



## Regular Paper

# Developments in accounting regulation: A synthesis and annotated bibliography of evidence and commentary in the 2011 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 academic outlets such as *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.

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## Introduction

In this article, we develop an annotated bibliography of research findings in the 2011 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 2011. 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:

## Financial Accounting:

- Financial reporting – General
- The financial crisis
- Evaluating individual pronouncements and regulations
- International financial reporting standards

Sarbanes–Oxley and its impact on accounting and auditing quality:

- The value of the audit post-SOX
- The impact of SOX and the PCAOB on audit quality

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**Table 1**  
Financial reporting general.

Madsen (2011)	Concludes that the financial reporting and auditing occupations are highly standardized and that the accounting dialogue is now dominated by the standard setters themselves. He expresses concerns about over-standardization of the profession.
DeFranco et al. (2011)	Develop an output-based measure of financial statement comparability and use the measure to provide evidence that financial statement comparability reduces the cost of acquiring information and increases the overall quantity and quality of information about the firm.
Demerjian (2011)	Provides evidence that the balance sheet approach and fair value have led to a decline in the usefulness of balance sheets for debt contracting purposes.
Badertscher and Burks (2011)	Find that catch up adjustments allowed in restatement circumstances have not reduced reporting delays.

- The impact of SOX on audit quality – internal controls testing
- The impact of SOX on accounting quality – corporate governance and audit committees
- Costs and unintended consequences of PCAOB compliance

### Financial reporting: general

Accounting researchers continually assess the state of the financial accounting model (Table 1). Papers in 2011 examined qualities of accounting including standardization, comparability, complexity, timeliness, the balance sheet approach, and fair value reporting. Madsen examines the extent to which accounting careers and accounting procedures are standardized. He concludes that audit-related and financial reporting-related jobs are surprisingly standardized. Regarding the standard setting process, Madsen concludes that standardization has increased dramatically over the past several decades. Standardization has led to a decrease in participation in the accounting dialogue by those not directly involved in the standard setting process. DeFranco et al. develop a novel output-based measure of financial statement comparability and use the measure to provide evidence that comparability does lead to reduced costs of information acquisition and increases the quantity and quality of information available about a firm. Demerjian provides some evidence that the balance sheet approach coupled with a trend toward fair value has led to a decrease in the usefulness of accounting measures in the debt contracting process. Finally, Badertscher and Burks find evidence that reporting delays were not decreased following a regulatory decision to allow a catch up adjustment in lieu of full restatement.

#### Madsen (2011)

Madsen uses survey data gathered from U.S. workers (O\*NET) to examine the degree to which the accounting occupation is standardized. The measure of standardization comes from the Occupational Information Network (O\*NET), which is a database of information about professions developed by the U.S. Department of Labor. On the website are questions about the extent to which a person's job requires him/her to evaluate information to see if it complies with standards and questions about the relative complexity of the standards that are to be complied with. Madsen finds that accounting occupations most closely involved with financial reporting are unexpectedly standardized. In fact,

the audit profession is shown to be highly standardized. The more mechanical functions in accounting such as book-keeping are actually found to be less standardized. More complex tasks, more litigation risks, and increased professional legitimacy are shown to be positively correlated with more standardization.

Madsen also examines optimal standardization in terms of diversity of participation in the standard setting process. Suboptimal levels of standardization will have negative effects on the profession. Too little standardization can cause the work and the financial reporting to be too different across companies. Excessive standardization will stifle debate and innovation among members of the profession. The author examines standardization by examining citations from the widely used "Accountants Handbook" between 1923 and 2007. Citation of individuals from different groups is indicative of wider participation in the accounting dialogue whereas citation of primarily regulators would suggest high standardization.

He collects data on three accounting topics: financial statement form and content (expected to be highly standardized); production cost accounting (expected to be largely unstandardized); and intangible assets (controversial). Citations are categorized as referencing norms (e.g., case law, accepted practice, or business associations), experts (e.g., journals and researchers), the profession (e.g., American Institute of CPAs, the American Accounting Association, and the National Association of Cost Accountants), regulation (e.g., the Securities and Exchange Commission and the Interstate Commerce Commission), or standards (e.g., the CAP, APB, and FASB).

He finds that the standard-setters' influence increased slowly during the eras of the Committee on Accounting Procedure (CAP) and the Accounting Principles Board (APB) and then sped up during the era of the Financial Accounting Standards Board (FASB). The increased influence of the FASB is associated with a decrease in the participation in the accounting dialogue by other groups. Citations to standard setters for financial statements jump from 14% to 50% from the 1970 to the 1991 editions. Citations to standard setters for intangible assets were 5% in the 1970 edition and 40% in the 1991 edition. As expected, standard setters are rarely cited in the pages related to production cost accounting. Thus, Madsen finds an increase in standardization coupled with a decrease in participation in the accounting dialogue by non-standard setters. Madsen speculates on why increasing standardization has occurred. Potential reasons include that standard setters are evaluated on standards issued so they have incentive to issue more standards or that

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