



**L'ASSOCIATION CANADIENNE DES  
PROFESSEURS DE COMPATABILITÉ**

**CANADIAN ACADEMIC ACCOUNTING ASSOCIATION**

# **1990 ANNUAL CONFERENCE**

**JUNE 1990**

**UNIVERSITY OF VICTORIA  
VICTORIA, BRITISH COLUMBIA  
CANADA**



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# CAAA 1990 ANNUAL CONFERENCE

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**Editor:**  
Zelma Rebmman-Huber  
Simon Fraser University  
Burnaby, B.C.

## **CAAA 1990 ANNUAL CONFERENCE**

**The CAAA would like to thank the following sponsors for their generosity in sponsoring a variety of activities of the 1990 Conference in Victoria:**

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**Society of Management Accountants of Canada**

## **CAAA 1990 ANNUAL CONFERENCE**

### **Selection Committee for the Best Paper Award**

The CAAA would like to thank the following people for their work in selecting the best paper award:

Professor Farhad Simyar, Chairperson of Committee (Concordia University)

Professor Ibrahim Aly (Concordia University)

Professor Kelly Gheyara (Concordia University)

Professor Bruce LaRoche (Concordia University)

# CANADIAN ACADEMIC ACCOUNTING ASSOCIATION

## 1990 CONFERENCE PROGRAM

\*\*\*\*\*

### Friday, June 1

\*\*\*\*\*

8:00 a.m. - 4:00 p.m.

#### REGISTRATION

6:00 - 10:00 p.m.

#### CAAA WELCOME RECEPTION

Sponsored by the Canadian Institute of Chartered Accountants

Location: UVic Faculty Club (Main Dining Room)

\*\*\*\*\*

### Saturday, June 2

\*\*\*\*\*

7:30 - 8:45 a.m.

#### BREAKFAST

Sponsored by Irwin Dorsey of Canada

Location: UVic Faculty Club (Main Dining Room)

9:00 - 9:15 a.m.

#### WELCOME \*

Speakers: **Zelma Rebmann-Huber**, Conference  
Chairperson  
**Sam Jopling**, CAAA President  
**John Scofield**, Acting Director of the Business  
Program, University of Victoria

Location: Elliott 168

\* Simultaneous translation will be provided for these sessions

9:15 - 10:45 a.m.

#### PLENARY SESSION 1 \* The Challenge of 2000

Chairperson: **Derek Acland**, (Concordia University)

Speaker: **Bob Elliott** (Partner, KPMG Peat Marwick and  
member of the AICPA's Accounting Education  
Change Commission)

Discussants: **Efrim Boritz** (University of Waterloo)  
**Gerry Mueller** (Past President AAA, University of  
Washington)

Location: Elliott 168

10:45 - 11:00 a.m.

#### BREAK

Sponsored by The Institute of Chartered Accountants of British  
Columbia

11:00 - 12:30 p.m.

**CONCURRENT SESSIONS 1A, 1B and 1C**

**SESSION 1 A\***

**Chairperson:** **Heldi Chrisman** (Université Laval)

**Speakers:** **Denis Cormier** (Université du Québec à Montréal), **Bernard Morard** (Université du Québec à Montréal) and **Norman Roy** (Université de Moncton) *Analyse de l'impact de la Pollution sur les Indicateurs Financiers*

**Dan Thornton** (University of Calgary)  
*Accounting for Uncertainty: Agenda for Reform*

**Location:** Elliott 168

**SESSION 1 B Meeting the Challenge of 2000**

**Chairperson:** **Bill Swirsky** (Professional Affairs, Canadian Institute of Chartered Accountants)

**Speakers:** **Don Brown** (Executive Partner, Coopers & Lybrand and Chairperson of the CICA's Task Force on Information Technology)  
**Wes Gibson** (Vice-president Finance and CFO, Pioneer Grain Company Limited)  
**Kelth Scott** (Director of Education, Certified General Accountants of Canada)

**Location:** Elliott 062

**SESSION 1C**

**Chairperson:** **Andrée Lafortune** (Ecole des Hautes Etudes Comm.)

**Speakers:** **Ron Davidson** (University of Calgary) *Use of Perceived Personal Values in Recruiting by Public Accounting Firms*

**Lois Etherington** (Simon Fraser University) and **Dean Tjosvold** (Simon Fraser University)  
*Collaboration Between Managers and Accountants: A Study of Roles and Goal Interdependence*

**Location:** Elliott 166

12:45 - 2:30 p.m.

# **CAAA AWARDS LUNCHEON**

Sponsored by the Certified General Accountants Association of Canada

Chairperson: **Sam Jopling**, CAAA President

## **Presentation of Awards**

Speaker: **George Morfitt**, Auditor General of British Columbia

Location: Quarter Dining Room (Cadboro Commons Block 205A)

*Attendants at the luncheon will receive two complimentary Famous Players movie tickets courtesy of Prentice-Hall Canada Inc.*

2:45 - 4:15 p.m.

