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VALUE RELEVANCE OF BOOK AND TAX INCOME: A MACROECONOMIC CONDITIONS PERSPECTIVE

Mingjun Zhou, DePaul University

ABSTRACT

This paper tests how macroeconomic conditions affect the value relevance of book and tax income. Based on regression coefficient estimates, more than 8% in the value relevance of book income is dependent on the interaction with a proxy for the macroeconomy. For a possible policy change where tax rules have a greater influence on financial accounting, the erosion of earnings quality will be more pronounced during economic expansion than contraction. Under such policy change, investors may lose additional information for them to price earnings based on stages of the economy.

JEL: E30, H25, M41

KEYWORDS: book income, tax income, book-tax conformity, earnings quality, macroeconomic conditions

INTRODUCTION

The income reporting system in the U.S. has its distinct feature. The management of a public company prepares two income measures, one under the Generally Accepted Accounting Principles (book income) and the other according to tax accounting rules promulgated by the government (tax income). Proponents of book-tax conformity argue that closing this dual-reporting arrangement will mitigate information asymmetry and the opportunistic reporting behaviors of managers (Desai 2005, Joint Committee on Taxation 2006). Opponents argue that accounting quality will be undermined if book income is conformed to tax income. Specifically, Hanlon, Laplante and Shevlin (2005, hefereafter HLS) suggest that book income is more value relevant than tax income for U.S. capital market participants. This study provides detailed analysis on the underlying macroeconomic factor that contributes to book income's greater value relevance. The debate is still on-going (see Atwood et al 2010) about the costs and benefits of book-tax conformity and the resulting changes in accounting quality. The analyses here suggests that if the conformity were to be increased toward tax income, market participants would be handicapped to price accounting earnings based on state of the economy.

This paper follows the stream of literature considering value relevance among the fundamental characteristics of earnings quality (Francis and Schipper 1999, Barth et al 2008). Extant literature measures value relevance as the relation between accounting information (earnings) and the buy-and-hold stock returns into the following months that could be earned with foreknowledge of such information (returns). Building on this aspect of value relevance, HLS use book and tax income to predict buy-and-hold stock returns in the future. They document that book income exhibits significantly greater value relevance than tax income in the regression coefficients and the R-square measures. Since relevance is the foundation of earnings quality, the finding in HLS supports opponents' view that financial statements quality will be affected if book income conforms to tax income.

This paper, investigates the relation between the macroeconomic factor and the value relevance of book and tax income. Using a regression model where changing macroeconomic conditions interact with book and tax income, the results show that the value relevance of book income is an increasing function of the macroeconomy. The result indicates that book income exhibits more (less) value relevance during economic expansion (contraction); but the value relevance of tax income appears to be insensitive to the state of the economy. This probably is due to the higher conditional accounting conservatism that was inherent in financial reporting. Under conditional conservatism, firms delay the recognition of good news but report bad news timely. On the other hand, the computations of tax income tend to accelerate income

WHY HIGHER LEVELS OF AUDITOR-PROVIDED TAX SERVICES LOWER THE LIKELIHOOD OF RESTATEMENTS

Kevin A. Diehl, Western Illinois University

ABSTRACT

Kinney et al. (2004) ask in the Journal of Accounting Research: Why do higher levels of auditor-provided tax services lower the chances of restatements? In resolving this question, this paper investigates the relationship between auditor-provided tax services and restatements with proxies to represent the motivations of the audit committee and chief financial officers. Because Sarbanes-Oxley requires audit committee preapproval for these tax services, the necessity for including these variables is obvious. Logistic regression of seven specifications show that higher levels of auditor-provided tax services, financial experts, and long-term compensation are inversely and statistically significantly related to all restatements and (more strongly) to tax-influential restatements. The cash effective tax rate directly and statistically significantly relates to those specifications, showing that just increasing spending on these tax services cannot signal high-quality financial reporting in the absence of effective utilization.

JEL: H20

KEYWORDS: restatements, audit committees, tax

INTRODUCTION

This research seeks to answer the question that Kinney et al. (2004) ask in the *Journal of Accounting Research.* They seek to know why higher levels of auditor-provided tax services lower the chances of restatements. In the course of answering the posed research question, this paper is the first to investigate the relationship between auditor-provided tax services fees and restatements with proxies to represent the motivations of the audit committee of the board of directors and chief financial officers. Because Sarbanes-Oxley requires audit committee preapproval for all auditor-provided tax services that chief financial officers request, the reasons for including these variables are obvious. The question is timely as well.

