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Implications for IFRS principles-based and US GAAP rules-based applications: Are accountants' decisions affected by work location and core self-evaluations?☆

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ABSTRACT

Despite efforts to increase convergence and comparability in financial reporting across national borders and regulatory boundaries, inconsistencies in the interpretation of accounting standards persist. The current study examines whether accounting decision-making (consolidation of an investee) is influenced by accountants' work location (United States (US) vs. India) and personality (core self-evaluations). We expect these relationships to differ based on whether the accounting term "control" is interpreted using the International Accounting Standards Board's principles-based approach versus the US Financial Accounting Standards Board's rules-based perspective. Drawing on a sample of 180 English-speaking accountants based in the US and India, results of moderation analyses suggest that accountants' decision to consolidate is significantly influenced by work location and core self-evaluations when the term "control" is interpreted using principles-based terminology, but not when it is interpreted using rules-based terminology. Practical implications of such inconsistencies for the continued convergence and comparability of accounting standards and decisions as well as directions for future research are discussed.

1. Introduction

The objective of this study is to assess whether the comparability of accountants' decisions is influenced by work location and personality. When applying the definition of "control" under International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB) vs. US Generally Accepted Accounting Principles (GAAP) as promulgated by the US FASB (Financial Accounting Standards Board), decisions between accountants may differ. The IASB and FASB agree on the importance of comparability in financial reporting across the globe, but it is not clear whether convergence efforts in financial reporting between these two regulatory bodies results in increased comparability (FASB & IASB, 2002).

The joint consolidations project between the FASB and IASB included defining "control" (ASC 810 and IFRS 10).[1] The FASB

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[1] IFRS 10 *Consolidated Financial Statements* replaces IAS 27 *Consolidated and Separate Financial Statements*. IFRS 10 entails a single consolidation model of "control" for all types of entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 although earlier adoption is permitted (IASB, 2011).

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included in its definition of “control” for voting interest model entities, the parent owning greater than 50%[2] of the subsidiary’s voting rights. The IASB excluded the 50% rule and instead defined “control” for all entities as the effective power of the parent governing the financial and operating policies of an investee to obtain benefits from the investee (IFRS 10). These differences may result in significantly different reporting disclosures (Deloitte Global IFRS Office, 2008).

Although joint FASB and IASB projects have the goal of increasing comparability in financial reporting globally, inconsistencies in the interpretation of accounting standards persist. For example, extant accounting research includes tests of variations in the interpretation of accounting standards resulting from differences in participants’ language or culture (Doupnik & Riccio, 2006; Doupnik & Richter, 2003, 2004; Doupnik & Tsakumis, 2004; Huerta, Petrides, & Braun, 2016). We extend research on the influence of culture and language on the application of accounting standards by exploring core self-evaluations (CSE). CSE are a meta-personality trait reflective of positive emotions and assessments individuals make regarding themselves as well as their relations with other people and things (Judge, Erez, Bono, & Thoresen, 2003). CSE are an important personality measure affecting individual behavior and organizational outcomes (Chang, Ferris, Johnson, Rosen, & Tan, 2012).

To test work location and CSE in an accounting setting, we administered an online survey in 2015 to management accountants in two culturally diverse countries, the US and India (Hofstede, 2001). We operationalized the interpretation of “control” using the decision of whether to consolidate, as the dependent variable, with CSE, work location, and its interaction as the independent variables, with the expectation that CSE explains management accountants’ decision. We found that when applying the rules-based definition of control, 50% of voting shares as defined in US GAAP, participants’ interpretations are not influenced by work location or CSE. We also found that when applying the principles-based definition of “control” as defined in IFRS (qualitatively only), participants’ interpretations are influenced by work location and CSE. That is, principles-based standards are likely to result in incomparable interpretations when individuals have different personalities or work in different locations.

This study makes several contributions. First, we build on and extend prior research that demonstrates the influence of language and culture on interpretation of accounting terms. We extend this research by investigating potential inconsistencies in decision-making among accountants in the US compared with those in India. Second, we add to extent research on the effects of personality on decision-making in accounting by exploring CSE as a unique predictor of accountants’ consolidation decisions.

We find no other study that has investigated CSE as an influence on the interpretation of principles based standards by accountants across countries. Standard-setters should find this study interesting as they attempt to implement a global set of accounting standards designed to be applied objectively and consistently across countries regardless of accountants’ idiosyncratic tendencies and personal preferences. Third, we posit that differences in the treatment of the term “control” by the IASB and FASB places boundary conditions on these complex relationships. Specifically, under the rules-based nature of US GAAP where control is defined qualitatively and quantitatively as greater than 50% of voting shares, accountants are allowed little room for subjectivity in decision-making. As a result, we expect accountants’ decisions will be unaffected by their work location or their personality when applying rules-based terminology. Conversely, we expect the IFRS’s qualitatively-only stated definition of “control” to allow for greater subjectivity in interpretation, resulting in significant differences in consolidation decisions according to accountants’ work location (based in the US or India) and personality (CSE).

We organize the remainder of the paper as follows. We begin with a brief discussion of differences in and convergence between IFRS and US GAAP. Next, we review literature that identifies individual and environmental factors thought to contribute to differences in comparability between accounting decisions. Building on this, we develop hypotheses involving the main effects of work location and personality on accounting decision-making as well as the moderating effects of the interpretation of accounting standards on these relationships (see Fig. 1 for a conceptual model of these expected relationships). We then describe our research methods and results. We conclude with a discussion of theoretical and practical implications, including limitations and directions for future research.

2. Literature review and hypotheses development

2.1. Inconsistencies in the interpretation of accounting standards

Extensive studies in the psychology literature have investigated the variability in interpretation of qualitative probability expressions. Budescu and Wallsten (1985) assessed the effect of qualitative uncertainty terms on subjects’ interpretations. They found a lack of symmetry in respondents’ responses when using mirror image pairs of the term “probably” and “improbable.” They speculate that the variability in respondents’ interpretations could be due to vagueness in the meaning of a qualitative expression or to the fact that the meaning of the qualitative terms varies across individuals. Wallsten, Budescu, Rapoport, Zwick, and Forsyth (1986) found support that qualitative probability expressions convey varying uncertainties due to the vagueness of the term.

Phillips and Wright (1977) support that culture may influence the interpretation of qualitative terms. They suggest that respondent’s inconsistent interpretation of accounting terms may also be due to their individual degree of confidence in the qualitative expression. These studies generally imply that qualitative expressions may result in inconsistent interpretation across respondents due to the vagueness of the term, differences in culture, and personal confidence in the expression.

[2] ASC 810 states “The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership….” FASB (2009) paragraph 810-10-15-8.