## **CONCURRENT SESSIONS 2A, 2B and 2C**

### **SESSION 2A \***

Chairperson: **Harvey Mann** (Brock University)

Speakers: **Renaud Lachance** (Ecole des Hautes Etudes Comm) *Le Fardeau Fiscal des Nouvelles Entreprises: Une Etude Comparative Quebec-Ontario*

**Alan Macnaughton** (University of Waterloo)  
*Neutral Taxation of Fringe Benefits and Employee's Job-Related Expenditures*

Location: Elliott 168

### **SESSION 2B**

Chairperson: **Réal Labelle** (Université du Québec à Montréal)

Speakers: **Alistair Preston** (Boston University), **David Cooper** (University of Alberta) and **Rod Coombs** (University of Manchester) *Fabricating Budgets*

**Joyce Holley** (Texas A&M University)  
*Governmental Managers' Use of Interim Accounting Statements: A City Attribute Analysis*

Location: Elliott 061



**SESSION 2C**

**Chairperson:** **Moustafa Magid** (Simon Fraser University)

**Speakers:** **Norman Betts** (Queen's University) and **Dean Neu** (University of Calgary) *Management Choice and New Stock Underpricing: Theory and Canadian Evidence*

**Carol Houston** (San Diego State) *Translation Exposure Hedging After SFAS No. 52: An Empirical Investigation*

**Location:** Elliott 166

4:15 - 4:30 p.m.

**BREAK**

Sponsored by The Institute of Chartered Accountants of British Columbia

4:30 - 5:45 p.m.

**CAAA ANNUAL MEETING \***

**Chairperson:** **Sam Jopling**, CAAA President

**Guest:** **Alvin A. Arens**, President-Elect, American Accounting Association

**Location:** Elliott 168

6:00 - 9:00 p.m.

**CAAA MEMBERS RECEPTION**

Sponsored by John Wiley & Sons

**Location:** Green Room (Cadboro Commons Block 203)

\*\*\*\*\*  
**Sunday, June 3**  
 \*\*\*\*\*

8:30 - 10:30 a.m.

**PLENARY SESSION 2 Auditing Research Directions In the 1990's**

**Chairperson:** Dan Simunic (University of British Columbia)

**Speakers:** Nicholas Dopuch and Ron King (Washington University) *Experimental Tests of Auditing as a Credibility-Generating Mechanism*

Ella Mae Matsumura and Robert Tucker  
 (University of Wisconsin) *Fraud Detection*

Nandu Nagarajan (University of Pittsburgh),  
 Stan Balman (Carnegie Mellon) and John  
 Evans (University of Pittsburgh) *Collusion in Auditing*

**Discussant:** Bill Scott (University of Waterloo)

**Location:** Elliott 168

10:30 - 10:45

**BREAK**

Sponsored by The Institute of Chartered Accountants of British Columbia

10:45 - 12:15 p.m.

**CONCURRENT SESSIONS 3A, 3B and 3C**

**SESSION 3A Issues in Publishing**

**Chairperson:** Dan Thornton (University of Calgary)

**Speakers:** Rashad Abdel-khalik (University of Florida,  
 Editor of *Accounting Review*)  
 David Cooper (University of Alberta), Editor of  
*Critical Perspectives on Accounting*  
 Bill Scott (University of Waterloo, Editor of  
*Contemporary Accounting Research*)

**Location:** Elliott 168

**SESSION 3B**

**Chairperson:** Richard Chesley (Saint Mary's University)

**Speakers:** Craig Emby (Simon Fraser University) *Response Mode Effects in Subjective Probability Assessment: An Experiment in Auditing Judgement*

David Finley (University of Houston) *On the Shape of Audit Technologies*

**Location:** Elliott 061

**SESSION 3C**

**Chairperson:** Alan Richardson (Queen's University)

**Speakers:** Irene Herremans (University of Calgary) *The Present State of Social Disclosure: Content and Media Analysis Using Firms Regarded as Social Performance Leaders and Followers*

Richard Mattessich (University of British Columbia) *Social versus Physical Reality in Accounting and the Measurement of Its Phenomena*

**Location:** Elliott 166

12:30 - 2:00 p.m.

**CAAA MEMBERS LUNCHEON**

Sponsored by the Society of Management Accountants of Canada

**Chairperson:** Derek Acland, Incoming CAAA President

**Location:** Quarter Dining Room (Cadboro Commons Block 205A)

2:15 - 3:45 p.m.

**PLENARY SESSION 3 Features of a Healthy Relationship Between the Universities and the Professions**

**Chairperson:** Mike Gibbins (University of Alberta)

**Speakers:** Lorne Bolton (Laventhol and Horwath)  
John Hylton (Executive Director, Society of Management Accountants of Alberta)  
Thomas Beechy (York University)

**Location:** Elliott 168

3:45 - 4:00 p.m.

**BREAK**

Sponsored by The Institute of Chartered Accountants of British Columbia

4:00 - 5:30 p.m.