Determining what conditions lower the chances for restatement can signal to investors which companies have higher-quality financial reporting. High-quality financial reporting is important to investors as companies, on average, lose 9.2 percent of market capitalization for each restatement (Srinivasan, 2005). Once investors consider these signals, perhaps surprisingly, tax services acquisition could become more efficient. Likewise, stronger corporate governance could emerge. While Kinney et al. (2004) mention that larger companies seem to exhibit the relationship between the extent of auditor-provided tax services fees and restatements, they leave the relationship between auditor-provided tax services fees and restatements largely unexplained and untested. In the intervening years, research has considered the relationship between audit fees and non-audit fees before and after the implementation of Sarbanes-Oxley (Omer et al., 2006; Bedard & Paquette, 2010). However, little to no extant research has sought to answer the 2004 *Journal of Accounting Research* implied question. This situation has less to do with the importance and continued currency of the question and potentially more to do with the lack of researchers with the necessary experience in tax and auditing to pursue this inquiry with sufficient vigor.

The sole specific inquiry has emerged from Seetharaman et al. (2010) relatively recently, showing the currency of the question. They consider whether Kinney et al.'s (2004) discovery with regard to auditor-

IS THE IRS A SORE LOSER?

Laura Lee Mannino, St. John's University

ABSTRACT

Like all administrative agencies, the Internal Revenue Service is given a fair amount of authority to enforce the laws enacted by Congress. Taxpayers often question the amount of authority granted to the Internal Revenue Service, and whether such authority is abused. In some situations this questioning of authority leads to litigation, resulting in both wins and losses for the Internal Revenue Service. From time to time, the Internal Revenue Service will respond to losses by creating a new rule or amending an existing one. Recent examples in the judicial system highlight the issue of administrative authority, and beg the question: Is the Internal Revenue Service a sore loser?

JEL: H24, H26, H32, M42, M48

KEYWORDS: Administrative authority, Internal Revenue Service, response to litigation

INTRODUCTION

Congress delegates certain authority to the Treasury Department through the Internal Revenue Code (Code). For example, Congress states that "the administration and enforcement of [the Code] shall be performed by or under the supervision of the Secretary of the Treasury" (26 USC § 7801). In addition, "the Secretary shall prescribe all needful rules and regulations for the enforcement" of the Code (26 USC § 7805). It is pursuant to these grants of power from Congress that the Treasury Department and the Internal Revenue Service (IRS) issue regulations. Taxpayers have questioned the IRS's powers in a series of recent cases, and the IRS has responded by exercising even more authority.

The issue addressed in this paper is whether the Treasury Department and IRS are permitted to change regulations following a loss in court. Prior literature has addressed issues relating to deference, conflict between administrative rules and judicial decisions, proper rulemaking procedures and policy aspects of tax litigation. This paper adds to the literature by describing how courts are responding to regulations that are issued or changed in direct response to adverse litigation. Although the particular issues in these cases relate to taxation, the outcomes relating to the authority of the Treasury Department are wide reaching in that the holdings are not limited to the Treasury Department, but rather are applicable to all administrative agencies.

The next section summarizes previous literature related to the topic. The Recent Cases section describes the facts and outcomes of two judicial proceedings that the Treasury Department directly responded to by issuing or amending regulations. The next sections, Discussion and Unresolved Issues, describe how the courts are responding to these regulations, followed by Concluding Comments.

LITERATURE REVIEW

Much of the literature relates to the deference given by courts to the rules and regulations of administrative agencies. Gans (2002) tracked how the deference standard changed over time in the context of tax law, noting that *Chevron v. U.S.* had a "transformative impact" on administrative authority. His discussion of deference centered on two cases decided by circuit courts of appeals in the 1990s, both having similar generation-skipping tax issues. Although the government had been successful in one of the cases, it had lost the other. Following the loss, it amended the relevant regulation to conform to the arguments that had resulted in success, an act that Gans described as "the government declar[ing] victory

DISTANCES AND NETWORKS: THE CASE OF MEXICO

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ABSTRACT

The influence of six different distances on the structure of minimum spanning trees is presented in this paper. Measures of complex networks are built based on the closing prices of stocks of the main companies traded on the Mexican Stock Market. We find that the City block and Chi distances not only match, but also determine more precisely the central vertex, the level of the tree and the clusters formed by the economic sector. The trees formed using Minkowski distances have similar structures and show a disadvantage when classifying the vertices. The construction and telecommunication sectors are most important within the trees, regardless of the distance used.

