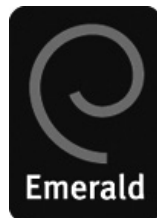


**Proceedings of the
Asian Academic Accounting Association's
15th Annual Conference
on
Accounting and Accountability**

16–17th October, 2014

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Now to the Reader

The IFIM Business School, promoted by the Dalal Street Investment Journal Group, is hosting the 15th Annual Conference of Asian Academic Accounting Association on 16–17th October, 2014 in Bangalore. The Doctoral colloquium was held on 15th of October, 2014.

The theme of the conference is Accounting and Accountability. Understanding the word *accountability* is a complex process of multiple layers and dimensions. The accounting process is no longer confined to a transactional frame; rather, it emerges as a primary tool related to corporate governance. A combination of *accounting* and *accountability* may lead to very interesting areas of knowledge, ethos, and power, and may lead to fundamental questions like accountants are accountable to whom, for what, when, and how. The process mechanisms and standards are laid out in detail for professionals. Moral pulls and pushes are faced by professionals in the back cover drop of political, economic, legal, professional, cultural, and institutional settings. The theme is extended to all areas of accounting, auditing, taxation, and corporate governance.

The conference received a great response from across the globe and the proceedings contain abstracts of the accepted papers.

I hope that the conference offers a good platform for serious researchers to discuss their latest research output and generate potential ideas and thoughts on the emerging areas of accounting.

Best wishes,

The Editorial Board

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Forensic Analysis to Detect Corporate Frauds

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Abstract

Businesses and governments have always been subjected to unscrupulous dealings by individuals and managements. Deliberate fraudulent transactions have often been responsible for bankruptcy of large corporations and governments.

Financial fraud not only affects the immediate stakeholders (shareholders) but also has a detrimental effect on indirect stakeholders. Some of these indirect stakeholders are:

- Employees whose earnings are affected
- Customers whose business can be adversely affected
- Financiers whose loans are in jeopardy
- Investors who lose wealth
- The federal government whose global image tends to get tarnished.
- The accounting bodies whose reputation for non-detection grows and is often harmful for investment and growth.

In the second century bce, Chanakya or Kautaliya had enumerated 40 types of economic frauds prevalent in the then empire of Chandragupta Maurya. All these carefully researched frauds documented for Taxila University are as relevant today as it was centuries ago. With the advent of technology and international business practices, the kinds of frauds have exponentially increased.

The traditional approach to auditing involves checking for the existence of appropriate internal controls. Audit practices were considered within due diligence if reasonable checks and balances were in existence. In the *Tri-Sure India Limited verses A.F. Ferguson & Co.*, the Bombay High Court held that the auditors were not responsible for deliberate management frauds that were not evident with reasonable checks. However, in the post Satyam era, with the enactment of the Standards of Auditing 2010, the onus is on the auditors to detect fraud. In addition to legal requirements, the society casts a moral responsibility on the auditor to improve his professional scope of work and acquaint with the kinds of frauds a business is likely to face. The auditor with knowledge of the kinds of likely frauds can conduct a due diligence audit with confidence.

While there are a plethora of fraudulent practices in vogue, this paper examines indicators of frauds along with detection mechanisms. Irregularities and frauds have been taken from the real life case studies after interacting with forensic accounting professionals in the field. There is a description of the kinds of checks and balances, manual, and automated tools that can be used to gain confidence on the accounting statements.

In a developing economy, investment and growth are vital stimulants for economic revival. Often prospective investors are deterred by the ingenuity of the fraudster. An understanding of potential frauds with measures to prevent them will be a stepping stone to furthering research in the area of forensic accounting and fraud detection.

Key words: Benford's Theorem, Computer Assisted Audit Techniques (CAAT), Forensic Accounting, Financial Frauds, Fraud Detection, Green Flags, Red Flags, Relative Size Factor

Effects of Tax Payer's Internal Control and Financial Pressure on Tax Enforcement Officers' Fraud Risk Assessment

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Abstract

This study investigates the effects of tax payers' level of internal control and financial pressure on the tax enforcement officers' fraud risk assessment. It used experimental approach by sending case scenarios to tax officers from Inland Revenue Board of Malaysia. The results show that there are significant relationships between each fraud risk factors and tax enforcement officers' fraud risk assessment. In addition, the results of the interaction effects of both fraud risk factors show significant relationships between tax payers' level of internal control and tax payers' level of financial pressure against tax enforcement officers' fraud risk assessment. The findings help in providing insights into the ability of tax enforcement officers to detect fraud risks during the fraud risk assessment.

Key words: Tax Fraud, Internal Control, Pressure, Fraud Triangle, Fraud Risk Assessment

A Study of the Performance Measurement Tools in Social Enterprises with Special Reference to Blended Value Accounting

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Abstract

Over the past 5 to 10 years, there has been an explosion of interest around social entrepreneurship, strategic philanthropy, sustainable development, corporate social responsibility, socially responsible investing, and other social investing. Scores of organizations have been launched to advance these issues, many business articles addressing these topics have been published, and new programs have been cropping up at conferences, business schools, and universities. All these efforts have in common the pursuit of more than simple economic value and basic social impact. They all are advancing what may be viewed as a shared agenda of simultaneously valuing social equity, environmental sustainability, and economic development.

This paper presents an exploratory analysis of the emergent performance, reporting practices used by social entrepreneurs in terms of their institutional settings and strategic objectives. These reporting practices not only account for financial performance but also disclose more nuanced and contingent social and environmental impacts and outcomes. Furthermore, they act as symbolic objects expressing the market orientation of many socially entrepreneurial organizations in which they aim to provide more complete and transparent disclosure of a variety of performance impacts. Conceptually, this paper draws upon approaches developed within the sociology of accounting as institutional practice.

Key words: Social entrepreneurship, Social investing, Accounting

Accounting Behavior Before Insolvency: A Multi-period and Contextual Focus

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Abstract

In this paper, we will review the evidence on earnings management in distressed firms, in particular, during the periods before filing for insolvency. Knowing about the distortion of the accounting numbers through the failing company is important for all stakeholders who make their decisions on the basis of the firm's annual reports. Over the last years, studies about the accounting behavior of failing firms have presented their findings in more detail which enables better interpretation. In addition, on the basis of a higher level of available information for non-listed firms and the enhancements in the methods for detecting the earnings management, there are more and more options for investigations into the accounting behavior of bankrupt companies. However, the review of the literature in this research area will show that the results found in the literature are ambiguous. We will show that there is an important need for the development of more comprehensive research designs as a theoretical basis as well as we will show that contextual research studies can help to clarify the mixed results in the literature. The multi-period measurement methods should also be developed further for taking greater account of reversals and the underlying low performance during the distress periods.