## CONCURRENT SESSIONS 4A, 4B and 4C

### SESSION 4A

Chairperson: **Mort Nelson** (Wilfred Laurier University)

Speakers: **George Gekas** (University of Western Ontario)  
*The Continuing Shortage of Doctorally Qualified Academic Accountants*

**Reginald Mathews** (Massey University) A  
*Unique Experience in Combining Academic and Professional Accounting Education: The New Zealand Case*

Location: Elliott 166

### SESSION 4B

Chairperson: **Farhad SImyar** (Concordia University)

Speakers: **Ramy Elltzur** (University of Toronto) and **Varda Yaari** (Bar-Illan University) *Managerial Equity Holdings and Earnings Management in a Multiperiod Setting*

**Murray Lindsay** (University of Saskatchewan) *An Examination of the "Negative Result" Bias: Some Empirical Evidence and a Statistical Redress*

Location: Elliott 168

### SESSION 4C

Chairperson: **Pamela Ritchie** (University of New Brunswick)

Speakers: **John MacIntosh** (University of Windsor) *The Berle-Dodd Debate on the Question of "To Whom are Corporate Managers Accountable?"*

**Michel Magnan** (Ecole des Hautes Etudes Comm) *A Cross-Sectional Analysis of CEO Compensation: The Case of Commercial Banks*

Location: Elliott 061

5:00 - 7:00 p.m.

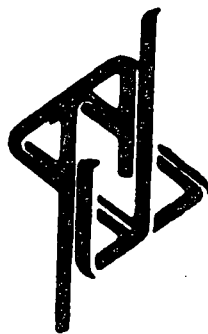
## UVIC PRESIDENT'S RECEPTION

Location: Cadboro Commons Block

**CANADIAN ACADEMIC ACCOUNTING ASSOCIATION**

**1990 ANNUAL CONFERENCE**

**CONFERENCE ABSTRACTS**



CAAA 1990

PLENARY SESSION 1

Saturday, June 2  
9:15am - 10:45am  
Elliott 168

**THE CHALLENGE OF 2000**

**Bob Elliott** (Partner, KPMG Peat Marwick and member of the  
AICPA's Accounting Education Change Commission)  
**Efrim Boritz** (University of Waterloo)  
**Gerry Mueller** (Past President AAA, University of Washington)

"Information Technology" is networks, data bases, computers and software. It's.....

- ... changing everything,
- ... creating new products and obsoleting old ones,
- ... making globalization both possible and necessary,
- ... already reshaped industry,
- ... now reshaping the accounting profession,
- ... and it's going to reshape education.

What do you and your institution need to do to reengineer your products (read "students") to cope in this global world of information technology?

These questions and others like them are of vital concern to the accounting profession - both its education and practice branches.

Is it necessary to reengineer the curriculum?  
... is it possible?

CAAA 1990

CONCURRENT SESSION 1A

Saturday, June 2  
11:00am - 12:30pm  
Elliott 168**ANALYSE DE L'IMPACT DE LA POLLUTION SUR LES INDICATEURS FINANCIERS**

**Denis Cormier** (Universite du Quebec a Montreal)  
**Bernard Morard** (Universite du Quebec a Montreal)  
**Normand Roy** (Universite de Moncton)

Recent trends demonstrate that enterprises involved in social accounting are placing a greater importance on the image they project of themselves. This position could come in conflict with the traditional objectives of maximizing the wealth of investors. However, the concept of "moral" investor could reconcile these two approaches. This study was done in two parts: the first part examines the relationship between financial return and its financial and social variables (as seen through the variation in the rate of pollution); the second part examines the relationship between the pollution index and the financial variables. Results from regression analysis do not enable one to make any positive conclusion on the first issue but results from logistic model seem to show a positive association between social and financial performance.

**ACCOUNTING FOR UNCERTAINTY: AGENDA FOR REFORM**

**Dan Thornton** (University of Calgary)

How, if at all, should uncertainty be reported to readers of financial statements? This is accounting's most fundamental issue. Nearly every item on standard-setters' current agendas derives from it. This paper proposes five standard-setting axioms relating to uncertainty and suggests a concrete agenda for pervasive reforms.

CAAA 1990

CONCURRENT SESSION 1B

Saturday, June 2  
11:00am - 12:30pm  
Elliott 062**MEETING THE CHALLENGE OF 2000**

**Bill Swirsky** (Professional Affairs, Canadian Institute of Chartered Accountants)  
**Don Brown** (Executive Partner, Coopers & Lybrand and Chairperson of the CICA's  
Task Force on Information Technology)  
**Wes Gibson** (Vice-President Finance and CFO, Pioneer Grain Company Limited)  
**Keith Scott** (Director of Education, Certified General Accountants of Canada)

Response to Bob Elliott's question, "What do you and your institutions need to do to reengineer your  
"products" to cope in the global world of information technology?"



CAAA 1990

CONCURRENT SESSION 1C

Saturday June 2  
11:00am - 12:30pm  
Elliott 166**USE OF PERCEIVED PERSONAL VALUES IN RECRUITING BY PUBLIC ACCOUNTING FIRMS****Ron Davidson** (University of Calgary)

This study tests the proposition that values are used in the recruiting process. Previous research indicates that values, attitudes, and behaviors are important in organizations that have strong cultures, such as public accounting firms. Recruiters for public accounting firms will reflect this strong organizational culture by tending to make offers to applicants who are perceived to have certain sets of values. Results of the test conducted provide strong evidence that the set of values perceived to be held by graduating accounting majors who received job offers are significantly different from the sets of values perceived to be held by those applicants who did not.

