

Research to inform accounting standard setting

Introduction

An extensive literature exists exploring the perceived “gap” between the interests and priorities of the accounting academic and practitioner communities (e.g. the papers in [Evans et al. \(2011\)](#) provide an overview of this debate). [Parker et al. \(2011\)](#), p. 6) suggest that the divide between academe and practice is wide:

In the field of accounting there have been claims that research has become too far removed from the interests of the profession and practitioners. Researchers in turn point out the shortcomings of current professional practices. Indeed, some of the accounting research community go so far as to consider that many practical issues of concern to professional accountants do not warrant the attention of researchers!

However, the relationship between academics and accounting practice is complex, and [Barth \(2015\)](#) has noted that the closeness of that relationship has waxed and waned over the past 50 years or so. When we, the guest editors, began our careers, it was quite common for researchers to publish in practitioner journals such as those of the major professional bodies. Established researchers presented their work in a manner that was understandable and relevant to practitioners ([Brown, 1970](#)), and those new to academia could develop their communication skills by writing for a non-academic audience ([Howieson, 1989](#)). While some academic work is still published in these outlets, it is less common, as the objectives of academics and those journals seem to have parted ways. In more recent times, journals such as the *Accounting Research Journal* and the *Australian Accounting Review* have sought to act as a bridge between the two communities. The “publish or perish” pressures that have been placed before academics have also helped to drive a wedge between academics and practitioners as the scholarly “highly ranked” journals are perceived to address “abstract” research questions and their studies are written in a language inaccessible to most practitioners ([Tilt, 2010](#)). Notwithstanding these concerns, accounting standard setters have increasingly turned to academic research as an input to their deliberations giving rise to a model of “evidence based policy making” ([Leuz, 2018](#)).

In Australia, the Australian Accounting Standards Board (AASB) has been proactive in seeking to engage with the research output of accounting academics. Among other things, [1] in July 2015, the AASB established an Academic Advisory Panel [2] to encourage interaction with the academic community. Further, the AASB has to date held two successful Research Forums in which academic research directly relevant to the AASB’s deliberations has been presented to, and discussed by, panels of practitioners, standard setters, and academics [3]. A further initiative is this special issue of the *Accounting Research Journal*, “Research to Inform Accounting Standard Setting.”

Relevant and high quality research matters to the AASB. One reason is simply to help meet its obligations under legislation. Section 231 of the Australian Securities and Investments Commission Act 2001 requires the AASB to “carry out a cost/benefit analysis of the impact of a proposed accounting standard before making or formulating the standard.” A cost/benefit analysis is required even if a proposed standard is an international standard. Although measuring the costs and benefits of standard setting is problematic ([Schipper, 2010](#)), academic research can help the AASB either anticipate potential consequences of a proposed standard or identify consequences once a standard has been



implemented[4]. As such, quality academic research can inform the deliberations of the AASB more generally. Academic research has the additional advantage that it is perceived as an “independent” source relative to the inputs provided by other constituents who might be aligned with particular interest groups.

The contributions to the special issue

The remarks above suggest that academic research can inform standard setters in at least three ways:

- (1) Research can *describe* current practices which can help the AASB identify whether any potential reporting problems exist (e.g. excessive diversity in accounting for a particular type of transaction).
- (2) Research, to the extent it informs theory, can potentially assist the AASB to *predict* what the consequences might be (or at least some of those consequences) if alternative accounting choices are mandated in a proposed standard[5].
- (3) Research can provide *feedback* on what the actual consequences were once a standard has been implemented and identify whether there were any unanticipated effects. Such research can inform the Post-Implementation Review (PIR) process that has become more formalized among standard setters.

Typically, most accounting research commonly satisfies the first and third of these roles, as the ability to predict consequences is more problematic in the absence of sufficient theory to address “hypothetical” accounting policies. Taken together, the four papers that are contained in this special issue illustrate the first and third of these roles for research. Bayne and Wee, “Non-financial KPIs in annual report narratives: Australian practice” represents the first and third of these roles in that it describes the types and extent of non-financial key performance indicators (KPIs) from a sample of 40 listed Australian companies. It also provides feedback on the effectiveness of the International Accounting Standards Board’s (IASB) current Practice Statement 1, *Management Commentary: A Framework for Presentation*. The use of such non-financial measures has increased as firms experiment with alternative reporting models such as integrated reporting. Consistency and comparability across these measures is a matter of concern, and the paper is consequently well-placed to inform standard setters’ deliberations, especially with regard to the project on “management commentary” that is currently under consideration at the IASB. Bayne and Wee’s findings identify the futility of trying to mandate a comprehensive list of non-financial KPIs as evidenced by considerable inconsistency found in the current applications of the IASB’s Practice Statement 1. Instead, they recommend the development of a set of “guiding principles” that would be broad enough to apply in a variety of contexts but would improve the usefulness of these KPIs by, for example, ensuring that comparative information is disclosed.

