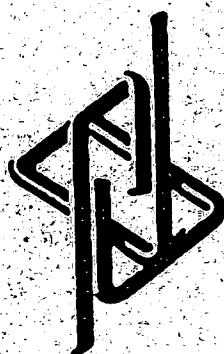


**PROGRAMME ET RÉSUMÉS DE LA  
CONFÉRENCE ANNUELLE DE  
L'ASSOCIATION CANADIENNE DES  
PROFESSEURS DE COMPTABILITÉ**

**PROGRAM AND COLLECTED  
ABSTRACTS OF THE CANADIAN  
ACADEMIC ACCOUNTING  
ASSOCIATION ANNUAL CONFERENCE**



**8 au 10 juin 1995**

**June 8 to 10, 1995**



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DU VILLAGE GLOBAL**

**THEME: ACCOUNTING IN THE  
GLOBAL VILLAGE**

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**ASSOCIATION CANADIENNE  
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COMPTABILITÉ**

**CANADIAN ACCOUNTING  
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**PROGRAMME DU COLLOQUE 1995**

**CONFERENCE PROGRAM**

**Jeudi le 8 juin**

**Thursday June 8**

**08:00 - 19:00**

**Inscription**

**Registration**

**Lieu**

**J-M400**

**Location**

**07:30 - 08:30**

**Déjeuner**

**Breakfast**

**Lieu**

**D-R200**

**Location**

**08:30 - 16:00**

**Colloque sur l'enseignement**

**Education workshop**

**Une introduction à l'INTERNET  
pour l'enseignement et la recherche**

**An Introduction to the INTERNET  
for Accounting Education and Research**

**Animateurs**

**Clinton White (Delaware)  
Paul E. André (UQAM)**

**Animators**

**Lieu**

**R-M130**

**Location**

12:00 - 13:15

Dîner  
Lieu

(CGA, Québec)  
D-R200

Luncheon  
Location



ORDRE DES  
COMPTABLES GÉNÉRAUX LICENCIÉS  
DU QUÉBEC

16:30 - 18:00

Session pour les étudiants au doctorat  
et les nouveaux professeurs

Doctoral student/New faculty seminar

Le choix d'un sujet de thèse  
et les possibilités de publication

The choice of a thesis topic  
and the potential for publication

Animateurs

Chantal Viger (UQAM)  
Patrice Gélinas (UQAM)

Animators

- Katherine Schipper - *Journal of Accounting Research*
- Anthony Hopwood - *Accounting, Organizations, and Society*
- Mike Gibbins - *Contemporary Accounting Research*
- David Cooper - *Critical Perspective in Accounting*
- Bernard Colasse - *Comptabilité, Contrôle, Audit*

Lieu

R-M140

Location

18:30 - 21:30

Réception de bienvenue

(ICCA) (CICA)

Welcome Reception



Lieu

La Verrière  
(A-COUR)

Location

Vendredi le 9 juinFriday June 9**07:30 - 08:30****Déjeuner****(Nelson Canada)****Breakfast****Lieu****D-R200****Location****08:00 - 17:00****Inscription****Registration****Lieu****J-M400****Location****08:45 - 09:00****Mot de bienvenue\*****\*Opening remarks**

Gaétan Breton (Organisateur de la conférence -  
Conference chairman)

Bruce Irvine (Président ACPC - CAAA President)

Le Directeur de l'École des sciences de la gestion -  
Dean of the Business School

**Lieu****R-M130****Location**


---

\* La traduction simultanée est disponible pour cette présentation.  
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Comptables  
agréés  
du Québec



**09:00 - 10:30**

**Plénière\***

**La comptabilité à l'heure du "Village global"**

**\*Plenary session**

**Accounting in the Global Village**

**Conférencier**

**Anthony Hopwood (London School of Economics)**

**Speaker**

**Lieu**

**R-M130**

**Location**

**10:30 - 10:45**

**Pause santé**

**(ICAO)**

**Break**

**10:45 - 12:15**

**Séances parallèles**

**1A, 1B, 1C**

**Concurrent Sessions**

**Séance 1A: Comptabilité de gestion\***

**\*Session 1A: Management Accounting**

**Présidente**

**Louise Côté (UQAM)**

**Chairperson**

- *Partage de la charge jointe et appartenance au coeur du jeu: modélisation et visualisation*, E. Charles, A. Debecker, B. Morard & P. Viallanex (Genève)
- *Recent Changes in Manufacturing Costs and Accounting Practices of Canadian Businesses-Empirical Evidence*, George Chesley (Saint Mary's)
- *Relevance Lost and Found: A View From the Critical Accounting Project*, Robin Roslender (Stirling)

**Commentateur**

**Chau Le Van (UQAM)**

**Discussant**

**Lieu**

**R-M130**

**Location**

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\* La traduction simultanée est disponible pour cette présentation.  
Simultaneous translation is available for that presentation.

**Séance 1B: Comptabilité financière 1****Session 1B: Financial Accounting 1****Président****Howard Teall (Wilfrid Laurier)****Chairperson**

- *Effectiveness of Neural Network Types for Prediction of Business Failure*, Efrim Boritz (Waterloo) & Duane Kennedy (Waterloo)
- *Earnings Management During Anti-Dumping Investigations: Some Canadian Evidence*, Michel Magnan (UQAM) & Cathy Nadeau (Rochester)
- *The Information Content of Accounting Variables as Earnings Predictors: Empirical Evidence with Logit Models and Artificial Neural Networks*, Andreas Charitou (Cyprus & Toronto), Chris Charalambous (Cyprus) & Tasos Falas (Cyprus)

**Commentateur****Daniel Thornton (Queen's)****Discussant****Lieu****R-M140****Location****Séance 1C: Vérification 1****Session 1C: Auditing 1****Présidente****Irene Gordon (Simon Fraser)****Chairperson**

- *Auditors' Behaviour in an Audit Conflict Situation: An Empirical Analysis of the Role of Locus of Control and Ethical Reasoning*, Judy Tsui (City Polytechnic of Hong Kong) & Ferdinand Gul (Chinese University of Hong Kong)
- *The Effects of Prior Belief and Agreement on Judgments of Audit Evidence and Accounting Policy*, Steven Salterio (Alberta) & Jonathan Koehler (Texas at Austin)

**Commentatrice****Janet Morrill (Laval)****Discussant****Lieu****R-M180****Location**

12:30 - 14:30

Dîner du président

(CGA, Canada)