JEL: C02, C22, C38, C45, C61, C8, D85

KEYWORDS: Stock market network. Econophysics. Distances. Minimum spanning tree.

INTRODUCTION

In 1926 the Czech scientist Otakar Boruvka developed an algorithm that allowed creation of an electrical network in Moravia using a minimal amount of cable. The idea of joining the vertices with cables more efficiently, has been studied extensively in graph theory by spanning trees, which is a plot of N objects (vertices or nodes) connected by N-1 arcs. Among all the spanning trees, the minimum spanning tree is the one that minimizes the weight of the tree (the sum of its arcs).

Minimum spanning trees have been widely used to analyze financial assets behavior. In this type of financial trees the nodes or vertices are assets and the arcs are distances, constructed from the correlation coefficient. One of the most interesting applications of the minimum spanning tree is portfolio optimization. By using special measures in the tree, the central vertex (the center of mass or the vertex with the greatest influence) is selected, vertices are classified according to their distance to the central vertex and finally a function that minimizes portfolio risk is established. Minimum risk assets are located in the outer branches of the tree, while higher returns assets are near the central vertex. Minimum spanning trees have been also used to analyze financial assets behavior at different points in time allowing for extraction of information in times of crisis.

The Euclidean distance has usually been used to build the trees, since the distances are obtained from the correlation matrix in a very simple way. However, there is no evidence that Euclidean distance is the most suitable. One contribution of this paper is that there are distances that distinguish more adequately the central vertex and other important characteristics of minimum spanning trees. An empirical result is obtained from the construction and analysis of six spanning trees whose vertices are the main companies in the Mexican Stock Market (Bolsa Mexicana de Valores).

The Mexican stock market is one of the most important in Latin America and one of the ten big emerging markets. Recently, an a number of Mexican companies have been involved worldwide in mergers and acquisitions.

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FACTORS ASSOCIATED WITH FIRM PERFORMANCE: EMPIRICAL EVIDENCE FROM THE KINGDOM OF SAUDI ARABIA

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ABSTRACT

This study investigates the relations between agency cost variables (firm size, leverage and auditor type) and the firm performance of 392 listed companies in the Saudi Stock Exchange (Tadawul) during 2007-2010. This study identifies two measurements of the firm performance: (1) ROA and (2) ROE. Using the multiple regression, the results of this study show that the likelihood a firm performance (ROA) is significantly affected increases with the firm size. On the other hand, leverage and auditor type have no influence on the firm performance. Interestingly, the explanatory power of firm performance (ROA) model is high. Somewhat surprisingly, model (2)'s explanatory power is insignificant indicating to the inability of the proposed variables (firm size, leverage and auditor type) in explaining the expected effect on firm performance (ROE).

JEL: M41

KEYWORDS: ROA, ROE, Kingdom of Saudi Arabia

INTRODUCTION

There are increasing openness and integration of Saudi Arabia with the global economy which, in turn, has created push-and-pull factors that are contributing to changing the institutional framework environment which, consequently, are aiming in enhancing companies values in the Saudi marketplace. Subsequently, after these recent developments, Saudi Arabia is found to be a profitable business environment for local, regional, and foreign investors (Bley & Chen, 2006; Al-Hussaini & Al-Sultan, 2008; Al-Shammari, Brown & Tarca, 2008; Gulf Base, 2009). There has been a surge of interest in Saudi Arabia about the firm performance issues. Several studies have been conducted in different contexts other than Saudi Arabia (Han, Lee & Suk, 1999; Kang & Zardkoohi, 2005; Haniffa & Hudaib, 2006; Aljifri & Moustafa, 2007). Therefore, the conflicting and inconclusive results evidenced by the prior studies on firm performance, the paucity of firm Performance research in Kingdom of Saudi Arabia, the recent incremental developments that have been implying to Saudi market derive the motivation for investigating the firm performance in the setting of Kingdom of Saudi Arabia. In particular, little is known and many questions remain unanswered about firm performance in Kingdom of Saudi Arabia.