**COLLABORATION BETWEEN MANAGERS AND THE ACCOUNTANTS: A STUDY OF ROLES AND GOAL INTERDEPENDENCE****Lois Etherington** (Simon Fraser University)  
**Dean Tjosvold** (Simon Fraser University)

Roles and goal interdependence were used to examine the interaction between managers and accountants. Thirty-one managers from a company engaged in research and production of high technology energy systems were interviewed using the critical incident method. Contrary to expectations, the accounting roles of planning, assistance, watchdog/reporting, and control were not very predictive of the success of the interaction. Goal interdependence was highly predictive. Specifically, situations in which managers believed their goals were cooperatively related with accountants were characterized by progress on the task, an increased appreciation and understanding of the rationale and importance of accounting, and confidence in future collaboration. Results also specify the antecedents to goal interdependence, interactions that occur within different goals, and their consequences. For five out of seven aspects of accounting, the managers judged the ideal role of accounting to be significantly greater than the role it presently played in the organization.

**LE FARDEAU FISCAL DES NOUVELLES ENTREPRISES: UNE ETUDE COMPARATIVE QUEBEC-ONTARIO****Renaud Lachance** (Ecole des Hautes Etudes Comm)

This study compares the tax burden in Quebec and Ontario for three new firms started in Quebec after the firm taxation reform enacted in 1981. The comparison covers the first three years of operation taking into account the tax laws in force during those years and then the ones in force in 1989\*. The results show that the relative burden of a new Quebec firm compared to an Ontario firm depends on four elements: the definition of tax burden, the profitability of the firm, the expenditures made for research and development and finally the average salary paid in the firm.

This paper also looks at the impact on the tax burden in Quebec of two tax measures aiming at alleviating the fixed income tax expenses (aggregate remuneration and equity taxes). These measures are the tax exempt status for new firms and the income tax credit refundable for losses. This tax exempt status consists of a tax exemption on profits and equity for the first three years of a new firm. The results of this study show that the tax exempt status benefits mostly profitable firms already favoured by the Quebec taxation system. The tax credit refundable for losses forces us to distinguish the fiscal burden imposed by the Quebec taxation system and the draw down demanded for a firm in deficit. This distinction must be taken into account when assessing the relative competitive position of a new firm in Quebec.

We do not draw any conclusions as to an inferior or superior tax burden for a new firm in Quebec. However, the analysis of the impact of the tax exempt status shows that the aim of alleviating the fixed income tax expenses for new firms should be replaced by the reduction of the health insurance taxes considering their importance in the fixed tax burden.

\* This comparison is based on laws in force in 1989. When presenting this paper at the 1990 convention I will add a section where I will analyze the impact of Quebec and Ontario budgets for the fiscal year 1990-91.

**NEUTRAL TAXATION OF FRINGE BENEFITS AND EMPLOYEE'S JOB-RELATED EXPENDITURES****Alan Macnaughton** (University of Waterloo)

This paper derives fringe benefit taxation rules which do not distort taxpayer decisions through substitution effects. These "neutral" tax rules have lower information requirements than previously suggested rules because the required information can be obtained from consumer demand studies and does not require estimating the compensating wage differential between different groups of workers. The paper also extends previous work by introducing employer-level taxation, indivisible goods, and the choice between fringe benefits and employee' job-related expenditures. The neutrality of Canadian tax rules relating to employee and employer automobiles is examined in light of these results.

CAAA 1990

CONCURRENT SESSION 2B

Saturday, June 2  
2:45pm - 4:15pm  
Elliott 061

### FABRICATING BUDGETS

**Alistair Preston** (Boston University)  
**David Cooper** (University of Alberta)  
**Rod Coombs** (University of Manchester)

This paper examines the processes by which a form of responsibility accounting system emerges in an organizational context. The paper utilizes recent approaches to the understanding of how science and technology is created (Latour, 1987) to investigate the processes by which a management budgeting initiative in the UK hospital system takes hold (or not) in specific hospitals. The approach is critical of the notion that accounting systems are well defined technologies which are designed and then implemented (or face resistance). Instead the study shows that management budgeting is fabricated, put together in a changing and fragile manner. Emerging accounting systems are not fixed technologies with well defined purposes which reflect patterns of responsibility but changing constructions. Management budgeting systems are initiated with loose characteristics, purposes and uses. In the process of their design and implementation, new possibilities for decision making and definitions of responsibility emerge. Through this study of accounting in action, the paper offers challenging insights into the processes by which accounting and budgeting systems bring economic logic into hospital management. It is thus also relevant to debates about the role of budgeting and accounting in health care organizations in many countries.

### GOVERNMENTAL MANAGERS' USE OF INTERIM ACCOUNTING STATEMENTS: A CITY ATTRIBUTE ANALYSIS

**Joyce Holley** (Texas A&M University)

The study addresses city government managers' use of interim accounting information for the following administrative functions: internal control, personnel performance evaluation, program evaluation, cash management, budgeting, and investment decision-making. City attribute factors are examined to determine whether differences exist regarding the extent to which interim reports are used. Based on research findings of significant factors in financial reporting by municipalities, the study analyses, for cities in the sample, relationships between interim reporting practices and city size as measured in population, revenues, and expenditures; long-term debt, and state required GAAP vs non-GAAP.