President's Luncheon



Président

Bruce Irvine

President

Conférencier

Bernard Colasse (Paris-Dauphine)  
*L'harmonisation comptable européenne -*  
*The European Accounting Harmonization*

Speaker

Lieu

D-R200

Location

14:45 - 16:15

Séances parallèles

2A, 2B, 2C

Concurrent Sessions

Séance 2A: L'avenir de la perspective\*  
 critique en comptabilité

\*Session 2A: The Future of the Critical  
 Perspective in Accounting

Modérateur

David Cooper (Alberta)

Moderator

Participants

Joel Amernic (Toronto)  
 Léo-Paul Lauzon (UQAM)  
 Teri Shearer (Saskatchewan)

Participants

Lieu

R-M130

Location

---

\* La traduction simultanée est disponible pour cette présentation.  
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**Séance 2B: Fiscalité/Responsabilité des gouvernements****Session 2B: Public Issues****Présidente****Aline Girard (HEC)****Chairperson**

- *Incorporating Tax Into Child Support Awards: Improvement is Needed*, Janice Buskard (Ernst & Young), Alan Macnaughton (Waterloo) & Glenn Feltham (Wilfrid Laurier)

**Commentateur****Alastair Murdoch (Manitoba)****Discussant**

- *Government Accountability*, Randy Lutic, Suzanne Nickerson, Ken Hoffman, Jim Hug & Andrew Wingate (Office of the Auditor General of Alberta)

**Commentateur****Vaughan Radcliffe (Case Western Reserve)****Discussant****Lieu****R-M140****Location****Séance 2C: Vérification 2****Session 2C: Auditing 2****Président****Claude Laurin (UQAM)****Chairperson**

- *The Implication of Alternative Litigation Cost Allocation Systems for the Value of Audits to Investors*, Efrim Boritz (Waterloo) & Ping Zhang (Wilfrid Laurier)
- *Auditor Liability and Current Investors' Welfare*, W.R. Scott (Waterloo) & Ping Zhang (Wilfrid Laurier)

**Commentateur****James Xie (Alberta)****Discussant****Lieu****R-M180****Location****16:15 - 16:30****Pause santé****(Prentice Hall)****Break**

**16:30 - 17:45****Assemblée générale annuelle\*****\*Annual General Meeting****Président****Bruce Irvine****President****Invitée****Katherine Schipper (AAA)****Invited Guest****Lieu****R-M130****Location****18:30 - 21:30****Réception des membres****(CGA, Québec)****Members' Reception****Lieu****La Verrière  
(A-COUR)****Location**

**ORDRE DES  
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## Liste des participants

## List of participants

Acland, Derek  
 Ahmed, Anwer S.  
 Aldersley, Stephen J.  
 Anderson, Teresa (Terry)  
 Andrew, Ruby  
 André, Paul E.  
 Armitage, Howard M.  
 Banister, Rod T.  
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 Beechy, Tom  
 Berthelot, Sylvie  
 Bilodeau, Julien  
 Blanchette, Daniele  
 Boland, Lawrence A.  
 Boyer, Benoît  
 Bozec, Richard  
 Brault, Réjean  
 Breton, Gaétan  
 Buhr, Nola  
 Chan, Anthony Mung Yin  
 Chant, Peter D.  
 Cheng, Thomas T.  
 Chesley, George R.  
 Colasse, Bernard  
 Cooper, David J.  
 Coulombe, Daniel  
 Courteau, Lucie  
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 Cucumel, Guy  
 Denham, Ross A.  
 Deutsch, Esther  
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 Downey, Angela M.  
 Duff, Alistair  
 Dunn, Paul  
 Durocher, Sylvain  
 Dussault, Claude  
 Ebrahim, Kass  
 Elbekkali, Abdelhaq  
 Elias, Nabil  
 Elloumi, Fathi  
 Emrick, Catherine E.  
 Entwistle, Gory M.  
 Etherington, Lois D.  
 Feil, Lisa M.

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Kim, Jeong B.  
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Paquette, Suzanne M.  
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Rao, Hema  
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**Samedi le 10 juin****07:30 - 08:30****Déjeuner****(Times Mirror Professional Publishing)****Breakfast****Lieu****D-R200****Location****08:45 - 10:15****Plénière\*****\*Plenary session****Les normes comptables et  
la crédibilité de la profession****GAAP and Credibility of the Profession****Modérateur****Nabil Elias (Manitoba)****Moderator****Participants****Diane Joly (Chief accountant)  
Alex Milburn (Ernst & Young)  
Ron Salole (ICCA - CICA)  
William Scott (Waterloo)****Participants****Lieu****R-M130****Location****10:15 - 10:30****Pause santé****Break**


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\* La traduction simultanée est disponible pour cette présentation.  
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**10:30 - 12:00**

**Séances parallèles**

**3A, 3B, 3C**

**Concurrent Sessions**

**Séance 3A: Comptabilité financière 2\***

**\*Session 3A: Financial Accounting 2**

**Président**

**Derek Acland (Concordia)**

**Chairperson**

- *Les besoins d'information des analystes financiers et gestionnaires de fortunes suisses*, Bernard Raffournier (Genève)
- *Stock Prices and Earnings Persistence: The Role of Earnings Classification*, John O'Hanlon (Lancaster), Ser-Huang Poon (Lancaster) & Robert Yaansah (Saskatchewan)
- *Cross-Sectional Determinants of Price-to-Book Ratios: Evidence from Hong Kong*, Joseph Cheung (Hong Kong University of Science and Technology), Richard Chung (Concordia) & Jeong-Bon Kim (Concordia)

**Commentatrice**

**Lucie Courteau (Ottawa)**

**Discussant**

**Lieu**

**R-M130**

**Location**

**Séance 3B: Comptabilité internationale**

**Session 3B: International Issues**

**Présidente**

**Anne Fortin (UQAM)**

**Chairperson**

- *The IASC Comparability Project: A Cross-National Comparison of Financial Reporting Practices and IASC Proposed Rules*, C.B. Roberts (Exeter), Stephen Salter (Texas A&M) & Jeffrey Kantor (Windsor)
- *Structuration and Accounting Standard setting in China*, Anthony Moungh Yin Chan (City University of Hong Kong)

**Commentateur**

**Thomas Beechy (York)**

**Discussant**

**Lieu**

**R-M140**

**Location**

---

\* La traduction simultanée est disponible pour cette présentation.  
Simultaneous translation is available for that presentation.

