and detailed summary and analysis of the regulation-related literature for the benefit of practitioners and regulators, and a comprehensive literature overview for academics.

Our time period for this article is 2013. Obviously, we could not review every article related to the regulatory debate. However, we have tried to identify and discuss the articles that are particularly relevant to key regulatory topics during the year. As such, our annotations are categorized as follows:

- Accounting and financial reporting quality
- Financial reporting topics
 - Recognition and disclosure
 - Fixed asset disclosures
 - Fair value

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* Corresponding author. Tel.: (314) 516-6142; fax: (314) 516-6420.
E-mail address: moehrle@umsl.edu (S.R. Moehrle).

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- Cash flow from operations
- Regulation Fair Disclosure
- Options backdating
- International Financial Reporting Standards
- Audit
- Sarbanes–Oxley

Accounting and financial reporting quality

Much academic research examined the foundations of accounting quality. Zhang produced a theoretical piece that demonstrates how high quality accounting standards increase real investment in the economy and improve the overall welfare of society. Allen and Ramanna examined the extent to which characteristics of individual FASB members and the SEC Director impact the quality of accounting guidance issued during their tenure. McEnroe and Sullivan find survey evidence that audit firm partners and company CFOs believe that a move away from rules-based guidance would hinder accounting quality. Bryant-Kutcher et al. demonstrate that quicker deadlines can lead to reductions in accounting quality. Hope et al. show that public firms generally have higher quality accounting than private firms. Both Cassell et al. and Boone et al. examine characteristics of companies that receive accounting-related comment letters from the SEC and factors associated with the difficulty that the company has in remediating the issues discussed in the comment letter. Among the factors that Boone et al. identified as associated with SEC comment letters is more rules-based guidance, which is interesting since research discussed earlier suggests that accounting experts are not in favor of a move away from such guidance. Finally, Christensen et al. examine the impact that data availability via EDGAR has had on the efficiency and effectiveness of the market operations (Table 1).

Zhang (2013)

Zhang develops a theoretical model that demonstrates the impact of accounting standards on real investment and welfare. The impact on investment and societal welfare is a function of the impact of accounting standards on investors required rates of return on investment. The theory is that if investors get more high quality information, they will

provide capital to companies at relatively lower rates. Zhang first links accounting quality and the real economy via an extended version of the Capital Asset Pricing Model. The author then models an economy with fixed real investment and shows that improving accounting standards leads to lower costs of capital for individual firms. The value increments are shown to be higher for firms with heavy sensitivity to accounting quality or heavy exposure to a particular standard. From an aggregate economy perspective, the higher firm values increase personal welfare by increasing the expected utility of individual investors. Zhang also demonstrates that improved accounting standards do not affect all firms similarly. In fact, the risk premium for firms with certain characteristics can increase as a result of higher quality standards.

Allen and Ramanna (2013)

Allen and Ramanna develop a model to understand the role of individual FASB and SEC regulators in standard setting. The authors analyze 149 exposure drafts proposed from 1973 through 2007. Their analyses assess the nature of each exposure draft given the background profile of the FASB and SEC regulators serving at that time.

The nature of the exposure draft involves primarily whether it emphasizes relevance or reliability. To accomplish this, the authors develop a measure of the relative emphasis of relevance versus reliability based on findings in the comment letters submitted by the Big (N) audit firms. The authors find support for their measure via an alternative assessment conducted by two seasoned research assistants with heavy accounting experience but with no knowledge of the objectives of the study.

The authors also developed a database of background characteristics of the 39 FASB members and 41 SEC commissioners that served during these years. The authors are interested in the professional and political background of the individuals. Professional characteristics include the number of years the individual worked in regulatory positions, whether the individual has a background in auditing, and whether the individual has served in the investment banking or investment management industry. The political background involves whether the individual is associated with either the Democratic or Republican parties in the U.S.

Table 1

Accounting and financial reporting quality.

Zhang (2013)	Develops a theoretical model that demonstrates that high quality accounting standards increase real investment in the economy and the overall welfare in society
Allen and Ramanna (2013)	Examine the impact of personal characteristics of individual FASB members and SEC commissioners on the quality of accounting guidance exposure drafts
McEnroe and Sullivan (2013)	Find that U.S. audit partners and CFOs believe that elimination of rule-based guidance would hinder accounting quality
Bryant-Kutcher et al. (2013)	Find that requiring quicker filing can negatively impact the quality of disclosures
Hope et al. (2013)	Find that public firms on average have higher quality financial reporting and report more conservatively
Cassell et al. (2013)	Identify factors that increase the probability of receiving a comment letter from the SEC, increase the number of topics discussed in the comment letter, and increase the cost of remediating the issues in the letter
Boone et al. (2013)	Find that more rules-based accounting guidance and accounting guidance requiring significant accounting estimation are more frequently the subject of an SEC comment letter and that the time to resolution is longer for guidance requiring more estimation
Christensen et al. (2013)	Examine the impact of data availability through the Electronic Data Gathering and Retrieval System (EDGAR) on individual investors' efficiency and effectiveness in pricing and forecast revision decisions.

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