The study provides evidence to rank (in descending order) the uses of internal interim reports by chief financial officers as follows: budgeting, cash management, internal control, investment decision-making, program evaluation, and personnel performance evaluation. The interim statements for administrative functions are accordingly ranked (in descending order): Actual and Estimated Expenditure, Actual and Estimated Revenues, Forecast of Cash Position - All Funds, Comparative Revenues and Expenses, Combined Statement of Cash Receipts and Disbursements - all Funds, and Balance Sheet.

Results of the t-tests provide evidence that there are differences in how cities use information for investment decision-making, cash management, internal control, and budgeting. Cities with less budgeted revenues, expenditures, and long-term debt per capita indicated greater use of the statements.

CAAA 1990

CONCURRENT SESSION 2C

Saturday, June 2  
2:45pm - 4:15pm  
Elliott 166**MANAGEMENT CHOICE AND NEW STOCK UNDERPRICING: THEORY AND CANADIAN EVIDENCE**

**Norman Betts** (Queen's University)  
**Dean Neu** (University of Calgary)

At the time of issuing shares and applying for a new stock exchange listing significant asymmetries exist between management and potential investors regarding firm value. This study examines the relationship between constraint mechanisms used by management to reduce these asymmetries and the level of new stock issue underpricing. A sample of 163 firms that issued equity shares and applied for a new Toronto Stock Exchange listing over the 1985 to 1987 period is used to examine these relationships. The theory and results extend previous research by considering the impact of managerial action on underpricing. In addition, Canadian evidence is provided, complementing the more prevalent American studies of underpricing.

**TRANSLATION EXPOSURE HEDGING AFTER SFAS NO. 52: AN EMPIRICAL INVESTIGATION**

**Carol Houston** (San Diego State)

Earlier studies have concluded that SFAS No. 8 led to or increased the phenomenon of translation exposure hedging to counteract large swings in income. Replacement of SFAS No. 8 by SFAS No. 52 is assumed to have led to a reduction in such hedging as a result of a change in the requirement to include translation gains and losses in net income. This implies that firms with high proportions of local foreign functional currency subsidiaries would cease hedging since translation gains and losses related to such subsidiaries are no longer included in income. However, examination of proprietary firm data for a small sample of firms which hedged under SFAS No. 8 revealed that the majority of firms continuing hedging had primarily local foreign functional currency subsidiaries. Moreover, subsequent to the adoption of SFAS No. 52, those firms continued hedging their local foreign functional currency subsidiaries. Thus, knowledge that a firm has primarily local foreign functional currency subsidiaries is not a good indicator of the firm's post-SFAS No. 52 hedging behavior. In the current sample it was found that the geographic concentration of subsidiaries of firms with primarily local foreign functional currency subsidiaries which ceased hedging after adopting SFAS No. 52 differed significantly from their counterparts which continued hedging. A significant difference between the proportion of net exposed assets found outside of the U.S. was also documented between firms continuing hedging and those which ceased. Weak evidence of differences in the asset composition and the impacts of changing translation method on the reported amount of depreciation expense was also found. The study concludes that based on the characteristics of firms which continued hedging, the financial statement effects of changing from the temporal method to the current rate method cannot be ruled out as a factor in a firm's decision to continue or cease hedging after adoption of SFAS No. 52.

## AUDITING RESEARCH DIRECTIONS IN THE 1990's

## EXPERIMENTAL TESTS OF AUDITING AS A CREDIBILITY GENERATING MECHANISM

Nicholas Dopuch (Washington University)  
Ron King (Washington University)

The objective of this study is to investigate issues relating to the demand for "auditing services" in experimental market settings. We consider various environmental conditions which might affect the voluntary acquisition of this service and how the demand for it is adversely affected when the audit service is provided by a strategic agent. In the basic market setting there was a single seller of an asset and three buyers, who transacted for a known finite number of periods. Each period the seller offered an asset for sale whose expected value to the buyers could be increased if the seller made a costly investment. After making the investment choice, the seller learned the actual asset type and then made a disclosure (which did not have to be truthful) about the asset type to the buyers.

The buyers could not observe whether the costly investment was made, nor did they ever observe the actual asset type held by the seller. Upon receipt of the seller's disclosure each buyer submitted a bid for the asset; the highest bidder received it at the price equal to the second highest bidder. Buyers learned the amount of cash payouts of the asset (with higher cash payouts imperfectly correlated with higher asset types) only after the asset had already been purchased by one of the buyers. We considered the following questions:

1. Will sellers hire a strategic (i.e., human) verifier and make the costly investment with the same frequency as they acquire a nonstrategic (computerized) verifier?
2. Will buyers hire a strategic verifier (which induces the seller to select the costly investment) with the same frequency as they acquire a nonstrategic verifier, and how does this frequency compare to the frequency of the seller hiring the strategic verifier?
3. Will the frequency of the buyers' hiring the verifier be affected by the extent of the dissemination of the verifier's message and the allocation of the cost of hiring the verifier?

To summarize the results, we found that if the human verifier was not credible (due to the combined problems of moral hazard and independence), sellers were less able to generate a return for the costly investment, thereby decreasing economic efficiency. Similarly, when buyers were relatively homogeneous they did not hire (credible) verifiers and this also led to lower levels of costly investment on the part of the seller. The most surprising result, however, was that in the markets wherein heterogeneous buyers could hire the verifier, much higher levels of efficiency were achieved than predicted. Buyers were willing to hire the verifier under different conditions of message dissemination and cost allocations. We did not see the widespread market failures that our model predicted.