**Séance 3C: Profession comptable****Session 3C: Professional Issues****Président****Yvon Houle (UQAM)****Chairperson**

- *Organizational Memory in Public Accounting Firms: The Role of Accounting Consultation Units*, Steven Salterio (Alberta) & Ross Denham (Alberta)
- *"Proper" Professional Behaviour: Canadian CA's and The Emergence of Ethical Codes*, Dean Neu (Calgary) & Lubna Saleem (Saskatchewan)
- *Marketing of Audit and Nonaudit Services - An Empirical Examination*, Hema Rao (Concordia)

**Commentateur****Claude Pilote (UQAM)****Discussant****Lieu****R-M180****Location****12:15 - 13:45****Dîner des membres****(SCMC) (SMAC)****Members' Luncheon****Président****Daniel Thornton****President****Conférencier**

**Hank Horwath (SCMC - SMAC)**  
*Les normes comptables internationales -*  
*International Accounting Standards*

**Speaker****Lieu****D-R200****Location****14:00 - 15:30****Séances simultanées****4A, 4B****Concurrent Sessions**

**Séance 4A: Intégration de la technologie  
de l'information dans  
l'enseignement de la comptabilité**

**Session 4A: Information Technology:  
Its Integration in the  
Accounting Curriculum**

Modérateur	Efrim Boritz (Waterloo)	Moderator
Participants		Participants
Lieu	R-M130	Location

**Séance 4B: Rémunération/Processus budgétaire**

**Session 4B: Management Issues**

Présidente	Helen McDonough (UQAM)	Chairperson
------------	------------------------	-------------

- *The Effects of Organizational Culture on Budgetary Conflict*, Nabil Elias (Manitoba) & William Notz (Manitoba)
- *The Influence of Organizational Performance on Executive Compensation Determination: a Comparison of US and Canadian Firms*, Michel Magnan (UQAM), Sylvie St-Onge (HEC) & Linda Thorne (McGill)

Commentateur	Cheryl McWatters (McGill)	Discussant
Lieu	R-M140	Location

**15:30 - 16:00**

**Fermeture du colloque et remerciements**

**Closing Remarks**

Lieu	R-M130	Location
------	--------	----------

**18:00 - .....**

**Souper et danse sur  
le "Nouvelle Orléans"**

**(CMA, Québec)**

**Cruise, dinner and dancing**

**CMA**

**ORDRE  
DES COMPTABLES EN MANAGEMENT ACCRÉDITÉS  
DU QUÉBEC**

**Embarquement au quai Jacques Cartier at 18:30.  
Boarding at Jacques Cartier Pier at 18:30.**

**RÉSUMÉS**

**ABSTRACTS**

## **PARTAGE DE LA CHARGE JOINTE ET APPARTENANCE AU COEUR DU JEU : MODÉLISATION ET VISUALISATION**

**Emmanuelle Charles, Alain Debecker,  
Bernard Morard, Patrick Viallanex  
Université de Genève**

Le problème de l'allocation des charges jointes se pose dans de nombreuses situations dans lesquelles des individus décident de travailler ensemble. Il s'agit de décider comment partager la charge jointe qui résulte de la coopération.

Depuis les années 70, de nombreux articles de comptabilité analytique traitent de ce sujet particulier. Ils n'abordent que très rarement les aspects stratégiques de ces situations. Une alternative existe néanmoins. Il s'agit de positionner l'analyse de la répartition dans le cadre de la théorie des jeux.

Pourtant, l'application de la théorie des jeux au problème de la répartition n'a pas eu l'écho de la part des utilisateurs que l'on aurait pu imaginer. Certains arguments sont évoqués comme la complexité de résolution des règles de partage dès lors que le nombre de départements devient important ou sur les difficultés à réunir l'information nécessaire à l'obtention de la solution. Un argument plus fondamental repose sur la constatation que certains règles ne possèdent pas forcément une propriété largement désirée : elles n'appartiennent pas systématiquement au coeur du jeu.

Toutes ces critiques ont largement contribué à délaisser le cadre d'analyse de la théorie des jeux pour le problème du partage de la charge jointe.

Pourtant, à l'heure actuelle, ces attaques ne sont plus forcément largement justifiées. En effet, la critique concernant la complexité de résolution n'a plus réellement de raison d'être. Elle peut être largement contournée grâce à l'utilisation d'instruments modernes parfaitement adaptés à ce type de calculs.

Par contre, il n'a pu être apporté de solution quant à la difficulté de réunir l'information et au fait que la répartition n'appartienne pas forcément au coeur du jeu.

L'objet du papier est double.

Nous nous proposons de présenter un modèle simple qui aurait l'avantage de supprimer les deux derniers problèmes évoqués, en particulier pour la valeur de Shapley. Le modèle revêtira la forme d'un programme de minimisation quadratique, auquel il sera introduit les contraintes relatives aux conditions de coeur. Ainsi, les arguments qui subsistaient contre l'utilisation de la théorie des jeux n'auront plus de raison d'être. Le problème informationnel pourra être dépassé, au travers de l'inférence statistique que revêt le modèle et l'appartenance au coeur (s'il existe) vérifiée grâce à l'introduction des contraintes.

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Comptabilité de gestion  
Lieu

10:45 - 12:15  
1A  
R-M130

Friday June 9  
Management Accounting  
Location

## **RECENT CHANGES IN MANUFACTURING COSTS AND ACCOUNTING PRACTICES OF CANADIAN BUSINESSES - EMPIRICAL EVIDENCE**

**G. R. Chesley**  
Saint-Mary's University

Changes in inventory practices and overhead/labour cost structures have received widespread attention in the management accounting literature. Mostly, however, the research supporting this area is based on case studies or data from surveys of large companies.

This study examines a combination of aggregate Canadian statistical data, published financial reports and surveys of small manufacturers in Nova Scotia to ascertain if suggested cost changes were present in economy-wide statistics and in firms that were not captured by survey samples.

Aggregate statistics from eight industry groupings (21 possible) provide clear evidence of cost patterns reflecting JIT type inventory management practices during most of the 1980's. Capital/labour cost tradeoffs in the same eight industry groups were not as clearly evident because of erratic patterns overtime. Nevertheless, six of the eight industries reflected long-run patterns of capital expenditure increases over the extended 1972 to 1987 period.

