

On the Credibility of GAAP: Do Preparers, Auditors, and Users See Eye to Eye?

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Abstract

The purpose of this study was to apply social-psychological research methods to address an issue in the development of general accepted accounting principles (GAAP). Of concern to the Financial Accounting Standards Board (FASB) in the development of GAAP is the attitudes of its constituent groups with respect to the credibility of GAAP. Our main objective was to assess any differences in the credibility perception of GAAP, as indicated by the three main groups of FASB constituents: corporate preparers of financial statements (preparers), CPAs who audit financial reports to ensure their adherence to GAAP (auditors), and accountants who use financial reports to make lending and investment decisions (users). The results indicated that auditors' perception of the credibility of GAAP along eight "credibility" dimensions was significantly different than that of preparers and users of financial reporting. These results are important to the standard setting process because they indicate a lack of consensus among the three main FASB constituent groups, and may indicate an elevation of auditor views over those of users and preparers. Some implications of these results and suggestions for future research are discussed.

Introduction

An important objective of the standard-setting process must be to improve and maintain the credibility of generally accepted accounting principles. It has been asserted that credibility is "the key credential of the standard setting process," and that "the need for credibility no doubt played a central role in the [FASB's] decision to develop...a conceptual framework" (Dyckman, 1988).

The Financial Accounting Standards Board (FASB) expected the Qualitative Characteristics contained in *Statement of Accounting Concepts No. 2* to help guide its own standard-setting process in an effort to improve the credibility and usefulness of accounting standards (FASB, 1976). However, to serve this objective the qualitative characteristics must satisfy two tests: (1) There must be widespread agreement among constituent groups (preparers, users, and auditors) that the qualitative characteristics chosen by the FASB are the relevant qualitative characteristics; and (2) There must be widespread agreement among constituent groups (preparers, users, and auditors) as to the presence of the

qualitative characteristics in financial information.

The FASB addressed the first test concerning agreement on the relevant qualitative characteristics when it noted that there has been "substantial agreement about the major qualities of useful financial statement information" over the years.¹

This study addresses the second test. Is there widespread agreement among constituent groups (preparers, users, and auditors) as to the presences of the qualitative characteristics in financial information? Differences between preparers, auditors, and users in the perception of the presence of qualitative characteristics in GAAP are of potential concern. If there are significant differences in the perceptions of the presence of qualitative characteristics among constituent groups, accounting standards must be set keeping such differences in mind. For example, investors and creditors are identified by the FASB as the primary users of financial accounting information and the FASB's most important constituent group.² If users perceptions of the extent to which

qualitative characteristics are present in a given example of GAAP are different than other constituent groups, then the FASB should favor the views of users more heavily than those of preparers and auditors in the standard-setting process.

Do The FASB's Constituent Groups Have the Same Perception of the Credibility of GAAP?

In 1985, the Financial Accounting Foundation (FAF) commissioned Louis Harris and Associates to survey the FASB's constituents across a broad range of issues. Respondents were simply asked to indicate how much they thought FASB promulgated GAAP had increased the "credibility" of financial reporting. A number of FASB constituent groups were surveyed, including groups representing preparers, auditors, and users of financial reporting. According to the published results, 62% of the preparers, 58% of the auditors, and 65% of the users (i.e., 63% of the investors and 67% of creditors) reported that GAAP had increased the credibility of financial reporting "a great deal"; 35% of the preparers, 36% of the auditors, and 31.5% (32% of the investors and 31% of the creditors) said that GAAP had increased such credibility "some," while the remaining percentage of the preparers, auditors, and users who responded (less than 6% for all the above groups) felt GAAP had negligibly increased the credibility of financial reporting (FAF, 1985).

Taken at face value, the FAF survey seems to suggest that there is consensus among the FASB's three main constituent groups concerning their perception of the effect FASB promulgated GAAP has on the credibility of financial reports. However, the structuring of the survey's question is biased in that it implies but one conclusion [i.e., GAAP has enhanced the credibility of financial reporting] and contains no alternatives suggesting an opposite conclusion (namely, that GAAP may have in some instances undermined the credibility of financial reporting). Moreover, the survey measured global impressions of the effect GAAP has had on the credibility of financial reporting without ever assessing constituents' perceptions of the credibility of specific accounting practices (or changes in procedures). Unfortunately, this polling methodology may have measured nothing more than respondents' favorable attitudes towards GAAP (or the FASB) and/or their positive sentiments toward its objectives rather than their actual perception of the credibility of GAAP.