CAAA 1990

## PLENARY SESSION 2

Sunday, June 3  
8:30am - 10:30am  
Elliott 168

(Continued)

**FRAUD DETECTION**

Ella Mae Matsumura (University of Wisconsin)

Robert Tucker (University of Wisconsin)

This paper uses game theory to model the interaction between an auditor and a manager. The effects of auditors' penalties, quality of the internal control system, auditing requirements, and audit fee on fraud detection and prevention are examined. The model allows the auditor to design a two-stage audit strategy that explicitly tests for fraud. This study tests the model's predictions in a multiperiod experimental economics setting. Increasing auditors' liability decreased fraud, increased detailed tests of balances, decreased internal control testing, and increased fraud detection. Increasing testing requirements increased audit costs, decreased discretionary testing, increased fraud detection, and decreased fraud commission. With strong internal control, auditors increased control testing and detected more fraud more frequently; managers committed fraud less frequently. Increasing the audit fee resulted in less fraud. The empirical results support a close connection between testing, fraud detection, and fraud prevention.

**COLLUSION IN AUDITING**

Nandu Nagarajan (University of Pittsburgh)

Stan Baiman (Carnegie Mellon)

John Evans (University of Pittsburgh)

In this paper we analyze a three-person agency model of auditing allowing for collusion between the agents. While we do not study the process by which the agents come to such collusive agreements, we examine the interaction between the potential for collusion and the owner's choice of incentive contracts for the agents.

As in Townsend (1979), Evans (1980), and Baiman, Evans, Noel (1987), our model assumes perfect auditing. However, while their results are that the manager bears no risk over a set of lower outcomes, we find that because of the possibility of collusion, the manager bears no risk only over a set of higher outcomes. The intuition behind this result is that perfect risk sharing over the lowest outcomes would require reducing the minimum net transfer which the manager would make. But this minimum net transfer is exactly what a colluding manager and auditor would agree to make to the owner. Therefore, to avoid reducing the minimum receipt from the manager, i.e. to limit losses from collusion, the owner must restrict the risk-sharing to a set of higher outcomes. The resulting owner-manager and owner-auditor contracts are consistent with those observed in situations involving the leasing of income producing assets in which the owner cannot independently observe the income produced by the leased asset.

CAAA 1990

## CONCURRENT SESSIONS 3A

Sunday, June 3  
10:45am - 12:15pm  
Elliott 168

**ISSUES IN PUBLISHING**

Rashad Abdel-Khalik (University of Florida, Editor of Accounting Review)  
David Cooper (University of Calgary, Editor of Critical Perspectives on Accounting)  
Bill Scott (University of Waterloo, Editor of Contemporary Accounting Research)

Where we have been and where we are going.

**RESPONSE MODE EFFECTS IN SUBJECTIVE PROBABILITY ASSESSMENT: AN EXPERIMENT IN AUDITING JUDGMENT****Craig Emby** (Simon Fraser University)

This study reports the results of an experiment which examined auditors' judgment. The environment in which this judgment must be exercised is characterized by uncertainty. The Probabilistic Judgment Paradigm provides a methodology for decision making which explicitly recognizes this uncertainty. This study presents the results of an experiment involving Fraud Investigation which required the auditor-subjects to make subjective probability judgments based on indirect, qualitative evidence. The experiment examined the effects of providing the auditors with different response modes to express their judgments, and differing levels of prior tutoring in axiomatic probability theory. A visually-based graphical response mode which allowed the auditors to make their probability judgments without the need for complex arithmetical processing eliminated both the violations of probability axioms and non-conformance with Bayesian patterns of belief revision, with or without any prior tutoring in formal probability theory. The visually-based graphical response mode also enhanced secondary characteristics of the judgments such as consensus, confidence and speed of decision making, with respect to those judgments.

**ON THE SHAPE OF AUDIT TECHNOLOGIES****David Finley** (University of Houston)

An audit technology is defined as a function of cost, where the technology is the conditional probability of detecting an adverse condition, such as materially false financial statements. The shape of the technology is important in finding and characterizing solutions to constrained optimization, decision theory, interactive, and agency models of auditing and its economic role. For many models, a concave technology leads to pure auditor strategy choices for equilibrium solutions, but such simplification does not occur for non-concave audit technologies.

The shapes of audit sampling technologies depend on sampling effectiveness functions and the functions giving sample size for given costs, if both these functions are concave, a technology is concave. Two particular sampling approaches are investigated. First, for discovery sampling, the sampling effectiveness function is shown to be strictly concave. Second, the normal distribution effectiveness function is strictly concave for the most likely application parameter values, but not for all such parameter values. Further investigation is needed to determine whether other sampling effectiveness functions and more comprehensive audit technologies are concave.