Key words: Earnings Management, Insolvency, Multi-period Examination, Accounting Behavior

The Impact of Tri Hita Karana Culture in Using Accounting Information System and User Satisfaction As the Expression of the Success of Information System

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Abstract

The aim of this research is to examine whether THK culture influences AIS use and user's satisfaction as the expression of SI success. The location of the research is in Badung regency with LPD object. The research is done by using TAM approachment which is developed by Davis et al. (1989) and combined with SI success model which is developed by DeLone and McLean (1992).

The variable which is investigated consists of four features, they are: THK culture, perception of use, perception of the use simplicity, the use of AIS, and user's satisfaction. This research observes 55 LPD in Badung regency as the sample. The data which is needed is collected through the survey by using the list of questions which is proposed to the respondent. The collected data is analyzed by using SEM analysis instrument with PLS approachment.

The result of the research shows that THK culture influences the use of AIS; THK culture influences the use of AIS is mediated by the use perception and the perception of the use simplicity; THK culture influences the user's satisfaction mediated by the perception of use, the perception of the use simplicity, and the use of AIS; perception of use and perception of the use simplicity influence the use of AIS; perception of use does not influence the user's satisfaction; perception of the use simplicity influences the user satisfaction; AIS user influences the user's satisfaction; perception of use influences the user's satisfaction mediated by the use of AIS.

Key words: THK Culture, Perception of Use, Perception of the Use Simplicity, the Use of AIS, and the User's Satisfaction

Impact of Management Audit System on Organizational Effectiveness: A Study of Select Public and Private Sector Companies in India

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Abstract

To meet the global challenges, audit is one such tool to evaluate the performance of business organizations. The paper focuses on management audit system implementation and its impact on organization effectiveness in both public and private sector companies. Empirical and analytical method is adopted for the study. Sample companies selected are 10 each from public and private sectors. The statistical tests like t-test, correlation, and ratio analysis are conducted to evaluate the impact and implementation of management audit system. The outcome of the analysis reveals that organizational effectiveness is better in public sector companies as compared to private sector companies. The authors state that management audit system helps in examining managerial decisions which have a strong impact on the performance of business organizations. They further opine that this method of evaluation does not need specialized knowledge or tool like operation research, etc. The paper concludes that management audit system is must for every enterprise to be successful and compete in global competition.

Key words: Management Audit System, Organization Effectiveness, Public Sector, Private Sector, Ratio Analysis

Implications of IFRS Implementation in India: A Perceptual Study

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Abstract

In the era of globalization, India has become an economic force. To be a leader globally, India has to adopt many changes required to interface the stakeholders of India and abroad and also comply with financial reporting standard. In this backdrop, a uniform international accounting system (International Financial Reporting Standards – IFRS) has emerged. Many countries have adopted IFRS, and India planned to implement it in phased manner to bring about accounting quality improvement through uniform standards. However, accounting quality is a function of the firm's institutional setting within the legal and political system of the economy in which it exists. IFRS implementation involves technical complexities and legal hurdles.

This paper aims to understand the complexities and issues concerned with the delay in implementation process. The primary data from 198 respondents, from academicians, professionals, and business people, was collected with five point Likert scale and factor analysis, and Kruskal Wallis tests were applied after the validation test.

The test results reveal that there is no significant difference in the perception of the respondents. It was found that the expert's view is to implement and make necessary changes for adoption and gain its benefits. The paper suggests training and removing legal hurdles soon.

Key words: IFRS, India, Implementation, Implications

Tax or Transfer: The Case of Nokia and Microsoft Deal

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Abstract

Many cross border acquisitions are hampered by taxation contradictions and asset transfer delays. There have been differences in tax calculations, non-adherence to payment schedule, delayed transfer of assets due to jurisdictional opaqueness, and finally the barriers in transfer pricing. Arbitration has often helped in solving the issues amicably and problems persist in the next level of acquisition process. According to the Indian law, a “Foreign Company” means a company which is not a domestic company but is subject to tax rules and regulations, in force, for its business in Indian shores.

The recent case of Finnish Company Nokia and American Corporate Microsoft Inc. has gone through this stormy process. The Supreme Court of India has intervened and has ordered Nokia to give an INR 35 billion guarantee before it could transfer its biggest handset plants to Microsoft Inc. This follows the legal decision in a lower court on its Chennai plant where the tax dispute has originated and the Finnish company had challenged this decision. Nokia has been implicated in this high profile tax dispute involving foreign corporations doing business in Indian bourses. It is facing these legal impediments and local tax claims like that of Vodafone Group, IBM, and Dutch Shell. This case study is trying to capture these challenges of foreign companies and how a fair, smooth, and smart business policy and practice can evolve to promote organic acquisitions between foreign entities on Indian soil.

Key words: International Taxation, Asset Transfers, Cross Border Acquisitions, Global Companies

Direct and Mediating Effect of Auditor Quality and Legislative Oversight on Follow-up of Audit Recommendation and Audit Opinion

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Abstract

The purpose of this study is to analyze direct and mediating effect of auditor quality and legislative oversight on the follow-up of audit recommendations and audit opinion. The sample of this study is the local governments' financial statement in Indonesia from 2010 to 2012. Using principle component analysis methods, four components, experience, training, motivation, and education, are extracted, which form Indonesia Supreme Audit Institutions (BPK-RI) auditor quality. The empirical test result shows that there is a direct effect between the auditor quality and the legislative oversight on the follow-up of audit recommendations as well as indirect effect on audit opinion. A high quality auditor is able to produce high quality recommendations that can be easily followed by the audited entity. Strong legislative oversight encourages closer monitoring over the local government financial management so that the local governments are more committed to follow up on the audit recommendation. The higher the audit recommendations are acted upon, the better the quality of local government financial statements as shown by better audit opinion.

Key words: Audit Opinion, Auditor Quality, Follow-up, Legislative Oversight

Systematic Liquidity Risk Sharing Around Mergers

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Abstract

This paper provides empirical evidence on systematic liquidity risk transformation arising from mergers and acquisitions. This paper finds that acquirers with higher systematic liquidity risk tend to merge those with relative low systematic targets, what I refer to as risk-sharing mechanism. An important source of systematic liquidity reduction is the stock price informativeness of acquirers. Acquirers with more firm-specific information will permit an investor to evaluate the systematic liquidity risk improvement.

Key words: Systematic Liquidity Risk, Merger and Acquisition, Risk Sharing

Accountability in Islamic Endowment: Evidence from Indonesia

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Abstract

There is growing awareness in the revitalization of Islamic endowment (from hereafter refers to as *waqf*) in the last few years, with Muslim communities around the world putting it as an important agenda. Along with this awareness, there is a call for greater accountability of the trustee in managing *waqf*. Although nobody disputes the importance of accountability, as far as *waqf* study is concerned, there is a lack of empirical evidence regarding how accountability operates within *waqf* context. Few attempts actually have been made to address accountability issue in *waqf*. However, most of the previous studies focused only on accounting. In fact, accountability is broader than that. This study, therefore, seeks to investigate the accountability practice in *waqf* institution in more comprehensive manner. In so doing, an interpretive case study was conducted in one Indonesian *waqf* institution, i.e. Dompét Dhuafa. Data was generated through in-depth interviews, observations, and document reviews. Moreover, thematic analysis was employed as analytical tool. The way trustee discharged accountability was examined within the non-profit and non-governmental organizations' accountability frameworks. The framework encompasses mechanisms of accountability and holistic accountability. This study found that trustee perceived accountability more than reporting and accounting. Therefore, trustee used various mechanisms to show accountability to different groups of stakeholders. Moreover, while the extant literature defines that holistic accountability consists of upward and downward accountability, this study found that holistic accountability in Dompét Dhuafa also includes accountability to self.