Extensions of the statistical reviews to the 1990/93 period for thirteen industries showed eight of thirteen industries with JIT type inventory patterns. The capital/labour cost patterns, however, were sufficiently erratic to prevent clear evidence of substitutions.

Survey responses from 78 Nova Scotia manufacturers indicated the importance overhead costs with slightly more than one third suggesting they had changed their accounting practices to achieve more accurate costing or more control.

Results indicate the need for more analysis of decision practices by Canadian business together with the type of financial information they are using.

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**RELEVANCE LOST AND FOUND :  
A VIEW FROM THE CRITICAL ACCOUNTING PROJECT**

**Robin Roslender**  
Univerty of Stirling, Scotland  
& Queen's University, Canada

During the past decade management accounting has been the site for the development of two important, though fundamentally different programs of scholarly inquiry and research activity. Widespread concern with the question of the relevance of contemporary cost and management accounting quickly gave way to the development and diffusion of a range of new techniques such as activity-based costing, strategic cost analysis and backflush accounting. These techniques have subsequently been integrated into a number of generic approaches to the challenge of accounting for strategic positioning, i.e. corporations' attempts to achieve a commanding position in the market place relative to their competitors.

In parallel, management accounting has also played host to many of the most significant developments associated with the advent of the critical accounting project. Critical accounting may be viewed as the accounting profession's attempt to promote a greater level of self-awareness about the conditions and consequences of the practice of accounting. Although advocates of the critical accounting project are deeply divided about the ultimate purpose of their endeavours, they are generally in agreement that the "new" management accounting should be viewed in a largely negative way.

This paper begins with a brief account of the relevance debate, and continues by providing a review of the techniques and generic approaches to accounting for strategic positioning. Attention then switches to the emergence of the critical accounting project and some observations on its development to date. The main focus of the paper is a critical appraisal of a number of commentaries on the accounting for strategic positioning literature which have recently emanated from the critical accounting project. The paper concludes on a more positive note about the potentialities which developments in accounting for strategic positioning offer those who seek to advance a more change-oriented critical accounting project.

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Management Accounting  
Location

## **EFFECTIVENESS OF NEURAL NETWORK TYPES FOR PREDICTION OF BUSINESS FAILURE**

**J. Efrim Boritz  
Duane B. Kenney  
University of Waterloo**

The study examines the effectiveness of different neural networks in predicting bankruptcy filing. Two approaches for training neural networks, Back-Propagation and Optimal Estimation Theory, are considered. Within the back-propagation training method, four different models (Back-Propagation, Functional Link Back-Propagation With Sines, Pruned Back-Propagation, and Cumulative Predictive Back-Propagation) are tested. The neural networks are compared against benchmarks provided by traditional bankruptcy prediction techniques such as discriminant analysis, logit, and probit.

The results show that the level of Type I and Type II errors varies greatly across techniques. The Optimal Estimation Theory neural network has the lowest level of Type I error and the highest level of Type II error while the traditional statistical techniques have the reverse relationship (i.e., high Type I error and low Type II error). The back-propagation neural networks have intermediate levels of Type I and Type II error. The neural network models' performance is in line with that of the more conventional techniques such as discriminant analysis and logit/probit; however, their performance is not a dramatic improvement over those conventional techniques in terms of dramatic reductions in misclassification costs.

We also demonstrate that the performance of the neural networks tested is sensitive to the choice of variables selected and that the networks cannot be relied upon to "sift through" variables and focus on the most important variables (network performance based on the combined set of Ohlson and Altman data was frequently worse than network performance with one of the subsets).

Also, network results are quite sensitive to sampling error. Thus, researchers reporting on the results of applying neural networks should be replicating their models several times to obtain a reliable measure of model performance. Our results suggest the need to exercise caution in interpreting results of studies where such replication was not performed.

**Key Words :** Bankruptcy, neural networks, logit, probit, discriminant analysis.

**EARNINGS MANAGEMENT DURING  
ANTI-DUMPING INVESTIGATIONS:  
SOME CANADIAN EVIDENCE**

**Michel Magnan**  
Université du Québec à Montréal

**Cathy Nadeau**  
University of Rochester

In Canada, anti-dumping complaints against foreign competitors must be lodged to the Canadian External Trade Tribunal (Tribunal). The Tribunal will assess if domestic producers have been harmed by foreign competition by considering many factors, such as the plaintiff's financial condition. Hence, in order to obtain a favourable decision from the Tribunal, managers of Canadian firms who have launched anti-dumping complaints may want to voluntarily reduce their reported earnings during the investigation period. Within the context of the political cost hypothesis, the purpose of this paper is to assess if managers of Canadian firms who have launched anti-dumping suits engage in earnings management by reducing discretionary accruals.

Results show strong support for the political cost hypothesis, Canadian firms under investigation by the Tribunal exhibiting negative discretionary accruals. These results are robust to various model specifications and present an original Canadian extension to prior U.S.-based evidence.

Ms. Nadeau acknowledges receiving financial support from the Québec government and from Fondation UQAM.

**THE INFORMATION CONTENT OF ACCOUNTING  
VARIABLES AS EARNINGS PREDICTORS : EMPIRICAL EVIDENCE  
with logit models and Artificial Neural Networks**

**Andreas Charitou\***  
**Chris Charalambous**  
**Tasos Falas**  
**University of Cyprus**  
**\*and**  
**University of Toronto**

In the past three decades, earnings has been one of the most researched variables in accounting. Empirical research provided substantial evidence on its usefulness in the capital market. There has been, though, little or weak evidence in predicting earnings. The purpose of this study is to validate and extend prior research in predicting earnings by examining aggregate and industry-specific data. A sample of 10,509 firm-year observations included in the Compustat database for the period 1982-1991 were included in the study. The setpwise logistic regression results of the present study indicated that nine earnings and non-earnings variables can be used to predict earnings. These predictor variables were not identical to those reported in prior studies. These results were also extended to the manufacturing industry. Two new variables were identified to be significant in this industry. The logistic regression results were complemented by employing an Artificial Neural Network (ANN) approach. The ANN model's performance was at least as high as the logistic regression model's predictive ability.