CAAA 1990

CONCURRENT SESSION 3C

Sunday, June 3  
 10:45am - 12:15pm  
 Elliott 166

**THE PRESENT STATE OF SOCIAL DISCLOSURE: CONTENT AND MEDIA ANALYSIS  
 USING FIRMS REGARDED AS SOCIAL PERFORMANCE LEADERS AND FOLLOWERS**

Irene Herremans (University of Calgary)

The social disclosure of 49 social performance leaders and 46 social performance followers was analyzed by content and media format. This research project was undertaken to determine the extent that the firms in each group communicate their attention to social issues (their corporate responsibility) to their stakeholders. The depth and breadth of content and the quality of the social disclosure was studied to determine if the leaders included more and better social disclosure in their 1987 annual reports than did the followers. The results of the descriptive study show that both firm groups actively engage in social disclosure; however, a strong positive correlation was found between social performance and social disclosure, indicating a better quality of reporting with greater depth and breadth among leading social performers.

**SOCIAL VERSUS PHYSICAL REALITY IN ACCOUNTING AND THE MEASUREMENT OF  
 ITS PHENOMENA**

Richard Mattessich (University of British Columbia)

This paper exposes, and hopefully resolves, some fundamental issues of social reality, the neglect of which was led to interesting, but hitherto unresolved problems and surprising interpretations in the accounting literature (e.g. Heath [1987], Sterling [1988], Thornton [1988]).

Apart from conceptual clarification (presentation of a reality model which fully conforms to everyday activity and language, etc.), we demonstrate that Heath's claim that income and stockholders' equity are mere concepts without any reality behind them, is based on a confusion between two fundamental dichotomies: while Heath believes to deal with the distinction between "concepts vs. reality" he actually is confronted with the juxtaposition of "social reality vs. physical reality." Thus, we can demonstrate that income, owner's equity and similar accounting concepts are not empirically empty, but usually have a social reality behind them. For similar reasons Sterling's assertion that most accounting figures do not represent real phenomena is rejected. But here the additional problem of "value in exchange" as a social and hence empirical phenomenon requires clarification. The article shows that the resolution of Sterling's problem cannot be found by denying the reality status of value phenomena (as reflected in financial statements), but must be sought in a better understanding of the ontological and methodological difficulties and, above all, the pragmatic (cost/benefit) problems of accounting measurement. If our aim is understanding reality, and our means is conceptual representation, then a confusion of means and ends, and the questioning of the reality status of accounting values, indicate unresolved foundational problems that deserve clarification.

CAAA 1990

## PLENARY SESSION 3

Sunday, June 3  
2:15pm - 3:45pm  
Elliott 168

**FEATURES OF A HEALTHY RELATIONSHIP BETWEEN THE UNIVERSITIES AND THE PROFESSIONS**

**Mike Gibbons** (University of Alberta)  
**Lorne Bolton** (Laventhol and Horwath)  
**John Hylton** (Executive Director, Society of Management Accountants of Alberta)  
**Thomas Beechy** (York University)

The many significant changes going on within the university system and within the accounting professions are creating stress in and uncertainty about the relationship between university accounting departments and the accounting professions. With the background provided by the previous day's plenary session on "The Challenge of 2000", this session will address what is happening now in universities and the professions and what is likely in the future, focusing on the necessary features of a future healthy relationship between academe and practice, one that will reflect cooperative effort to benefit both.

Topics to be addressed include:

- Funding changes and pressures in the Canadian university system
- Relative strengths of universities and the professions in accounting education
- Program and other academic priorities within the universities
- Universities' ability to provide an interest in offering "professional" material
- Professions' expectations of university education
- Changing priorities in public accounting
- Changing priorities in industry
- Changing priorities in the professions' education structures
- Making healthy cooperation work

Speakers will provide information on the above topics intended to focus on how to build a strong cooperative relationship in the future rather than on complaints about the past. Each speaker will bring a different perspective to the topics. Tom Beechy, York University, will speak as an accounting academic and senior administrator in a major university. Lorne Bolton will speak as a public practitioner and observer of professional education for CAs. John Hylton will speak as a manager of the CMA education effort and participant in cooperative activities between universities and the profession.

CAAA 1990

CONCURRENT SESSION 4A

Sunday, June 3  
4:00pm - 5:30pm  
Elliott 166**THE CONTINUING SHORTAGE OF DOCTORALLY QUALIFIED ACADEMIC ACCOUNTANTS****George Gekas** (University of Western Ontario)

The shortage of doctorally qualified academic Accountants and its implications for Accounting education in Canada is a cause of deep concern for many who are directly involved with it. The severe shortage of academic Accountants coupled with the market demand for better trained, professionally qualified Accountants has put a great strain on universities. The demand for a larger commitment to Accounting education is occurring at a time when programmes are under severe financial constraints.

Universities have produced large numbers of Accountants in the last decade, at least enough to meet the immediate needs of the Canadian economy. Although the demand and supply of Accounting graduates has not always been balanced, one can claim that the supply of Accountants has been large enough not to cause a major concern.

As long as Accounting graduates are produced, few seem to be interested in the production process. The major production problem-shortage of doctorally qualified academic Accountants is largely unknown. Unless this shortage is filtered down the system causing a more visible shortage of university Accounting graduates, it is doubtful that the university system will respond properly to this shortage.

This study is an appraisal of the continuing shortage of doctorally qualified academic Accountants. Its purpose is to explore the forces, trends, and pressures that shape the current status of the Accounting discipline. The identification of these forces will offer insight into possible changes in Accounting education in the future and may at the same time indicate those areas where changes should be made.