Key words: *Waqf*, Accountability, Mechanisms of Accountability, Holistic Accountability

Risk-based Internal Audit Based on Culture (Case Study at LPD Desa Adat Pecatu in Bali)

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Abstract

Risk-based internal audit (RBIA) based on culture was implemented by *lembaga perkreditan desa* (LPD) to minimize risks that occur in the management of LPD and created the synergy of leadership and supervision and risk management conducted by LPD Chairman, Board of Supervisors, and *Prajuru* of *Desa Adat Pecatu*. LPD is an indigenous community-based financial institution that has perceived benefits for rural communities in particular, in the context of the development of social economy. In this level, the element *pawongan* as part of *tri hita karana* which emphasizes the harmonious inter-relationship between human beings is very useful in the management of LPD pecatu toward the achievement of high performance (profits) and sustainability over time.

Furthermore, achievement of improved and sustained performance utilized to support the other aspects of *tri hita karana*, namely *parhyangan* element (human relationship with God), in the form of utilization rightful share of profits and handed over to LPD Pecatu for *dewa yadnya* and *manusa yadnya* activities (mass cremation and temple ceremony) and the establishment and renovation of the temple (place of worship).

In *palemahan* elements (human relationship with the environment) RBIA of LPD has a sensitivity to the environment. The culture of *catur purusha artha* and local wisdom describes four things that are important to LPD in RBIA. (1) *Dharma* is the ultimate foundation of LPD in operation. Business activities conducted by LPD should be always guided by *dharma*, which means goodness or good governance.

After practicing kindness in running its operations, God will bestow blessings in the form of *artha* on His people who have been doing a consistent practice of His teachings. *Artha* is the next in sequence after the main basis conducted by LPD in the form of carrying out the teaching of *dharma* or goodness as a measure of good governance of LPD, and then LPD emphasizes on the aspects of the business activities in the form of interest income gains from savings and loan business, building on the accomplishments *catur dharma* earlier. LPD is an *artha* institution.

When *Artha* – the second objective – is fulfilled, the next objective is *Kama*. *Kama* means lust or desire or fulfillment of a wish based on the needs. With the *Artha*, *Kama* or desire will be fulfilled with the benefits obtained by LPD in the normal course of business. After the third stage is attained, the next comes *Moksha*. *Moksha* is the spiritual and physical happiness. The LPD operations are carried out to help the economy from members of *desa adat*, to ease their burden of life (for example, in the case of ceremonies), so the community will feel happier because their basic needs are fulfilled. The fourth aspect of *catur purusha artha* has RBIA content in the realm of values adopted by regulatory agency, manager, or administrator, thus making LPD live sustainably.

Key words: LPD, Risk-based Internal Audit Based on Culture, *Tri Hita Karana* and *Catur Purusha Artha*

The Use of Segment Information by Financial Analysts: A Study on European Intermediate Size Companies

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Abstract

Segment information disclosure has been an issue for preparers, standard-setters, and users of financial statements for many years. Many research works have already been led on this issue, but most of them are value-relevance studies focused on large companies. In this paper, we address whether financial analysts dealing with European listed intermediate size companies reporting under IFRS 8 refer to segment information and use segmental models in their recommendation reports. Our research differs from previous ones to the extent that it deals with the content of reports when most studies focus on the consensus aggregated from financial analysts' forecasts. The study is based on an original hand collected database obtained from a sample of 339 analysts' recommendation reports for 146 firms. Our analysis reveals that (1) a majority of analysts refer to segment information in the reports and around half of them use it to forecast revenues; (2) but only a few of them use segment information in their valuation model. It also reveals that the use of segment information by financial analysts is: (3) greater for larger firms than for smaller ones; (4) greater when the segment information is discriminated; and (5) greater for UK analysts. Our results question the usefulness of segment information disclosures for smaller firms.

Key words: IFRS 8, Segment Information, Financial Analysts, Recommendation Report, European Intermediate-size Companies

Human Capital Disclosure, Accounting Numbers, and Share Price Evidence from Japan

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Abstract

Purpose: This paper investigates the association between the amount of voluntary human capital (HC) disclosures and the company's profile including required HC and accounting information to verify a consolidated theory developed in the IC literature. It also verifies the value relevance of voluntary HC information found in the previous literature.

Design/Methodology/Approach: This research uses regression analysis along with graphical modelling. The sample is a stratified random sample from the Tokyo Stock Exchange. Content analysis of the annual reports is conducted using text mining software to quantify the amount of qualitative HC information.

Findings: This study finds associations between the amount of voluntary HC information and the number of employees as well as the average salary. Among voluntary HC information, the information about competence/qualification and personnel in particular is related. However, it does not find evidence that the amount of voluntary HC information is associated to the share price.

Practical implications: The evidence obtained provides some evidence supporting the consolidated theory. It is presumably consistent with signalling theory and stakeholder theory in terms of labor market rather than the financial market, because share price is not associated with the amount of HC information. The findings might imply that firms tend to hide negative HC information.

Originality/value: This paper applies graphical modelling to a study of voluntary HC disclosure study, possibly for the first time, and describes the relationships between each variable as graphs consisting of vertices and edges. By using both regression analysis and graphical modelling, it shows the difference in the outputs and how they relate to each other. It offers a useful example for demonstrating the hidden aspect which traditional value-relevance studies have sometimes ignored.

Key words: Voluntary HC Disclosure, Graphical Modelling, Value Relevance

Accounting Conservatism and Future Investment Opportunities: Empirical Evidence from Thailand¹

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Abstract

This paper explores the relationship between accounting conservatism and future investment opportunities using the sample of Thai listed firms during the years 2005–2011. Since accounting conservatism is argued to likely mitigate information asymmetry between shareholders and managers, this study hypothesizes that accounting conservatism is positively associated with future investor opportunities. The results show a positive association between accounting conservatism and future investment opportunities consistent with the information role of conservatism in reducing agency costs.

Key words: Accounting Conservatism, Future Investment Opportunities, Information Asymmetry, Timely Loss Recognition

¹ This research received financial support from Office of the Higher Education Commission of Thailand under the higher education research promotion program.