Yet, to the best of the researchers' knowledge, no empirical evidence exists that allows conclusive determinations to be made of how companies incorporating in Kingdom of Saudi Arabia perform. With support for this, Meyer (1977) argues that management research should pay more attention to specific cultures, legal frameworks, geographies, and industry structures (Meyer & Rowan, 1977). “Management theories” based on western firms may be unsuitable and irrelevant to other countries and, consequently, previous studies’ findings might not be applicable in the context of Kingdom of Saudi Arabia. Therefore, the objective of this study is to provide empirically evidence on the determinants influencing companies' performance in Kingdom of Saudi Arabia. The remainder of the paper is organized as follows. Section 2 discusses the literature review and the hypotheses development. Section 3 describes the research

RESIDUAL INCOME VERSUS DISCOUNTED CASH FLOW VALUATION MODELS: AN EMPIRICAL STUDY

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ABSTRACT

Valuation plays a central role in the financing, investing and operating decisions of companies and many methods are employed to approximate the true value of a company. Although these techniques are based on similar theory, they may generate different results in application. This study incorporates an empirical approach to compare the outcomes of two different methods: residual income and discounted cash flow valuation models. The aim of this study is to test whether these methods result in different values and to contribute to the understanding of why these two valuation techniques, although similar in theory, may generate different results when applied to real life companies. There are a number of studies that compare these two methods theoretically. Some studies claim the superiority of one method over the other and some argue that these two methods should yield the same results when applied properly. In this study, the residual income and discounted cash flow models are applied to nine Turkish companies and the results are compared. We have obtained the data for the study with site visits to the companies and with the help of the managements of the companies.

JEL: G32

KEYWORDS: Valuation, Residual Income Model, Discounted Cash Flow Model, Accounting Based Valuation, Case Study, Turkey

INTRODUCTION

Valuation has been an important topic of finance research for a long time. The estimation of the true value of a business firm challenged academicians as well as practitioners, company owners, managers, and consulting firms in the past and it will most likely continue be a challenging issue in the future. Companies need their equities valued for various reasons such as borrowing, initial public offering, and merging or being acquired. Valuation is of growing importance especially in emerging countries, such as Turkey, which is a country with a growing economy and with a lot of attraction for foreign investments.

The valuation models can be classified into three categories, which can be associated with the income, market, and cost approaches, respectively: discounted cash flow valuation, relative valuation, and contingent claim valuation. There is also a fourth category usually added to these three categories, accounting based valuation (Bertoncel, 2006). Each approach embodies different models and these models often produce significantly different values (Damodaran, 2002). The most widely used model among these is the discounted cash flow valuation model.

The aim of the discounted cash flow models is to approximate intrinsic value and the main principle of the models is to find the present value of the future expected cash flows on an asset. To find the present value of an asset the models require the knowledge of the life of the asset, expected annual cash flows over the life of the asset, and an appropriate discount rate as inputs. Based on empirical evidence, these models can be found to work best when the cash flows produced by an asset is positive (Damodaran, 2002). Relative valuation depends on finding similar assets that are priced in a market, determining a standardized price through multiples, and controlling for the differences between the asset being valued

COMPREHENSIVE INCOME DISCLOSURES: EVIDENCE FROM ITALY

Olga Ferraro, University of Calabria

ABSTRACT

International Accounting Standard No. 1 was released in 2007. The standard required publicly traded companies to separately report comprehensive income in the financial statements. International Accounting Standard No. 1 prescribed two alternative formats for the presentation without mandating any one specific format. It also provides other options such as the criterion for classification of expenses and the presentation of Other Comprehensive Income items at net or gross of tax. The present study examined the presentation of comprehensive income by a sample of companies listed on the Italian Stock Exchange. The goal is to define the degree of homogeneity of the income statements and to explore current correlation between the direction and size of the Other Comprehensive Income and to identify the prescribed method to present Comprehensive Income. The results show substantial uniformity across Italian companies, with regard to how company accountants present Other Comprehensive Income in their financial statement. Also, the results lead us to believe that the choice of two separate statements may be linked to the greater relative size of the Net income.

JEL: M41

KEY WORDS: IAS 1, reporting format, comprehensive income, consolidated financial statement

INTRODUCTION

International Accounting Standards No.1 (IAS 1), ''Presentation of Financial Statement'' allows two format choices for reporting comprehensive income (CI): a single statement or two separate statements. Furthermore, for the income statement there are other options such as the criterion for classification of expenses and the presentation of other comprehensive income (OCI) items at net or gross of tax.