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**R-M140**

**Friday June 9**  
**Financial Accounting**  
**Location**

**AUDITORS' BEHAVIOUR IN AN AUDIT CONFLICT SITUATION:  
AN EMPIRICAL ANALYSIS OF THE ROLE OF  
LOCUS OF CONTROL AND ETHICAL REASONING**

**JUDY S. L. TSUI**  
City Polytechnic of Hong Kong

**FERDINAND A. GUL**  
The Chinese University of Hong Kong

This study investigates the interaction effects of locus of control, a personality variable, and ethical reasoning on the behaviour of auditors in an audit conflict situation. Eighty experienced auditors from a sample of Big Six and Non-Big Six CPA firms in Hong Kong were provided with a case study involving an audit conflict situation and were asked to state the extent to which they would accede to the client's request. Subjects were also administered Rotter's Locus of Control Scale and the Defining Issues Test to measure ethical reasoning. Analyses of the data using multiple regression found that ethical reasoning moderated the relationship between locus of control and the auditors' responses to accede to client's request in an audit conflict situation. An implication of these results is that the explicit recognition of both locus of control and ethical reasoning provides a better explanation for differences in auditors' ethical decision making.

**Key Words:** Ethical reasoning, locus of control, audit conflicts.  
Research instruments used in this study are available from the authors.

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Vérification 1  
Lieu

10:45 - 12:15  
1C  
R-M180

Friday June 9  
Auditing 1  
Location

## THE EFFECTS OF PRIOR BELIEF AND AGREEMENT ON JUDGMENTS OF AUDIT EVIDENCE AND ACCOUNTING POLICY

Steven Salterio  
University of Alberta

Jonathan J. Koehler  
University of Texas at Austin

This paper examines the effects of auditors' pre-existing beliefs on their judgments of audit evidence quality and the implications of those judgments for subsequent audit judgments. We examine these issues in a task that requires judgment about whether the financial accounting policy proposed for a new type of transaction is in accordance with generally accepted accounting principles.

Recent psychological research demonstrated that evidence that agreed with prior beliefs was judged to be higher quality evidence than similar evidence that disagreed with prior beliefs (an agreement effect). However, little is known about how auditors' beliefs about accounting policy affect their judgments about the quality and value of subsequently received audit evidence. Therefore, the central purpose of this study is two-fold : (1) to determine whether the agreement effect extends to auditor evidence quality judgments in a realistic professional task (evidence evaluation), and (2) to investigate the consequences, if any, of an evidence evaluation agreement effect on auditors' subsequent audit decisions (evidence integration). In addition, we consider the significance of an evidence evaluation agreement effect for the well-known phenomenon of auditor sensitivity to negative (i.e., belief-disconfirming) evidence.

These issues are important to study for three reasons. First, while auditing standards explicitly acknowledge that evidence quality judgments are important, little is known about the factors that affect those judgments. Second, various expert systems and evidence aggregation models reported in the audit literature implicitly assume that agreement effects either do not exist or are unimportant. If this is not the case, then these systems and models may yield inaccurate results. Third, an understanding of factors that affect differential auditor sensitivity to belief-confirming and belief-disconfirming evidence may suggest ways to increase or decrease this sensitivity as appropriate.

Sixty-six audit partners and senior managers completed an accounting policy judgment case. We found an evidence evaluation agreement effect in which auditors' prior beliefs affected their judgments about the evidence (prior similar cases) quality. Evidence that agreed with auditors' initial beliefs was evaluated more favorably (in terms of its objectivity and reliability) than evidence that disagreed with auditors' beliefs. We also found that auditors' evidence quality

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## **INCORPORATING TAX INTO CHILD SUPPORT AWARDS : IMPROVEMENT IS NEEDED**

**Janice Buskard**  
Ernst & Young

**Alan Macnaughton**  
University of Waterloo

**Glenn Feltham**  
Wilfrid Laurier University

The issue addressed in this paper is how taxes should be taken into account by the courts or private negotiations in determining child support awards. This issue is created by the fact that the Canadian tax system allows a deduction to child support payors and requires an income inclusion by child support recipients. Five alternatives for determining the support award are considered and evaluated, including two methods which were developed for this paper.

Analysis of these alternatives reveals that there is usually a bias in favour of one spouse when determining the support award. This bias is based on two factors—the income measure and the gross-up technique. If the measure of income is pre-tax income instead of after-tax income, there is a bias against the payor as this measure of income is not a true reflection of the payor's disposable income available to spend on the children. The second bias is created by grossing up the award by the recipient's tax rate, rather than by splitting the after tax costs according to the method suggested in this paper. This bias is in favour of the payor. Since these two biases work in opposite directions, the net effect is unclear.

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Fiscalité / Responsabilité des gouvernements

Lieu

14:45 - 16:15

2B

R-M140

Friday June 9

Public Issues

Location

## **GOVERNMENT ACCOUNTABILITY**

**Randy Lutic, Suzanne Nickerson, Ken Hoffman,  
Jim Hug, Andrew Wingate  
Office of the Auditor General of Alberta**

The paper provides practical guidance for improving accountability relationships between a government and its operating entities and legislators. Classical definitions of accountability are not challenged; rather, the authors stress that in their view accountability is all about improving the economy and effectiveness of government operations. It is about measuring performance in pragmatic terms. In most situations, a few key performance measures can tell a great deal about the economy and effectiveness of a government program.

People with responsibility ask others to assist them. They delegate authority. Those carrying out the work should be held accountable for their performance. If people who delegate authority do not assess performance, they abdicate their responsibilities. Chapter 1 of the paper suggests that the difference between delegation and abdication is accountability.

Chapter 2 is constructed to show that the effectiveness of an accountability framework can be assessed. The overriding theme is that decision makers must know the cost and effect of outputs to evaluate performance and rationalize resource allocations. Guidelines for assessing effectiveness include:

- Accountability reports should link information on the cost and effects of outputs.
- A Ministry accountability report should include all organizations accountable to the Minister.
- Plans should be prepared by those who have been assigned responsibility. The plans should state results to be achieved, actions to be taken and by whom, estimated costs and performance targets. Those who assign responsibility should agree to the plans.
- Performance reports (such as financial statements and annual reports) should compare actual to planned results.
- Accountability processes within government organizations should be consistent with, and support, accountability to the Minister and the Assembly.

Chapter 3 presents the view that an accountability framework must support a government's ability to:

- Set measurable goals, and responsibilities.
- Plan what needs to be done to achieve goals.
- Do the work and monitor progress.
- Report on results.
- Evaluate results and provide feedback.