Does Eco-efficiency Reduce Cost of Equity Capital? (Empirical Evidence from Indonesia)

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Abstract

The objective of this study is to examine the effect of eco-efficiency on cost of equity capital. The study hypothesizes that the implementation of eco-efficiency reduces cost of equity capital. Using manufacturing companies listed on the Indonesian Stock Exchange for the period 2010–2012 and controlling for beta, company size, book to market ratio, and leverage, the study finds that the implementation of eco-efficiency reduces cost of equity capital. The findings suggest that companies should implement eco-efficiency.

Key words: Cost of Equity Capital; Eco-efficiency; ISO 14001; Environmental Accounting

Does Intellectual Capital Disclosure Mediate the Relationship of Modified VAIC and Market Capitalization?

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Abstract

The purpose of this study is to v the role of intellectual capital disclosure (ICD) in the relationship between modified VAIC (MVAIC) and market capitalization (MCAP). MVAIC is a comprehensive model to measure intellectual capital performance based on value added intellectual coefficient (VAIC™) model. Data are drawn from Indonesian banking sectors listed in BEI for three years, 2006, 2009, and 2012. WarpPLS 3.0 was used to hypotesis testing. The findings show that: MVAIC influences positively to MCAP; MVAIC influences negatively to ICD; ICD influences positively to MCAP; and ICD has a partial mediation in the relationship between MVAIC and MCAP.

Key words: Intellectual Capital Performance, Intellectual Capital Disclosure, Modified Value Added Intellectual Coefficient (MVAIC)

Applicability of the Linear CVP Model in the Indian Cement Sector

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Abstract

The cost–volume–profit (CVP) model is a model for analyzing a firm’s cost and revenue structure, and it is widely used in practice to examine the possible impacts of a range of strategic decisions. In spite of its theoretical appeal, the CVP model has had very little application empirically.

This study examines the applicability of the CVP model empirically for the Indian cement sector using linear regression. The results of the study indicate that though the simple CVP model with linear cost and revenue functions does offer some interesting insights, there are anomalies in several cases. Thus, the CVP model with nonlinear cost and revenue functions may be more appropriate in explaining the cost and revenue structure for companies in the Indian cement sector.

Key words: Cost–Volume–Profit (CVP) Model, Cost and Revenue Structure, Linear Regression

Stock Audit in Retail Outlets: A Case Study

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Abstract

Stocks and physical assets, such as raw materials, products, plant and machinery, office equipment, IT systems, and so on, are value assets of a company. With companies today operating across multiple locations with various channel partners, ensuring all assets exist as per the books of record is a challenge for the operations and facility functions.

Stock audits help retail outlets in controlling several cost components. They help to check the level of opening stock and closing stock from previous periods and, thus, help the company to account for short supply, damages, expired items, quality, and quantity. Stock audits also check the billing process and ensure proper cash management. Thus, stock audits are required to be conducted in stores at least once in a month to avoid any frauds and have proper control over stock.

This is a case study of a stock audit in the retail outlets of a leading player in the specialty bakery and confectionary sector in India. The study focuses on benchmarking the damages/returns and variance in six selected outlets, to establish a system of proper control.

Key words: Stock Audit, Retail Outlet, Damages/Returns, Variance, Control

Appraising the Relationships among Stock Markets Efficiency, Market Attractiveness, and the Nature of Information Investors Use to Trade Securities

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Abstract

This paper is to appraise the relationships among the level of stock market efficiency (SME) and market attraction to foreign investors with the nature of information investors use when they trade securities. To study the relationships, first a general conceptual model was developed. The model claims that there are positive relationships between the countries' economic development levels and their SME levels, and between the SME levels and the levels of market attractiveness. It also claims that a relationship can be defined between the level of SME/attractiveness and the nature of information investors use when they trade securities. As a pilot study, we have appraised the proposed relationships in the Tehran Stock Exchange (TSE). The results confirmed the proposed relations because the TSE operates in an under development economy, it's in a weak form of efficiency, it's not so attractive to foreign investors, and the TSE's investors mostly prefer to use quantitative (rather qualitative) and accounting (rather economic) information when they trade securities. Also, our statistical tests show a higher correlation between accounting performance indicator (EBIT) with companies' performance indicator (shares market prices) than economic performance indicator (EVA). Although we believe more future researches are required to assure the generality of the proposed relationships, this research can be regarded as an important starting point that relates economic and stock market characteristics to the investors' decisions and behaviors by estimating the nature of information they use when they trade securities in dynamic and complex security markets.

Key words: TSE, Market Efficiency/Attractiveness, Investors' Information, EVA, EBIT

The Study of Disclosure Extent and Its Relationship with Non-financial Characteristics of Companies Accepted in the Stock Exchange Organization of Tehran, Iran

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Abstract

The economic decision-making requires information generally resulting from accounting system. In fact, the final goal of decisions made by users of financial reports is the optimal allotment of economic resources to profitable activities so that it is provided an economic growth and prosperity. Financial reporting reveals the allotment of capital resources in a trade company and its profitability capacity. It is clear that the disclosure principle, as one of the accounting principles, expresses all important and relevant facts concerned with events and activities of trade unit. Without pressures from outside, the organization and legal and professional requirements, however, the trade units do not tend to reveal financial data adequately. Unwillingness to sufficient disclosure is likely to relate to the characteristics of companies, and the main issue of this research is the study of the effects of non-financial characteristics on the disclosure extent. Studied non-financial characteristics include:

The number of shareholders,

Acceptance record in stock exchange,

The kind of industry that company has activity in (manufacturing or service),

The kind of auditing institution, and

Directorate's composition.

Key words: Disclosure, Non-financial Characteristics, Number of Shareholders, Acceptance Record in Stock Exchange, Kind of Industry, Kind of Auditing Institute, Directorate's Composition.

Accounting Fraud: Compilation of Literature Review

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Abstract

Accounting scandals such as Enron, Arthur Anderson, and Satyam have drawn significant attention to the financial statement fraud. These occurrences have affected the interests of various stakeholders like the shareholders, creditors, government, and, in general, citizen's confidence in the financial system. Much research has been carried out and published on different aspects of accounting fraud. In this paper, an attempt has been made to observe the progress of research in the area of accounting fraud.

Key words: Accounting Fraud, Financial System, Stakeholders

IFRS Adoption and the Value Relevance: Evidence from the Thai Market

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Abstract

This study investigates the impact of adopting the International Financial Reporting Standards (IFRS) into accounting standards from the Thai Accounting Standards (TAS). The value relevance of accounting information for Thai companies listed in the Stock Exchange of Thailand from 2008 to 2013 is analyzed. The relationship between the market value of equity and the book value and earnings per share of equity is examined with Ohlson (1995) model. The result indicates that the value relevance of accounting data does not improve in the transition to IFRS period and the fully adopted of IFRS period.