In this context, the present study has a dual aim: to define the degree of homogeneity of the financial statements for CI, after the introduction of the revised version of IAS 1, and to explore the current correlation, between the direction and size of the items of OCI and the presentation of CI in one of the two prescribed formats. The first objective is based on the belief that the presence of different options can affect the homogeneity of financial statements. In the past, the directive 78/660/EC (IV directive) and 83/349/EC (VII directive) brought about a partial harmonization that then led to the adoption of IAS/IFRS in Europe. The second objective is linked to the strong grounding, for Italian companies, in the criterion of historical cost for the preparation of financial statements. Consequently, it is estimated that in Italy the choice of one statement rather than another depends both on the contribution the components of OCI have on total income and the relative strength of the OCI on the Net Income (NI).

Data were examined for all companies listed on the Italian Stock Exchange in 2009, excluding companies in the financial sector. This sample of firms provides a unique setting in which to inform Italian policy makers on the value relevance of the additional information included in the new accounting standards. Oour study contributes to the ongoing debate on the format of CI. This study it is the first known empirical research to investigate the Italian context after the adoption of the revised version of IAS 1.

COULD PEER-TO-PEER LOANS SUBSTITUTE FOR PAYDAY LOANS?

Lynda S. Livingston, University of Puget Sound and 4 Horsemen Investments

ABSTRACT

Many consumer advocates consider payday loans—short-term, uncollateralized loans with high interest rates—to be predatory. The demand for short-term funding has spurred the quest for a substitute, an effort encouraged and supported by regulators like the Federal Deposit Insurance Corporation. In this paper, we evaluate the potential for online peer-to-peer markets to provide this alternative. We conclude that while certain features of peer-to-peer loans would be well suited (such as their longer terms, larger amounts, and multiple payments), the longer time to fund and the required minimum credit scores for borrowers present meaningful hurdles.

JEL: G18, G21, G28

KEYWORDS: Fringe Lending, Payday Loans, Peer-to-Peer Loans

INTRODUCTION

Payday loans have been called "one of the most expensive forms of credit in the world" (Skiba and Tobacman, 2008). A typical two-week payday loan costs $15 per $100 borrowed—a 391.07% APR, or 3,724% effective annual rate. Opponents accuse these extremely high-interest loans of drawing borrowers into a "debt trap." The industry counters that its rapid growth proves that it is providing a necessary, welfare-enhancing service to its customers.

The fact that customers use payday loans does not imply that these loans are the optimal short-term product. In this paper, we evaluate a potential alternative, peer-to-peer (P2P) loans. In a P2P marketplace, potential borrowers post requests for loans, and potential lenders bid on those that interest them. A lender can bid as little as $25 per loan, so it may take many lenders to fund a successful loan request. This more "democratic" process may lead to a more efficient outcome than can a payday transaction.

To evaluate the potential for the P2P market to provide short-term, unsecured, payday-like credit, we consider both the Prosper platform (the oldest P2P network in the United States, opened in 2006) and its highest-profile competitor, Lending Club. We find that, as the P2P market has evolved, its minimum loan sizes, bids per loan, and terms have all fallen, making it a more viable payday alternative. The biggest hurdles left are access, funding speed, and required credit score. However, we argue some payday customers nonetheless may be better off in the P2P market.

The paper proceeds as follows. In the next two sections, we review and evaluate the literature on payday loans and the payday borrower; this review allows us to characterize the market to which we want to apply the P2P approach. Given this characterization, we then evaluate the potential for P2P loans to serve the typical payday customer. The final section highlights the primary hurdles for short-term borrowers in the peer-to-peer market, suggests areas for future research, and concludes.

AN ALGORITHM FOR THE DETECTION OF REVENUE AND RETAINED EARNINGS MANIPULATION

Igor Pustylnick, SMC University

ABSTRACT

This paper presents a statistical analysis confirming the former empirical findings that positive differences between the growth rates of P-Score and Z-score appears in financial statement data of companies involved in major financial fraud. The paper examines firms that engaged in fraud in the late 1990's through early 2000's. The paper reports the results of regression analysis, using ratios, from financial statement data used in the calculations of P-Score and Z-Score. The results show that positive values of the difference between the growth rates of P-Score and Z-Score correlate with Net Income, Revenue, Retained Earnings and Total Equity ratios. Both ratios represent the financial statement areas where most identified fraud occurred. The findings imply that positive differences between the rates of growth suggest financial statement manipulation. The standard error of the estimate shows the early linear regression to be coarse. The final part of the paper optimizes the linear regression formula and discusses its limits. The paper shows the potential uses of Extensible Business Reporting Language (XLRB) for getting the necessary values for algorithm calculations.