Finally, Chapter 4 provides a glossary of terms. In preparing the paper, the authors looked for common meanings for terms and listed them.

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Fiscalité / Responsabilité des gouvernements

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Public Issues

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## **THE IMPLICATION OF ALTERNATIVE LITIGATION COST ALLOCATION SYSTEMS FOR THE VALUE OF AUDITS TO INVESTORS**

**J.Efrim Boritz**  
University of Waterloo

**Ping Zhang**  
Wilfrid Laurier University

When an auditor's effort is not observable, auditor liability becomes an important mechanism to solve the moral hazard problem arising from information asymmetry between an auditor and a client by motivating the auditor to exert an appropriate level of audit effort. However, while the presence of legal liability helps to preserve the value of an audit to investors, some aspects of the liability system may motivate suboptimal behaviour and perhaps, ultimately, detract from investors' welfare.

Accounting practitioners have raised an alarm about the "litigation crisis", arguing that the American Rule under which plaintiffs and defendants pay their own legal costs (under the British rule the loser of a case pays the winner's costs), and contingency fee arrangements between plaintiffs and their lawyers, permit plaintiffs to incur no costs for bringing actions and suffer no costs if they lose, while defendant incur significant costs to prove the claim is specious. Practitioners claim that lawsuits are brought solely for the purpose of coercing settlements by preying on their fear of losing a case in a "joint-and-several-liability" regime. (In such a regime, even a small degree of fault on the part of the auditor can lead to the auditor being held responsible for 100 % of the damages if the auditor is the only party able to pay. In contrast, under a proportional liability regime the amount of payout is a function of the amount of fault).

Using a game theoretic model, this paper contributes to the analysis of litigation-related issues by examining the effects of alternative legal cost allocation systems -- the so-called American vs. British rules.

We find that :

1. The British rule induces more trials than the American rule, while the American rule induces more private settlements.
2. Given the same fixed audit fee under the two systems, auditors will prefer the British system.
3. Investors can obtain higher payoffs under the American system and will therefore prefer the American system unless their litigation costs (or their lawyers' costs) are very high. If investors' litigation costs are very high (i.e., in the range of 50 % or more of damages), then both investors and auditors will prefer the British system.
4. If auditors can earn the same profits under the two systems, the American system will

## AUDITOR LIABILITY AND CURRENT INVESTORS' WELFARE

W. R. Scott  
University of Waterloo

Ping Zhang  
Wilfrid Laurier University

This paper contributes to the audit liability literature by considering the optimal level of auditor liability from the current investors' perspective, and the effect of auditor liability level on the audit market.

Auditor liability is closely related to the damage arising from an audit failure. The distinction between damages and auditor liability is very important for the analysis of an optimal liability structure. Previous research usually regards the damages to investors and the auditor liability as the same, and does not make a clear distinction between the total damages and the "real" damages to the current investors resulting from an audit failure.

The total damages to investors from an audit failure include two components: deadweight costs and losses from wealth transfers. The deadweight costs are the sum of legal fees and business loss (operational losses to the firm directly arising from decisions which are affected by the auditor's opinion), which reduce the firm's value and are the "real" damages to the current investors. The losses to investors from wealth transfers arise from trading shares, which do not reduce the firm's value. Hence, the actual costs of an audit to the current investors are the sum of the audit fee and the deadweight costs. The analysis of this paper shows that the firm's value is maximized when auditor liability for an audit failure equals the sum of an adjusted business loss and the legal expenses to the investors.

In a competitive audit market, the audit fee for a marginal auditor must equal the sum of the auditor's costs of conducting the audit and the expected costs resulting from an audit failure. The expected costs to the auditor from an audit failure include penalties stemming from professional discipline, legal fees, and damages awarded to investors. Since an auditor's capacity to meet the liability is determined by the auditor's wealth and insurance coverage, the endogenously determined audit fee is important for the current investors' auditor hiring decision. The model shows that current investors have incentives to hire an auditor whose effective liability structure is similar to the optimal liability structure. Consequently, the auditor's wealth and insurance coverage determine the auditor's competitive position in the audit market.

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Lieu

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R-M180

Friday June 9  
Auditing 2  
Location

## **LES BESOINS D'INFORMATION DES ANALYSTES FINANCIERS ET GESTIONNAIRES DE FORTUNES SUISSES**

**Bernard Raffournier**  
Université de Genève

Il est généralement admis dans le monde académique que l'objectif premier des états financiers est de fournir des données de nature à faciliter la prise de décision de leurs utilisateurs. Cette recherche s'efforce de déterminer les besoins d'information des investisseurs professionnels à partir d'une enquête par questionnaire auprès des membres de l'Association suisse des analystes financiers et gestionnaires de fortunes.

Les résultats montrent que les deux principales sources d'information de ces investisseurs sont les contacts personnels et le rapport annuel de l'entreprise. Les états financiers consolidés constituent la partie du rapport jugée la plus utile. Les informations élémentaires les plus demandées sont les données segmentées par activité et par zone géographique ainsi que les informations prospectives de type qualitatif.

Les investisseurs professionnels accordent en outre une grande importance au respect des normes comptables, en particulier celles de l'IASC.

Les résultats obtenus sont, dans l'ensemble, peu sensibles à l'activité principale exercée (analyse financière ou gestion de fortunes) ainsi qu'au niveau de formation comptable des répondants.

**Samedi 10 juin**  
**Comptabilité financière 2**  
**Lieu**

**10:30 - 12:00**  
**3A**  
**R-M130**

**Saturday June 10**  
**Financial Accounting 2**  
**Location**

## **STOCK PRICES AND EARNINGS PERSISTENCE: THE ROLE OF EARNINGS CLASSIFICATION**

**John O'Hanlon  
Ser-Huang Poon  
Lancaster University**

**Robert Yaansah  
University of Saskatchewan**

Given the well-documented role of earnings persistence in firm valuation theory, it is important to explore whether firms convey any price relevant information on earning persistence to investors via discretionary earnings classification. This study investigates the impact of management's classification of earnings into its ordinary and extraordinary components on the persistence and its information content as reflected in earnings response coefficients (ERCs).

The empirical evidence reported in this study shows that ordinary earnings exhibits significantly greater persistence than all-inclusive earnings. However, classification-induced persistence does not appear to convey price relevant information as captured in ERCs. All-inclusive earnings innovation adjusted by its persistence was found to better explain abnormal returns than earnings innovation classified into its ordinary and extraordinary components, even when adjusted for their relative series persistence. Thus, management may be successful in creating artificially persistent ordinary earnings through discretionary classification, but the capital market does not appear to react mechanistically to this practice.