Key words: IFRS, Value Relevance, Accounting Standards, Thai

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The January Effect: An Examination of Accounting Earnings, Other Value Relevant Information, and Tax-loss Selling

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Abstract

Employing a permanent earnings valuation model and a novel sample partition, we find evidence that the January effect “anomaly” is consistent with rational economic market behavior. Investors in firms which experience January effect return premiums appear to discount first-quarter earnings performance but reward permanent earnings and expectations of future improvements. Our evidence also supports a tax-loss selling explanation for the January effect: we find that the January effect is experienced by relatively few firms in the sample overall, but a substantial percentage of January effect firms is identified as potential tax-loss sellers. Our results complement prior research suggesting that the January effect is not a result of irrational “noise” traders, nor is it consistent with systemic risk factor explanations. Our study reconciles the assumption of arbitrage inherent in trading studies with a fundamental accounting valuation approach and offers some further insights into the nature of this market phenomenon.

Key words: Market anomalies, Economic market behavior, Accounting valuation

Creative Accounting: Concept, Practices, and Measures

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Abstract

Accounting, though known as a science, can be considered an art more than a science, an art in which creativity flourishes. It would not be wrong to say that accounting starts when science meets art where accountants use their flair to be creative. Accounting, for the choices it offers, often gives companies the frill of deviating from the stated rules when it is not practical to stick to the rule of law. Creative Accounting refers to the use of accounting knowledge to influence the reported figures while remaining within the jurisdiction of accounting rules and laws so that instead of showing the actual performance or position of the company, they reflect what the management wants to tell the stakeholders.

Creative accounting practices resulting into major accounting frauds are evidence to the fact that “the science of conduct is swayed, in large, by human greed, ambition, and hunger for power, money, fame, and glory.” The devastating effects of creative accounting practices on the truthfulness and fairness of financial reports pose a serious threat to the accounting and auditing profession. In turn, the users of accounting information and their investment decision-making effectiveness are also affected adversely. In support, stands an organizational ecosystem as a checkpoint which includes the auditors, analysts, and regulators to measure whether the departure from rules was within the permissible limits. The accounting and auditing professionals hence, driven by the intention to curb manipulations in financial reporting, the nature and incidence of creative accounting practices in financial reporting, the causes and motivations behind their application, and the consequences of creative accounting practices in corporates. The study also highlights the incidences of Indian companies indulging in creative accounting practices. It also identifies various measures to prevent the practice of creative accounting in financial reporting by companies.

Key words: Creative accounting, Financial reporting, Auditors, Accountants

Earnings Management During IPOs: Evidence from India

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Abstract

The present study aims to investigate the quality of earnings of the IPO year and its impact on the long-term earnings performance and market performance of Indian IPO firms. It is based on 150 Indian IPOs issued during 2000–01 to 2005–06. Industry-adjusted return-on-sales, industry-adjusted return-on-assets and market-adjusted stock return are the indicators of the performance of firms. Discretionary accruals (DACC) and Beneish manipulation Score (M-Score) are used as proxies of quality of earnings.

We found that the industry-adjusted earnings performance and market-adjusted stock return performance of Indian IPO firms are abnormally higher in the IPO year as compared to post-IPO year performance. The quality of earnings in IPO year was low as compared to post-IPO years. We documented significant negative impact of IPO year DACC and M-Score on long-term earnings and market performance. The IPO firms with high quality of earnings in IPO year have outperformed other IPO firms. These findings are in line with the findings of existing studies conducted across various countries.

The findings of this paper would help securities' market regulators, auditors, securities' analysts and investors in understanding and assessing the Indian IPO year quality of earnings and its impact on future long-term earnings and market performance of IPO firms.

Perhaps, this is the first study based on the Indian IPO firms to evaluate the impact of IPO year quality of earnings on long-term earnings and market under performance of IPO firms.

Key words: Quality of earnings, IPO, Performance, Earnings management, Stock return performance

Sticky Cost Behavior of Executive Compensation: A Study on the Relationship between Executive Compensation and Bank's Revenue in four Southeast Asian Countries

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Abstract

Some studies indicate that selling, general, and administrative (SG&A) costs have sticky characteristics. Different from previous studies that focus solely on SG&A costs in, mostly, manufacturing companies, we specifically focus on specific cost and specific industry, i.e. compensation costs in banks from four South East Asian countries. We apply bootstrap method to tackle small sample problem in every country. Results show that, except for in Philippines, executive compensations are sticky. Even though the revenue may change every year, it will not instantly change the compensation paid to their executives, whether it decreases or increases. Therefore, we divide our samples into some ranges of revenue change and test the compensation stickiness. We, however, fail to show in which range of revenue changes the costs are sticky.

Key words: Corporate Governance, Banks, Executive Compensation, Stickycost Behavior

Exploring the Demand Conditions for Islamic Banking in Turkey

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Abstract

Since their inception in the mid-1980s, Islamic banks (IBs) or participation banks (PBs) have not yet become one of the primary aspects of the Turkish financial system. Given the developments in other regions such as South East Asia and the Gulf, the market share of the IB sector has been very minute, attaining only the level of 5 per cent in the Turkish financial system. In this sluggish development, the political dynamics of Turkey, combined with the external and internal dynamics of IB working environment, can be considered an important factor alongside the internal dynamics of the sector. This research, therefore, intends to examine the development of interest-free banking, considering the internal dynamics of the sector as well as adopting a political economy approach to bestow further meaning to the sources of the observed trajectories. In addition, this study aims to explore these developments by using two data sets from two different periods in a longitudinal manner, so as to give some meaning to the sources of the observed change with the objective of analyzing the changing nature of behavior and the attitudes toward Islamic banking in Turkey, especially in terms of the recent implicit Islamization process within Turkey.

This study thus relies on two datasets that were collected through a field survey from among the customers of the Islamic banks by means of a structured survey questionnaire in both 2004 and 2009 so as to provide a longitudinal perspective.

Key words: Islamic banks, Turkish financial system, Interest free banking

The Effect of Ownership Structure and Corporate Governance Mechanisms on Audit Pricing in Nigeria

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Abstract

This paper contributes to our understanding of audit pricing. Specifically, the paper examines the extent to which ownership structure and some selected governance mechanisms predict audit fees in the Nigerian context. Using 123 firms' year observation of companies listed on the Nigerian Stock Exchange in 2010 and 2011, the study found that 51 per cent of the companies listed on the Nigerian Stock Exchange have the three dominant ethnic groups on their board, with about 40 per cent being owned and controlled by foreign interests. We employed panel data regression analysis to establish whether selected companies' ownership structure (proxy by percentage of foreign ownership) and corporate-governance structure (board ethnic representation, foreign directors, corporate governance committee, and risk-management committee) have any association with audit fees. Our results indicate that only the percentage of foreign share ownership is positively significant with audit fees. The other variables are corporate board ethnic representation, foreign directors, corporate-governance committee, and risk-management committee. However, all the control variables are significant and consistent with prior studies. This result has implication for policy because it suggests that ownership structure and corporate-governance mechanisms are important in ensuring quality audit.