JEL: M41, M42, M48

KEYWORDS: Financial statements, fraud, manipulation, Z-Score, P-Score, revenue, retained earnings, XBRL

INTRODUCTION

According to 2008 ACFE Report to the Nation (ACFE, 2008) over 41% of all material misstatements in financial reporting results from altering the accounting records connected to revenue generation. Investment brokers and investors make important investment decisions using these revenue figures. According to (Summers & Sweeney, 1998) the knowledge of such misstatements can become a basis for insider trading in any affected company. Many financial scandals, which took place at the turn of the 21st century, were the result of improper revenue recognition and altering existing revenue figures to prove that company had achieved its financial targets (Agrawal & Chadha, 2005).

Despite efforts to automate the discovery of financial statement manipulation, most discoveries of manipulation, which lead to fraud charges later in court, still come from non-accounting sources, such as internal tips and unrelated police work. According to (ACFE, 2008) around 60% of all fraud charges were not a result of audit or accounting work. Because of this, the use of the computerized means of manipulation prediction becomes important.

Recently, there were several notable efforts to create criteria of prediction of the financial state of the enterprise. Altman, created a Z-Score designed to predict bankruptcy (Altman, 1968) . Beneish, 1999 designed several ratios, which showed statistically different results for known manipulators with the financial statements as opposed to non-manipulators. Combining these ratios into one regression formula was largely unsuccessful and produced slightly over 50% success in detecting manipulators.

The AAER statements issued by Security Exchange Commission in the USA shows the character of financial statement manipulations differs from one infraction to the next. The character of infractions, committed be the companies are listed in Appendix. The study described in (Pustylnick, 2009) shows it is

THE IMPACT OF IFRS FOR SMES ON THE ACCOUNTING PROFESSION: EVIDENCE FROM FIJI

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ABSTRACT

At the turn of the millennium, the many corporate collapses and fraudulent financial reporting practices tarnished the reputation of accountants and resulted in a credibility crisis for the accounting profession. The profession responded by developing IFRS and IFRS for SMEs that would assist in achieving a more transparent and principles-based financial reporting framework. Fiji is not far behind from other developed countries when it comes to adoption of international reporting standards as this is evidenced by the early adoption of IFRS by large reporting entities beginning January, 2007 and IFRS for SMEs by small and medium-sized entities from January, 2011. Unlike the non-big 4 accountancy firms (local firms) in Fiji, the big 4 firms (PricewaterhouseCoopers, KPMG, Ernst and Young and G.Lal) have necessary resources and expertise to assist in adoption of international reporting standards like IFRS and IFRS for SMEs. This study therefore, examines the preparedness, capacity and challenges faced by big 4 and non-big 4 accounting firms in dealing with IFRS for SMEs in Fiji through in depth interviews. The results show the big 4 have a competitive advantage over the non-big 4 as they have substantial resources, expertise and receive training support from their global network.

JEL: M41

KEYWORDS: IFRS for SMEs, Profession, Emerging Economies

INTRODUCTION

At the turn of the millennium, the many corporate collapses, business failures and fraudulent financial reporting scandals tarnished the reputation of accountants and resulted in a credibility crisis for the accounting profession. The profession struggled to rebuild its reputation and desperately searched for a solution. At the same time, the international orientation of businesses and the growth of financial markets increased investment opportunities in capital markets. This created the need for a common reporting framework, which would provide reliable and comparable accounting information across borders. The constantly changing information needs of users of financial reports and the increase in the use of fair value added to the many challenges facing the accounting profession. All this resulted in a major restructure in the financial reporting framework leading to the development of the International Financial Reporting Standards (IFRS) and the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) by the International Accounting Standards Board (IASB). Almost 66 jurisdictions around the globe, including Fiji, have already adopted or plan to adopt IFRS for SMEs as their principal financial reporting standard for small and medium sized reporting entities, with or without revisions (IFRS, 2010).

While many prior studies have examined the impact of international accounting standards on reporting entities, few have tried to analyze the impact of such standards on the accounting profession. Understanding the impact of adopting globalized accounting standards in emerging economies would help us identify the benefits and limitations of such adoption as well as identify the potential factors that are necessary for a successful transition. This in turn would allow practitioners to better prepare themselves

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