



## Developments in accounting regulation: A synthesis and annotated bibliography of evidence and commentary in the 2010 academic literature <sup>☆</sup>

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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 academic outlets such as *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*. We annotate results of regulation-related research studies and key points from regulation-related commentaries.

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### 1. Introduction

In this article, we develop an annotated bibliography of research findings in the 2010 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 2010. 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 the key regulatory topics during the year. As such, our annotations are categorized as follows:

- The foundation of financial accounting and reporting
- Financial accounting practice
  - Fair value reporting
  - Evaluation of individual pronouncements
  - Revenue recognition and performance measurement
- International financial reporting standards
- The impact of Sarbanes–Oxley
  - Impact on controls and reporting
  - Impact on governance (independent boards and audit committees)

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- Controls testing and cost of compliance under Sections 302 and 404
- Auditing regulation
  - Independence and audit quality
- PCAOB research
  - Inspection and enforcement actions
  - Evaluating new standards

## 2. Financial accounting regulation and practice

The FASB and IASB are discussing a revised conceptual framework (Table 1). To inform their discussions, several authors wrote on the characteristics of a solid foundation for financial accounting. Kohlbeck and Warfield studied all of the general purpose rules issued by the FASB over the past 30 years to identify their features and characteristics. Kothari et al. also studied the evolution of accounting guidance in the U.S. over the past several decades. Kohlbeck and Warfield find that most rules have emphasized the balance sheet, few have featured significant bright lines, and virtually all have had some principles- and some rules-based characteristics. Kothari et al. conclude that the rules have evolved to support contracting efficiencies in the market and especially to support stewardship. The AAA's Financial Accounting Standards Committee provided comments on the essential characteristics of a conceptual framework, including an example. Mosso contributes further to this literature by advocating a conceptual framework that emphasizes fair values.

Jamal and Tan conducted an experiment that demonstrates the interaction of auditor characteristics in the efficient functioning of a principles-based accounting rules

regime. Sunder eschews the push for uniformity in rules issued by a global standard setter, advocating instead for competition among standard setters. Cho et al. identify what they believe is an internal consistency in the current and the proposed conceptual framework related to the relevance of information. The AAA FASC expressed support for Canada's Exposure Draft on accounting for private enterprises and some support for and some questions about the SEC's strategic plan. Regarding the FASB and IASB's Preliminary Views on Financial Statement Presentation, the AAA's Financial Accounting Standards Committee and the Financial Reporting Policy Committee provide some support but also bring up several questions and issues of concern. Finally, both Murray and Miller and Bahnson comment on normative definitions of financial statement items. Murray comments on the essential features of a liability. He does not support the FASB/IASB proposed definition and offers an alternative. Miller and Bahnson speak more generally about the importance of normative theory development, provide guidance on how to develop normative theory, and then demonstrate it in the context of assets and liabilities.

### **Kohlbeck, M., & Warfield, T. (2010). Accounting standard attributes and accounting quality: Discussion and analysis. *Research in Accounting Regulation*, 22, 59–70**

Kohlbeck and Warfield examine accounting standards issued over the period 1976–2005 from a quality perspective and from a principles- versus a rules-based perspective. The authors evaluate 19 standards deemed to affect all firms and to have changed exiting recognition practice. Statements not in the authors sample were either industry

**Table 1**  
Financial accounting regulation.

Kohlbeck and Warfield	Identify characteristics of FASB pronouncements over the past 30 years. Find they have been both principles-based and rules-based, have had primarily a balance sheet focus, and relatively few bright-lines. They also find increasing accounting quality over the years
Kothari et al.	Conclude that financial accounting has evolved to support primarily contracting efficiencies and especially stewardship. The authors also recommend a model of competition for rules promulgation going forward
AAA FASC (a)	Comment on the optimal makeup of a conceptual framework and provide an example
Mosso	Provides a suggested foundation for accounting rules that features fair values
Jamal and Tan	Provide experimental evidence that a particular type of auditor is required to adequately enforce principles-based guidance
Sunder	Argues that the costs of uniformity in accounting rules outweigh the benefits. Advocates for competition among standard setters
Cho et al.	Argue that an internal inconsistency exists in the definition of relevance in the current and proposed Statement of Financial Accounting Concepts
AAA FASC (b)	Express support for Canada's Exposure Draft on GAAP for private enterprises
AAA FASC (c)	Provide support for several aspects and questions about other aspects of the SEC's strategic plan
AAA FRPC	Provide some support and some recommendations regarding the FASB's Preliminary Views on Financial Statement Presentation
AAA FASC (d)	Provide some support and some recommendations regarding the FASB's Preliminary Views on Financial Statement Presentation
Murray	Expresses concern for the FASB's proposed definition of a liability and proposes a revised definition that emphasizes a probable future sacrifice of economic benefits and that the transaction and events giving rise to the obligation be largely completed
Miller and Bahnson	Emphasize the value of normative theory debate and development, provide guidance for normative theory development, and demonstrate normative theory in the context of an asset/liability theory

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