**A UNIQUE EXPERIENCE IN COMBINING ACADEMIC AND PROFESSIONAL ACCOUNTING EDUCATION: THE NEW ZEALAND CASE****Reginald Mathews** (Massey University)

This paper describes and analyses the system of professional accounting education currently used in New Zealand. The historical system is set down followed by an integrated approach employed by the New Zealand Society of Accountants and the providers of tertiary education in New Zealand.

The system may be regarded as integrated since it began with a review of the accounting profession and its future needs. This was followed by the development of a Body of Knowledge (BOK) which is regarded as the minimum entry level knowledge for accountants.

New Zealand universities structure programmes to meet both their own regulations and the BOK. These programmes are approved by the New Zealand Society of Accountants for accreditation which means that graduates have completed all the educational requirements for entry and have only experience and a minimal final qualifying examination before entry.

The paper compares this system with others in the Anglo-American accounting world and considers some of the strengths and weaknesses of this probably unique system of professional accounting education.

CAAA 1990

CONCURRENT SESSION 4B

Sunday, June 3  
4:00pm - 5:30pm  
Elliott 168**MANAGERIAL EQUITY HOLDINGS AND EARNINGS MANAGEMENT IN A MULTIPERIOD SETTING****Ramy Elitzur** (University of Toronto)  
**Varda Yaari** (Bar-Illan University)

This study examines in a multi-period setting the effects of executive equity holdings in the firm on earnings management and on management effort. The study contributes to the existing literature in its multi-period analysis of the link between earnings management, tax payments, and managerial equity holdings. Furthermore, a testable hypothesis is developed in this study. This study also serves to illustrate the importance of disclosure of ownership by managers as proposed in SEC release No. 34-2633 [1988]. The analysis focuses on the effect of a compensation package comprised of bonus and equity holdings on the optimal reporting function of the manager. After observing the "true" income of the firm, the manager selects an "optimal" reported income which consists of the true income plus a selected earnings management operator. The effect of earnings management on tax payments is examined. The potential effect on taxes occurs due to the alternative minimum tax (AMT) provision of the Tax Reform Act of 1986. The implication of this provision for our case is that management of earnings could create an additional tax outflow. Next, we examine the relation between earnings management and executive managerial holdings under different degrees of market efficiency. The findings of this study indicate that executive equity holdings in the firm tend to affect earnings management and to increase management effort. The study then proceeds to develop empirical implications of the model.

**AN EXAMINATION OF THE "NEGATIVE RESULT" BIAS: SOME EMPIRICAL EVIDENCE AND A STATISTICAL REDRESS****Murray Lindsay** (University of Saskatchewan)

Evidence is provided to assess the extent of the "negative result" bias (studies failing to attain statistical significance at conventional levels of significance) in the social sciences in general and accounting in particular. Results from surveying 39 management accounting articles indicate that accounting researchers and/or reviewers, like their counterparts in other disciplines, are biased against publishing negative results. Two reasons are advanced to explain the occurrence of the bias. First, researchers operate under the conception which sees science advancing by way of finding relationships between variables (i.e., rejecting the null) instead of (primarily) through criticism. Second, the scientific community considers achieving statistical significance to be synonymous with scientific rigour and the establishment of new facts. The consequences of the bias are then demonstrated to be profoundly significant: it undermines the objectivity underlying the rationale of the test of significance procedure and, at a more basic level, impedes scientific advancement. In an attempt to establish a framework for coping with the problem, a statistical redress is provided which can be used to establish reasonable boundaries on the problem and to estimate a research conclusion's degree of susceptibility to it. The article concludes with a call for the discipline of accounting to replace statistical significance with reasonable precision as the criterion for publication.

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CONCURRENT SESSION 4C

Sunday, June 3  
4:00pm - 5:30pm  
Elliott 061**THE BERLE-DODD DEBATE ON THE QUESTION OF "TO WHOM ARE CORPORATE MANAGERS ACCOUNTABLE?"****John Macintosh** (University of Windsor)

This paper re-examines the question of "To Whom are Corporate Managers Accountable?" raised in the Berle-Dodd debate of the 1930's. In the debate, Berle held that the management of corporations was accountable only to the stockholders whereas Dodd argued that corporations should be accountable to society as well as their security holders. The issue, which still applies to present day financial reporting, has still not been properly resolved. The debate is examined in relation to the conditions under which it took place together with the perceived need to regulate financial reporting as the means of ensuring that management is accountable for its actions. It concludes that the actions of management and the extent to which they are accountable for their actions are only partially dependent upon the regulation and control of financial reporting. The extent to which corporate management is accountable for its actions to their stockholders and society is, therefore, largely dependent upon the attitudes of management and this is unlikely to change.

**A CROSS-SECTIONAL ANALYSIS OF CEO COMPENSATION: THE CASE OF COMMERCIAL BANKS****Michel Magnan** (Ecole des Hautes Etudes Comm)

This paper investigates differences in CEO compensation practices within the commercial banking industry. The paper studies both the relation between proxies for a bank's economic and regulatory environment and compensation levels as well as the relation between accounting-based performance indicators and first differences in compensation.

Empirical results indicate that bank-specific environmental variables have significant incremental power over size in explaining compensation levels. In addition, accounting signals other than net earnings are found to provide incremental explanatory power over return on assets and stock returns in determining first differences in compensation.