The remaining papers in this special issue primarily inform standard setters about the consequences of their policies and thus are helpful in the PIR process. One of the principal reasons that has been given for why a jurisdiction should adopt International Financial Reporting Standards (IFRS) is that financial reports prepared using IFRS will be more comparable across jurisdictions. The second paper by Zeller, Kostolansky and Bozoudis, “An IFRS-Based Taxonomy of Financial Ratios,” adopts an interesting approach to exploring the veracity of this claim. From a sample of 12,470 firm-years of data drawn from across six continents over the period 2011-2015, Zeller *et al.* seek to find the taxonomy of financial ratio attributes that are encapsulated within IFRS. They also explore the stability

over time of the attributes they identify, which allows them to assess the comparability of IFRS-based information across the jurisdictions. They find that they are able to construct a taxonomy consisting of nine attributes, namely, asset relationship, asset turnover, capital structure, expense insight, fixed asset usage, inventory turnover, liquidity, profitability margin and performance return. Perhaps even more importantly, they determine that these attributes as measured by IFRS-based ratios are stable and comparable over the period of their study. Although this work can be further extended, it provides some reassurance to standard setters that the adoption of IFRS is providing decision useful information.

The third paper, "Pension Plan Assumptions: The Case of the Discount Rate," by Morais and Pinto provides standard setters with feedback as to the consequences of changes to IAS19, *Employee Benefits*. The changes in IAS19, effective from 2013, impacted on the management of pension plans' annual expense by:

- removing an option for deferring actuarial gains and losses (the so-called "corridor approach"); and
- changing the calculation of the net interest on defined benefit plans by replacing the use of the expected rate of return on plan assets with a net interest cost.

The IASB's objectives for these changes was to simplify pension plan accounting and to improve the correspondence between the plan's financial reporting and its underlying economics. Based on data from the period 2009-2015 for 72 listed firms on the FTSE 100, they find that relative to the period prior to the changes in IAS19, the changes to the standard did limit managers' discretion with regard to defined benefit plans' annual expense. In addition, the changes wrought by the standard setters resulted in earnings numbers showing increased value relevance compared to the pre-change period. These findings assist standard setters to demonstrate, at least on this occasion, that their work has improved the quality of pension plan financial reporting.

The final paper in this special issue, "Implementing AASB15 *Revenue from Contracts with Customers*: The Preparer Perspective," is authored by Davern, Gyles, Potter and Yang. This is a particularly topical study given the recent effective date for this standard, especially as AASB15 is likely to have major consequences for many reporting entities. The study surveyed 143 Australian financial statement preparers during 2017 and sought to explore the standard's perceived implementation costs and the proprietary costs associated with disclosing what previously would have been "private information." With regard to implementation costs, the survey documents that although respondents felt that various benefits from implementation would outweigh costs, firms were slow to implement the necessary changes in systems. As a consequence, firms' inaction reduced the possibility of realizing the perceived implementation benefits. In addition, the perceived benefits in some cases appeared to rise because the introduction of AASB15 was a catalyst for the realization that firms' systems were generically outdated and in need of investment anyway. Over half of the respondents were concerned about the potential for AASB15 to lead to proprietary costs because of disclosures that were perceived to be useful to a firm's competitors. The authors note, however, that these concerns may be illustrating that the disclosures are meeting the AASB's objectives by reducing the information asymmetry between preparers and users. This timely study leads to some interesting implications for standard setters. For example, the authors observe that although controversial standards are accompanied by debate about the length of transition periods, the AASB15 experience shows that giving preparers a long period to apply the standard was unproductive because many firms simply delayed putting implementation processes in place. A second interesting implication lies with the issue of how standard setters might "sell" a proposed standard to constituents. In

the case of AASB15, there were information systems benefits of value to firms and perhaps these might be emphasised in future by standard setters rather than, say, an emphasis on a compliance message.

Concluding remarks

We hope that the papers in this special issue will inspire researchers to more actively engage with accounting standard setters and conduct and communicate research which informs standard setters' activities. The papers demonstrate that academic research can usefully contribute to the work of standard setters. Our own experience from engaging with entities such as the AASB, and with practitioners more generally, has been that such interactions enhance the relevance and impact of our research because it generates interesting research questions that are derived from "real-world" needs and contexts. Researching applied problems has also had the additional benefit of informing our teaching, leading to better student interest and engagement in the classroom.

Finally, we offer our sincere thanks to the Editor-in-Chief, Professor Ellie Chapple, for inviting us to undertake the role of Guest Editors, and Ms Liz Marsland who performed a stellar role as Editorial Assistant for this special issue. Your guidance and patience with us has been greatly appreciated. Our special thanks also to the reviewers for all their hard work in evaluating and providing feedback upon the various submissions that we received.

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Notes

1. Research outputs of the AASB include survey findings, staff papers, essays and reports about academic research that the AASB has commissioned. More details regarding the AASB's Research Centre can be found at: www.aasb.gov.au/Research-Centre.aspx (accessed 24 January, 2019).
2. Information on the Academic Advisory Panel can be found at: www.aasb.gov.au/Research-Centre/Academic-Advisory-Panel.aspx (accessed 24 January, 2019).
3. Research forums have also been conducted over many years in conjunction with other standards-setters. For example, in mid-November, 2018, the IASB held a research forum in Sydney. The forum was co-organised with the International Association for Accounting Education and Research (IAAER) and papers from that forum are to be considered for publication in the journal *ABACUS*.
4. For example, at the time of writing, the AASB Research Centre has published seven academic studies that fulfil these roles for informing standards-setters (see www.aasb.gov.au/Research-Centre/Research-Reports.aspx, accessed 24 January, 2019).
5. As examples, research by [Carey et al. \(2014a, 2014b\)](#), and [Potter et al. \(2019\)](#) document and analyse reporting practices for SMEs over the period 2008-2015 to assist the Board to understand and evaluate the likely costs, benefits and implementation issues associated with setting standards for these entities.

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