These results have policy implications for accounting standard setters. First, the move to severely restrict management's discretion in earnings classification by limiting the number of transactions and events that can be classified as extraordinary is unlikely to result in a loss of price relevant information. Second, the various accounting standards' criteria for earnings classification to date are unlikely to result in the creation of ordinary earnings streams that provide price relevant information on economic earnings persistence. This is because the existing criteria fail to capture all the dimensions of persistence. If an objective of financial statements is to provide information useful to investors and creditors in the prediction of future cashflows, earnings classification should be based on transaction or event persistence rather than on whether a transaction is part of a firm's normal business or likelihood of transaction recurrence.

Thanks to I/B/E/S Inc. for their consensus analysts' earnings forecasts, Norman Betts for some firms' earnings announcement dates, the University of Saskatchewan for financial support.

**Samedi 10 juin  
Comptabilité financière 2  
Lieu**

**10:30 - 12:00  
3A  
R-M130**

**Saturday June 10  
Financial Accounting 2  
Location**

## **CROSS-SECTIONAL DETERMINANTS OF PRICE-TO-BOOK RATIOS: EVIDENCE FROM HONG KONG**

**Joseph K. Cheung**  
Hong Kong University of Science & Technology

**Richard Chung**  
**Jeong-Bon Kim**  
Concordia University

This paper investigates the determinants of the cross-sectional variations in price-to-book (P/B) ratios using a sample of firms listed on the Stock Exchange of Hong Kong for the period 1980-1992. Three firm-specific factors are identified based on Ohlson's (1991) equity valuation model: (1) expected accounting rate of return (ROE), (2) expected growth in book value (GWBV), and (3) the required rate of return. The variables ROE and GWBV are proxied by their current observations because both variables are mean-reverting during the sample period. The required rate of return variable is proxied by systematic risk (BETA) because of the positive relation between them. In sum, the hypothesis is that current P/B ratio is a positive function of current ROE and current GWBV, and is a negative function of BETA. The evidence shows that cross-sectional variations in P/B ratios are predominantly explained by ROE, and this result is robust across different specifications and over different time periods. Neither GWBV nor BETA is consistently significant across different specifications. In addition, when BETA is regressed on ROE, the slope coefficient is negative, which contradicts the claim that ROE may capture some aspects of the risk underlying a firm's production/investment/financing activities. The findings here suggest that the P/B ratio is more aptly interpreted as an indicator of the firm's future profitability than as a proxy for some risk factors unaccounted for by the capital asset pricing model.

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Comptabilité financière 2  
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10:30 - 12:00  
3A  
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Saturday June 10  
Financial Accounting 2  
Location

**THE IASC COMPARABILITY PROJECT : A CROSS-NATIONAL COMPARISON  
OF FINANCIAL REPORTING PRACTICES AND IASC PROPOSED RULES**

**C.B. Roberts**  
University of Exeter

**S.B. Salter**  
Texas A&M University

**J. Kantor**  
University of Windsor

The International Accounting Standards Board (IASB) issued Exposure Draft 32 in 1989 which has led to the revision of ten international accounting standards, all of which substantially reduce the amount of choice available to companies when choosing which financial accounting practices to follow.

This paper assesses the extent to which the current financial reporting practices of 27 IASB member countries agree with the new international accounting standards. The results indicate that while the overall level of agreement with the revised standards is high, there are considerable differences both between issues and between countries and many countries will have to significantly change their accounting practices in certain areas if they are to comply with the new IASs. In particular, countries with code law based legal systems and more conservative accounting practices tend to agree less with the new standards. There is also generally less agreement over those issues that are either more complex or more detailed. This includes such areas as : treatment of mergers; accounting for development costs; recognition of revenues on long-term contracts; treatment of differences due to the translation of the income statement at rates others than the closing rate; and, changes in the costs of retirement benefits.

The authors gratefully acknowledge the financial support of the Certified General Accountants of Canada Research Foundation.

Samedi 10 juin  
Comptabilité internationale  
Lieu

10:30 - 12:00  
3B  
R-M140

Saturday June 10  
International Issues  
Location

## **STRUCTURATION AND ACCOUNTING STANDARD SETTING IN CHINA**

**ANTHONY MOUNG YIN CHAN**

City University of Hong Kong

China is a country that has increasing potential to international businesses. Its enormous market, resources, and labor power are all promising to the international business community in this age of global interdependence. Accounting systems and practices are central to the business order of any society. Studies on China's accounting standard setting would not be only valuable to the Asian Pacific region but also to the international audience.

This paper applies structuration theory to the field of accounting regulation. The paper reflects upon the prior accounting standard setting studies in the light of structuration theory. Using the China case, the paper suggests that the signification dimension in structuration theory can enlarge the current scope of accounting standard setting research.

This paper is an output of a research project entitled "Towards an Understanding of Social/Cultural Environments Intertwining with Accounting Standard Setting in mainland China". The financial support of the Hong Kong Research Grants Council is gratefully acknowledged.

Samedi 10 juin  
Comptabilité internationale  
Lieu

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Saturday June 10  
International Issues  
Location

## **ORGANIZATIONAL MEMORY IN PUBLIC ACCOUNTING FIRMS : THE ROLE OF ACCOUNTING CONSULTATION UNITS**

**Steven Salterio  
Ross Denham  
University of Alberta**

This paper reports the results of research that examines the organizational memory role of accounting consultation units in public accounting firms. This research was undertaken for three reasons. First, to introduce the organizational memory construct to the accounting literature. Second, to argue that the organizational memory construct may provide a valuable link between individual auditor research and audit firm research. Finally, to demonstrate that organizational memory differences do exist among public accounting firms.

We start by introducing the concept of organizational memory. We then focus our analysis on accounting consultation units as a potential site of organizational memory. These units assist practice office partners throughout the public accounting firm in making the difficult judgments relating to the accounting policies which underlie financial statements of the firms' clients. We find differences among the accounting consultation units in their ability to act as a source of organizational memory for their firms.

We then examine the individual auditor research and the audit firm research. Our results indicate that organizational memory differences do, in fact, exist among the public accounting firms in both literatures. Based on these analyses we argue that the construct of organizational memory is useful in explaining how individual auditor knowledge can be aggregated into audit firm level knowledge. We illustrate this usefulness by means of a research example.