Key words: Audit Fees, Corporate Governance Mechanisms, Ownership Structure

An Experimental Study on Tax Compliance

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Abstract

The objective of this research is to experimentally verify a theoretical model of tax compliance, assuming a game-theory situation between a taxpayer and an auditor. Specifically, the verification is carried out using experimental data to answer the following three questions: (1) how do the changes in the tax rate affect taxpayers' behavior? (2) What results are brought about by different expectations about the behavior of the other tax payer? (3) What influence does personality have on the tax compliance of tax payers?

The main findings are shown below. First, with regards to changes to the tax rate and the behavior of each economic agent, contrary to the forecasts of the theoretical model, it was found that if the tax rate is lowered, the extent of the taxpayer's tax compliance increases. This suggests that the more the model forecast, the less the taxpayer anticipates the behavior of the auditor. Resultantly, the taxpayer behaves in a shortsighted manner. Second, regarding the relationship between the different expectations about the behavior of the other tax payer and the taxpayer's tax compliance, it was found that the extent of the taxpayer's tax compliance is higher for the "strategic condition," in which it is reported that the other party is an actual human being, compared to the "single condition," in which it is reported that the other party is a computer. This suggests that a situation in which the other tax payer is considered an agent who possesses limited rationality and whose actions may deviate from balanced behavior resulting in tax-declaration behavior with higher compliance.

Key words: Tax compliance, Tax payer, Behavior, Tax compliance

Social Accounting Problems and Challenges

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Abstract

Historically, organizations have been stable by the approach of creating profits for their stakeholders, but today, this approach is by no means sufficient to guarantee survival. In the modern world, organizations of any scale in any market, must gain and retain the community's satisfaction for their survival, and this satisfaction can be obtained only if communities believe that organizations' operations leave beneficial impact on the humans and the environment. Therefore, the organizations' social responsibility is the main factor for company survival, and in the long run, leads to the company's permanence in the organization. Traditional accounting with emphasis on measurement, transaction reporting, and economic events of the entities, ignores the social transactions of the entities with communities on their outskirts. The ultimate goal of social accounting is the measurement and reporting of resources, costs, and social benefits. So it tries to express quality conditions affecting the community in terms of numbers and figures. This article, using descriptive method, first, explains social accounting, its goals, and assumptions, and then, expresses social profitability of accounting information amount and social accounting system implementation problems

Key words: Social Accounting, Usefulness of Social Information, Problems of Social Accounting, Social Accounting Position

The Influence of Free Cash Flows and Financial Slack on Pension Fund: Case Study from Indonesia

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Abstract

The objective of this research is to examine empirically the influence of free cash flow and financial slack on pension plan contributions. The analysis units were 254 manufactured listed in Indonesia Stock Exchange, starting from the year 2010 till 2013. The result of the research showed: first, free cash flow financial slack influencing the pension plan contributions after controlling various variables that may affect pension contributions. This relationship is driven by firms with positive free cash flows and not by firms with negative free cash flows.

Second, the results show the relationship between pension plans, express financial slack, and give contributions coincide on increases in profitable investment opportunities. The agency theory literature suggests that conflicts of interest between management and shareholders also Myers and Majluf information asymmetry approach can lead managers to hoard excess free cash flows. Managers to build financial slack use pension plans. To store financial slack, pension plans may be viewed by management as an alternative in its portfolio of investment choices. That is, the returns earned on pension plan assets may be more attractive than the other investment opportunities.

Key words: Free Cash Flows, Financial Slack, Pension Plan Contributions

An Understanding of Accounting and Finance is a Valuable HR Competency

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Abstract

The biggest challenge that HR professionals have is to be rooted to business and not get lost in the “wonderland” of HR. It is important to be connected with the strategic and transactional requirements of the business and to create conditions that support and enhance the business – which ultimately has to do with innovation and productivity, while keeping high levels of motivation, morale, and competencies. Human resources oversee the people assets that push and pull an organization towards its goals and objectives. Senior management regards HR policies and programs as success factors because they guide worker performance, which in turn has an impact on profitability. Successful HR professionals in today’s competitive global market need to be financially intelligent. Like their counterparts in sales and marketing, they need to understand the language spoken by management: accounting. This paper analyzes how important the knowledge of accounting and finance has become for an HR professional.

Key words: HR professionals, Management accounting

Corporate Governance and CEO Compensation in Indian Firms

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Abstract

This study re-examines the role of ownership and board attributes in CEO compensation in India during 2002–2013. It finds that total CEO pay is not associated with observable board attributes in contrast to the evidence in prior Indian studies. Instead, the pay is associated with various ownership characteristics, such as the number of large blockholders, percentage of firm's equity owned by nonpromoter institutional investors and whether the firm is a public-sector undertaking. This study also documents that the real rate of growth in CEO pay increases with profitability and board size but decreases with the firm's size, CEO tenure, and whether the firm is a public-sector undertaking. Finally, the evidence demonstrates that leaving out time-invariant managerial attributes and not clustering standard errors by firm in a longitudinal CEO compensation study can erroneously show the role of several ownership, board, and managerial characteristics but fail to show the role of others in total CEO compensation in an emerging market country.

Key words: CEO compensation, India, Firm size, Corporate governance

Technology Readiness or Social Presence: Which One Could Explain the Technology Acceptance Better?

An Investigation on Virtual Communities*

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Abstract

The Internet technology has accelerated the development of community from face-to-face into computer-mediated communication. Individuals generally joining the virtual communities contribute greatly to build their knowledge by sharing their experiences. This study investigated the individuals' knowledge sharing intentions using two approaches of research model. The first approach is the adoption of Hung and Cheng (2013) model that incorporates technology readiness, compatibility and technology acceptance. The second approach is a new model built by this study by combining social presence and compatibility into the technology acceptance. Furthermore, this study compared both models to identify their ability to explain the individuals' knowledge-sharing intentions.

The results of this study showed that using the first model, the technology readiness, which was represented only by one construct that is innovativeness (the other three constructs are optimism, discomfort, and insecurity), was the only construct having positive effect on the technology acceptance. In the new second model, social presence and compatibility that are integrated into the technology acceptance model could actually affect the technology acceptance positively.

The comparison showed that the individuals' technology readiness level concludes that the ease of technology is not the indicator to assess its usefulness. Meanwhile, the individuals with social presence level consider the ease of technology to assess its usefulness. Furthermore, perceived usefulness and ease of use for the individuals with both the level of technology readiness and social presence affect the knowledge-sharing intentions. The study found that the social presence is able to explain the sharing knowledge intentions better than the technology readiness does. It implies practically that virtual community providers should make individuals to be more active in the virtual communities so that all individuals are able to improve their knowledge and their motivation to knowledge sharing.

Key words: Technology Readiness, Social Presence, Communications Medium, Compatibility, Virtual Community, Online Learning

* This article is the master thesis of the first author with the second author as the promotor. The thesis has been examined and considered as passed by the examiners' team which consists of Sony Warsono, Singgih Wijayana and Sumiyana. Criticisms, comments and suggestions can be sent directly to sumiyana@ugm.ac.id and saidjubran@gmail.com

The Intersection of Hedonic and Utilitarian Values in the Success Model of Information System: A Study on Social Media

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Abstract

This study investigated the success of e-commerce using a new model that integrates the hedonic and utilitarian value in information systems. The new model was constructed based on the models created by Wang and Scheepers (2007) and Wang (2008). In other words, we modified and integrated both models into a new model.