The purpose of the present study is to compare the credibility that the three primary groups having a professional interest in financial reporting (preparers, auditors, and users) assign to a sample of common and

familiar examples of GAAP. These procedures will permit a relatively straightforward assessment of whether the FASB's three main constituent groups share the same perception of the credibility of GAAP -- an assessment that is less constrained than were the FAF survey data by any positive sentiments that respondents may have about GAAP and/or its global objectives.

Method

To achieve the aims of this study, preparers', auditors', and users' perceptions of the credibility of GAAP were solicited and measured. A survey instrument was constructed which included eight scaler measures as credibility dimensions and ten examples of GAAP as stimuli.

The participant groups surveyed were professional constituents of the FASB who are regularly involved in the preparation, audit, or use of corporate financial statements: corporate controllers (preparers), CPA partners involved in the audit of financial reports (auditors), and portfolio managers and loan officers who use financial statements to make investment and credit decisions (users). Each participant was asked to assess the credibility of ten examples of GAAP that represented five different areas of accrual accounting: accruals, deferrals, cause and effect allocations, systematic and rational allocations, and immediate recognition allocations.³ Thus, the design was a 3 (Type of constituent) X 5 (Type of accrual accounting) factorial. The data was subjected to statistical tests from which inferences could be drawn that addressed the purpose of this study.

To accomplish its the objective of this project we relied on accepted methods of attitude/survey research. Design of the questionnaire and the steps employed in conducting the mail survey were drawn from suggestions made by Dillman [1978] and Alreck and Settle [1985]. Guidance for addressing issues of questionnaire bias were based on the work of Grove and Savich [1979]. The methodology is discussed below in greater detail.

Statistical Design

The statistical design of this study was a 3 (Type of constituent) X 5 (Type of accrual accounting) factorial. The statistical test chosen to address the research issue was multivariate analysis of variance (MANOVA) where the three constituent groups are independent variables and the credibility measures are dependent variables, and a separate MANOVA test where the five areas of accrual accounting are independent variables and the credibility measures are dependent variables. MANOVA results from the above tests will provide

evidence to draw inferences on the extent to which the three constituent groups share the same attitudes towards GAAP, and the extent to which the five areas of accrual accounting are perceived as equally credible. Since the primary issue in this study is the attitudes of the three constituent groups, three sets of MANOVA tests, separate from those above, were conducted isolating two constituent groups at a time to identify specific attitude differences between each group. In addition, univariate ANOVAs and mean scores were generated for each credibility measure for each constituent group. The combination of the two-group MANOVA results, univariate ANOVAs, and mean scores provides evidence to compare and rank the three constituent groups' attitudes towards GAAP.

Since this study will use multiple credibility measures as dependent variables, Pearson product moment correlation coefficients and principal factor analysis was conducted to determine if the selected credibility measures are positively related to "credibility" and are therefore valid credibility dimensions. The results of all of the above tests are presented and discussed later in the paper.

Credibility Measures

Although the social psychological literature abounds with studies in which the credibility of speakers is addressed, we found no studies that were particularly helpful in assisting us to measure the credibility of procedures such as those called for in GAAP. Our approach to the assessment of procedural credibility was straightforward: We first selected dimensions that seemed to represent the concept of credibility as that concept might apply to GAAP. We then chose examples of GAAP and asked participants to rate these examples on Likert-type scales designed to represent credibility dimensions.

Our selection of credibility dimensions was partly intuitive but primarily based on factors the FASB has indicated should make GAAP credible to its constituents. On the intuitive side, one obvious dimension for inclusion was the general perception of "credibility" itself. We also presumed that familiarity with particular examples of GAAP might be a component of credibility. Hence, participants were asked to rate the "familiarity" of each example of GAAP. We chose the remaining dimensions of credibility after examining the FASB's views on the credibility of GAAP.