**"PROPER" PROFESSIONAL BEHAVIOUR:  
CANADIAN CA'S AND THE EMERGENCE OF ETHICAL CODES**

**Dean Neu**  
University of Calgary

**Lubna Saleem**  
University of Saskatchewan

This study examines the emergence of ethical codes of conduct for the Canadian CA profession and attempts to answer the following three questions: (1) have ethical codes changed to reflect a "new" emphasis on ethics?, (2) have ethical codes evolved over time?, and (3) how have definitions of "proper" professional behaviour, as reflected in ethical codes, changed over time?

Ethical codes for the Institute of Chartered Accountants of Ontario from 1883 until present provide the data for answering these questions. Specifically, we examine the emergence and trajectory of professional ethical codes for the Canadian Chartered Accountants (CA's) since their formation in 1879. The provided analyses trace the emergence of ethical codes in relation to broader social changes; that is, we attempt to provide a narrative history that highlights some of the apparent influences on the development of such codes. In addition to this macro focus, the analyses examine how the content of the CA's ethical code has changed over time; this examination illustrates how definitions of "proper" professional behaviour are dynamic in that rules evolve and regress in response to external events.

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**Profession comptable**  
**Lieu**

**10:30 - 12:00**  
**3C**  
**R-M180**

**Saturday June 10**  
**Professional Issues**  
**Location**

## **MARKETING OF AUDIT AND NONAUDIT SERVICES - AN EMPIRICAL EXAMINATION**

**Hema Rao**  
Concordia University

There is anecdotal and empirical evidence available regarding CPA firms offering significant discounts on initial audits to their clients as a part of their business acquisition practices. The relationship between audit and nonaudit services has also been empirically explored by several researchers. Most of the findings found significant discount on initial audit fees and a positive relationship between audit and nonaudit fees. This study also explores the dynamics of the relationship between audit and nonaudit services in the context of using discounting as a competitive marketing practice for services by CPA firms to acquire new clients and to retain old ones. To test for any apparent discounts, audit and nonaudit fee data were collected by a mail survey from publicly traded firms which had changed and not changed auditors for the years 1984 to 1986.

Results of the regression analysis indicate : (1) significant discounts on initial audit fees, (2) a negative relationship between audit and nonaudit fees, and (3) a significant effect on audit fees of (a) client size, (b) type of audit opinion obtained by auditee, and (c) type of audit firm rendering the services. The findings (1) and (3) are consistent with prior studies. However, the negative relationship found in (2) is not, and may indicate that an incumbent auditor may affect such fees.

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## **THE EFFECTS OF ORGANIZATIONAL CULTURE ON BUDGETARY CONFLICT**

**William Notz  
Nabil Elias  
University of Manitoba**

Budget conflicts have been studied from the point of view of slack creation and slack reduction in hierarchical relationships (for example, Schiff and Lewin, 1970; Chow, Cooper and Waller, 1988) and from the point of view of managerial goals (Etherington and Tjosvold, 1992). While these studies have provided interesting insights into budget conflict, the negotiation process surrounding it has not been studied. Although the use of information in negotiations has been studied in the context of labor-management negotiations (e.g., Foley and Maunders, 1979; Amernic, 1985; Owen and Lloyd, 1985; Elias, 1990) little has been done to examine managerial budgetary negotiations. This paper attempts to fill this void by examining the effects of negotiation and organization culture on budgetary conflict resolution. Specifically, it examines the effects of negotiation under two organizational cultures : one that encourages cooperation and another that encourages competition.

Two components of culture were simultaneously manipulated : the superior's intervention decision structure and managerial style. As it is difficult to examine these effects in real-life situations, a laboratory negotiation experiment was used as the vehicle to examine such effects before field tests can be performed.

The major hypothesis tested in this paper revolves around the effects of a conventional culture (one that is based on an organization that is hierarchical, and rational where conflict between subunits is considered irrational) and a collegial culture (one that is based on a flat organization structure, and where conflict between subunits can be dealt with openly) on budgetary conflict. The conventional culture implicitly assumes that the cost of unresolved conflict is low, while the collegial culture assumes that the cost of unresolved conflict is high. We simulate this cost through a superior's intervention mechanism if budgetary disputes are not settled between the parties. Such intervention takes two forms : in the conventional culture it takes the form of conventional arbitration (split the difference), and in the collegial culture it takes the form of final offer arbitration (Notz and Starke, 1978; Elias and Ezzamel, 1990) and role reversal (Rawls, 1971) if one party is intransigent. The collegial culture is hypothesized to result in more integrative (non-zero sum) budgetary allocations than would be expected under the conventional culture where budgetary allocations would exhibit a more distributive (zero-sum) pattern.

Eighty-four subjects participated in the experiment forming 42 negotiating dyads. Subjects negotiated a two stage budgetary allocation in a simulated university setting. The experimental design is a one by two factorial design with one level of conflict and two levels of organizational

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**THE INFLUENCE OF ORGANIZATIONAL PERFORMANCE  
ON EXECUTIVE COMPENSATION DETERMINATION:  
A COMPARISON OF US AND CANADIAN FIRMS**

**Michel Magnan**  
Université du Québec à Montréal

**Sylvie St-Onge**  
École des Hautes Études Commerciales de Montréal

**Linda Thorne**  
McGill University

The purpose of this study is twofold: (a) to assess and compare the extent of the relation between organizational performance and executive compensation in Canadian and U.S. firms and, (2) to evaluate how this relation is influenced by ownership structure (widely - or closely - held). Performance contingency in executive compensation is investigated along three dimensions: 1) the *proportion of firms* offering contingent and non-contingent compensation plans; 2) the *relative share of executive compensation* that is provided by performance-contingent compensation plans; 3) the *implicit statistical relation* between organizational performance measures and executive compensation. Overall, results confirm that executive compensation in *Canadian* firms is *less* dependent upon organizational performance than in *U.S.* firms. Results also show that ownership control significantly influences the relation between organizational performance and executive compensation, but in a way that was contrary of what was expected: *widely-held* Canadian firms exhibit a closer relation between organizational performance and executive compensation than *closely-held* Canadian firms. The effect of ownership control among U.S. firms appears weak, but is not consistent with expectations with executive compensation in closely-held firms being less contingent upon firm performance than among widely-held firms.

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