The results of the study suggest that the hedonic and utilitarian values could explain the behavior of the user satisfaction and intention to repurchase. It means that the hedonic and utilitarian concepts improve the success model. Even though, the comparison shows that the utilitarian value-based model has a better goodness fit than that of the hedonic model, this study infers that both hedonic and utilitarian characteristic are actually not separated. We imply that all system developers should induce both hedonic and utilitarian contents into the systems they build.

Key words: Hedonic Value, Utilitarian Value, IS-Success, User Satisfaction, User Repurchase Intentions, Preposterous

A Longitudinal Study of NSE Auto Companies Using the DEA Approach

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Abstract

The increased number of business failures in the companies reflects the need to apply new tools to evaluate financial performance. Data envelopment analysis (DEA) is a powerful analytical tool that has the versatility to give a single measure of performance while simultaneously handling the multiple inputs and outputs that represent the most significant factors involved in a company's activities.

This paper aims to analyze the time series performance of NSE auto index companies based on DEA methodology. This model is capable of accurate assessment, the financial performance and setting stability index benchmarks. This benchmark enables in evaluating the performance levels being achieved in different years as compared to stability index benchmarks. We observed that most of the company's individual year performance rank is matching with the stability index rank. We have found that some of the companies' rankings are abnormal fluctuations, with which we try to find the reasonableness. This method potentially offers rich new insights into the performance of firms. The results of this study will provide benchmarks for auditors, especially in the planning stage of the audit to find out the anomalies.

Key words: Financial performance, Anomalies, Time series, Auto sector

Role, Structure, and Determinants of Debt Covenants: Evidence from Japan

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Abstract

We examine the types of financial covenants and how they are used in Japanese loan markets. Since previous literature on covenants focused on US firms, little is known about financial covenants in the so-called bank-oriented countries. We use a hand-collected dataset to explore the (1) types of financial covenants and (2) determinants of the use and strictness of financial covenants. Our binominal regression analysis shows that financial factors such as profitability, leverage, and interest rates affect the use of financial covenants. Most interestingly, we find that factors specific to Japan, dependence on the main bank and foreign shareholder ownership, also affect the use of financial covenants. Furthermore, we present that the borrower's leverage is a key determinant for the strictness of financial covenants.

Key words: Determinants, Financial covenants, Japan, Debt

The Role of Portuguese Statutory Auditors in Sustainability Reporting Assurance

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Abstract

During the last few decades, corporate sustainability reporting has become widespread. An analysis of 7,108 stand-alone sustainability reports from 31 countries produced by 1,297 companies reveal a multiplication by a factor of over 10 of the number of sustainability reports between 1994 and 2007 (Dhaliwal et al., 2012).

The assurance of corporate sustainability reports, which refers to activities conceived to result in published conclusions on the quality of said reports and the information contained in them (GRI, 2011), has also become quite common.

The current paper reports on an exploratory study of the perceptions of Portuguese statutory auditors about issues pertaining to sustainability reporting and its assurance. This study is based on a survey of 68 statutory auditors in Portugal. They recognize the importance of sustainability reporting and its assurance. However, they view this topic as being underdeveloped in Portugal and claim for additional training on the subject.

They agree that company management should be responsible for the preparation and publication of sustainability reports and consider that assurance of these reports should be conducted by a statutory auditor.

Key words: Assurance, Portugal, Sustainability reporting.

The Need for Three-dimensional Accounting System in View of the Complexity of Business Transactions

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Abstract

Due to complexity of business transactions, financial decision making has become crucial. Lot of information is required to be extracted and processed from Financial, Cost and Management Accounting before taking appropriate decisions.

Here, the researcher has made an attempt to introduce a comprehensive system of Accounting in which accounting is viewed in a broader perspective. It is taught to a novice that “only monetary transactions can be recorded in the financial books of accounts.” Accordingly, those transactions which cannot be expressed in monetary terms cannot be recorded, irrespective of their importance and impact on financial position of the business. So we can say that in the traditional Double Entry Accounting System, transactions are looked only from two dimensions, one of which is always money.

Accordingly many important transactions cannot be recorded in the books of account as they cannot be expressed in monetary terms.

Business transactions can be divided into three categories namely,

- I - Transactions having only monetary effect;
- II - Transactions having monetary as well as quantity effect;
- III - Transactions having only quantity effect.

The researcher had written an article titled Three Dimensional Accounting System^a covering 2nd and 3rd category transactions under the books of account besides 1st category transactions. The method of accounting proposed under the new system facilitates recording of monetary as well as non-monetary transactions. It also improves the value of the financial statements.

In continuation of that article few additional features of the accounting system were discovered by the researcher which are covered in the present research paper.

Key words: Complexity, Business transactions, Decision making, Monetary effect, Quantity effect

^a “The Chartered Accountant”, published by ICAI, May 2012 issue, pages 1699 to 1704.

The Convergence of AS 14 Amalgamation to IND AS 103 Business Combination and Carve-outs from IFRS 3

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Abstract

With the integrated global economies and cross border mergers and acquisitions, the uniformity of financial reporting by Indian companies is inevitable for the authenticity of their financial statements worldwide. The emergence of International Financial Reporting Standards (IFRS) marks the biggest revolution in financial reporting, though not without posing challenges of convergence. To harmonize with the financial reporting worldwide, the ICAI (Institute of Chartered Accountants of India) has issued 35 Ind AS – the converged accounting standards which are in line with IFRS subject to certain carve outs (differences) due to tax-related issues, as notified by MCA. The paper focuses on one of these converged IND AS 103 Business combination. At present in India, though the AS 14 lays out a specific treatment for amalgamation, it is not matching the global reporting standards requirements, so ICAI has converged the present standard AS 14 to Ind AS 103 business combination which is in line with IFRS 3. The transition to Ind AS as and when it happens is likely to have impact on the accounts of companies involved in such acquisitions and mergers. With reference to this convergence, the study provides an insight on the treatment of goodwill and its impairment, bargain purchase, non-controlling interests, reverse acquisitions, and identifiable net assets and liabilities at fair value through various examples. Also, Ind AS 103 is more stringent about the accounting method to be used. The study also shows the major difference between IND AS 103 and As 14 amalgamation with the help of different case studies. It also focuses on the carves outs of Ind AS 103 from IFRS 3 and its reasons.

Key words: IFRS, Business amalgamation, Financial reporting

Who Owns Indian Companies? A Decade of Shareholding Patterns of Automobile and IT Industry

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Abstract

It is not unusual for an entity to derive its ownership and control structure from the culture and traditions of country of origin. It has become cliché that Indian companies are dominated by family ownership in the form of promoters due to the strong family cultural system of the country. Focusing on the automobile and IT industries, this paper takes a particular look at the shareholding distribution over the last decade ending 2013. Sampling top 10 companies from these industries, a comparative trend, median and mean analysis, was conducted within and between the industries. The research reveals that concentrated promoter's ownership is still strong in both companies, especially in the automobile industry, with more than 50 per cent promoters' shares. Promoters' ownership in the IT industry had a steep fall from 57.1 per cent in 2004 to 45.0 per cent in 2013. It was known from the study that the automobile industry has both institutional and individual investors than the IT industry, but the institutional investors' in increasing faster in the IT industry than the Automobile industry. It was concluded that the age of the firm as well as the internationalization of the company have impact on the shareholding patterns. While old companies in the automobile industry are family-dominated ownership in the form of promoters, global companies in the IT industry are less concentrated with promoter's ownership.

Key words: Individuals, Institutional, Promoters, Shareholding Pattern

Do IFRS Adoption, Firm Size, and Firm Leverage Influence Earnings Management? Evidence from Manufacturing Firm Listed in Indonesia Stock Exchange

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Abstract

This research investigates whether IFRS adoption, firm size, and firm leverage have effect on earnings management in Indonesian manufacturing firms. Earnings management is identified using absolute value of discretionary accruals, measured with Francis et al. (2005) model. Based on a sample of 102 manufacturing firms listed in Indonesia Stock Exchange for year 2010, results show that IFRS adoption in Indonesia does not have effect on earnings management, while firm size and firm leverage have effect on earnings management. Furthermore, results show that firm size has negative effect on earnings management, which means larger firms engage in less earnings management and highly leveraged firms engage. Results also show that firm leverage has positive effect on earnings management, which means highly leveraged firms are associated with more earnings management.

Key words: Earnings Management, IFRS Adoption, Firm Size, Firm Leverage

Age, Gender, and Education Effects toward Auditors' Risk Behavior in Auditing Content for Financial Statement

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Abstract

This research was aimed to examine and prove the influence of auditor's risk behavior generated by age, gender, and education. This is important because risk is the main focus on professional standard of auditing (PSA) as auditor guidance to audit the financial statement so that it is important to examine the auditor perception and propensity to face that risk. This study used a quantitative approach, respondents of which are auditors involved in the audit of financial statements in Indonesia. The data were collected using a questionnaire Ionescu & Turlea (2011). This research was using age (X1), gender (X2), and education (X3) as independent variable and auditor's risk behavior (Y) as dependent variable. Hypothesis testing was performed using multiple linear regressions with a 5 per cent significance level. The result showed that age has a positive and significant influence to auditor's risk behavior, in a financial audit context, while gender and education did not have a significant influence on auditor's risk behavior.

Key words: Risk Aversion, Age, Gender, Education, Auditor's Risk Behavior

A Survey about the Practices of Accounting for Profit-sharing Investment Accounts in Islamic Banks around the World

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Abstract

As interest is prohibited in Islam, Islamic banks replace interest-bearing deposits with profit-sharing investment accounts (PSIA). The depositors or investment account holders (IAH) and the banks share profits according to an agreed profit-sharing ratio, but all the losses are solely born by the IAH. The Accounting and Auditing Organizations for Islamic Financial Institutions (AAOIFI) allows mezzanine level between liabilities and shareholders' equity to account for unrestricted PSIA, a type of PSIA which grants the bank full discretion to utilize the funds. However, there are no guidelines to implement International Financial Reporting Standards (IFRS) for Islamic banks, which may cause different treatments on PSIA, as well as PSIA-related accounts; which are return to IAH, profit equalization reserves (PER) and investment risk reserves (IRR). The last two are intended to smooth the profit payouts to IAH. By surveying financial reports of 38 Islamic banks from 31 countries, this paper attempts to find out whether the practices of accounting for those accounts are reported in uniform and consistent manner under the same financial reporting standards. Result shows that Islamic banks that prepare financial reports under IFRS disclose PSIA and PSIA-related accounts in more dissimilar ways compare to those that implement AAOIFI accounting standards. Different terms are also used for similar accounts, which complicate the comparisons between Islamic banks. The pressures for Islamic banks to follow global accounting mainstream are possible reasons to this phenomenon and it requires related authorities to sit together and work on harmonization of accounting standards for Islamic financial transactions.

Key words: Islamic law , Interests in Joint Venture, A grant or gift that is not in return of something, Including those that are currently in the process of converging with IFRS, Joint-partnership, interest expense, Islamic Financial Rules has stated that IFIs' financial statements should follow the DFSA Rulebook

ROLE OF INDEPENDENCE IN ETHICS FOR SMP ACCOUNTANTS

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“Ethics is all about our becoming and feeling responsible about everything that is around us. We are responsible only when we appreciate everything that is ethical and denounce all that is not ethical around us. I would like our membership to ensure that they always go for the stricter interpretation, foregoing the liberal one wherever and whenever they realise a presence of two interpretations on a matter of professional interest, despite both being legal. Such a courageous display of moral conduct will inspire not only generations of our professionals, but also those from other walks of life.”[Thomas More, in ‘Utopia’].

Past-President of ICAI, Shri R. C. Cooper also expresses the same feeling while writing the first preface to the ICAI’s Code of Ethics: ...practice of professional ethics is largely a matter of conscience and the determination of members to distinguish between what is right and wrong. Ethics is a state of the mind. He goes on to explain: ...there may be some acts which, though may not strictly fall under one of the items of the Schedule, may be one which may not be proper by any moral or ethical standards. Very intimately and yet with sincere concerns, he advises all of us to act in the larger interests of the Institute, and to search our hearts and conscience whenever in doubt.” (President of Institute Of Chartered Accountants of India in Editorial in ICAI Journal Of May 2013).

The increased pace of professional life, changing culture of business and paradigm shifts in regulations all around have brought the importance of ‘ethics’ to the fore. The need for professional accountants to practice ethics is herculean task, particularly for Small and Medium Practitioners (SMP) and that too, in developing countries where the life struggle for survival takes precedence over other values. The strength to practice ethics as expected stems from independence, one of the pillars of standards on quality of assurance services.

With unearthing of scams and Ponzi like schemes, the responsibility of audit and attest functions have assumed importance like never before. Moreover in the modern era, where society is looking to auditors to discharge their attest function correctly, it is all the more important to ask whether the accountants are following literally and ethically, the rules set by society while discharging our responsibility. The importance of independence in discharge of attest function also needs to be evaluated with the measures that need to be adopted by accountants, society as well as regulators.

The paper will Focus on what is professional ethics and role of independence while conducting the audit and such attest function particularly by small and medium practioners in Indian metros. The research paper through questionnaire and sample study of published accounts of big companies, will conduct a survey of 50 SMP’s and come to a finding of relevance of independence in professional ethics and the role of regulators in implementation and further suggest changes in code of ethics and regulations, if required based on findings

Key words: Audit, Auditor Independence, SMP, India, Regulators

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