Statement of Financial Accounting Concepts No. 2, "Qualitative Characteristics of Accounting Information" (SFAC No. 2) (FASB, 1980) indicates the primary

qualitative characteristics that the FASB believes GAAP should possess. One of those primary qualitative characteristics is reliability. Reliability is said to have three "ingredients": (1) verifiability, (2) neutrality, and (3) representational faithfulness and two secondary qualities -- comparability and consistency.

SFAC No. 2 linked reliability to credibility by stating that if reliability is present in GAAP there is "a gain in credibility". *The FASB also stated that "... reliability implies completeness of information ...[a]n omission can rob information of its claim to neutrality ..." and that "... information that is not neutral loses credibility"* (FASB, 1980, para. 107).

Since the FASB has firmly linked reliability to credibility, it seems reasonable to suggest that the three ingredients of reliability (verifiability, neutrality, and representational faithfulness) and its two secondary qualities (comparability and consistency) should be linked to credibility as well. Therefore we used reliability, verifiability, neutrality, representational faithfulness, comparability, and consistency as six dimensions for scalar measures of credibility. Thus, these six dimensions plus credibility and familiarity ratings form the eight dimensions used to measure each example of GAAP and constitute the dependent variables in this study.

Selecting Examples of GAAP

The examples of GAAP selected for use as stimuli in this study are representative of accrual accounting, which GAAP is primarily based on. To achieve this objective the five categories of accrual accounting were used as selection criteria: (1) accruals, (2) deferrals, (3) association of cause-and-effect allocation, (4) systematic and rational allocation, and (5) immediate recognition allocation. In our study two examples of GAAP were included for each of these five categories.

As a practical matter the sample of GAAP had to consist of examples with which participants would be familiar. To identify a universe of examples of GAAP with which participants would likely be familiar, two major sources were consulted: In two major papers, the FASB identified numerous examples of GAAP as "common examples" (FASB, 1984; 1985). In addition, FAF studies conducted in 1980 and 1985 measured subject "familiarity" with eight examples of GAAP (FAF, 1980 and 1985). The FAF found four examples of GAAP to be familiar to at least 80% of the participants in these studies. These four examples plus those common examples identified by the FASB were considered for inclusion in this study.

Table 1

Examples of GAAP Used as Stimuli in the Study

ACCRUALS:

1. Accrued Interest Expense on a Coupon Bond.
2. Unrealized Loss on Marketable Equity Securities.

DEFERRALS:

3. Unearned Subscriptions.
4. Warranty Liability.

ALLOCATION; ASSOCIATING CAUSE AND EFFECT:

5. Cost of Goods Sold.
6. Wages Expense from Compensated Absences.

ALLOCATION; SYSTEMATIC AND RATIONAL:

7. Depreciation Expense on a Machine.
8. Amortization of Unrecognized Net Pension Obligation.

ALLOCATION; IMMEDIATE RECOGNITION:

9. Selling and Administrative Salaries Expense.
10. Research and Development Expense.

Participants were asked to evaluate each example of GAAP by rating it according to the eight "credibility" dimensions mentioned earlier using a 7-point Likert scale. The ACCRUED INTEREST example of GAAP from the questionnaire is used below to illustrate the structure of the example-of-GAAP stimuli and the placement of the credibility measures:

ACCRUED INTEREST:

A corporation issued a bond with semi-annual interest payments, neither of which fall on the fiscal year end. At the

The final choice of examples of GAAP used in this study took into account several selection criteria. To reduce any effects of direction of income bias, all of the examples had to have the same income direction effect, which was negative (i.e., the application of these examples of GAAP would reduce rather than increase net income). In addition, the ten examples of GAAP finally chosen had to contain two examples for each of the five categories of accrual accounting, which was discussed earlier. When more than two examples of GAAP were available for inclusion within a category, we chose one on the basis of simplicity of the accounting method. The ten examples of GAAP selected are presented in Table 1.

The Questionnaire

In the questionnaire, each of the ten examples of GAAP was described by several sentences. Dollar amounts were not used in these descriptions to eliminate bias that might be created by subjective evaluations of materiality (e.g., respondents from larger firms might tend to consider the accounting of relatively small sums as trivial).

end of the period, accrued interest expense is recorded and is recognized on the income statement. To what extent do you perceive the above application of GAAP to ...

	not at							all	totally
...be reliable (dependable)?	1	2	3	4	5	6	7		
...be representationally faithful (valid)?	1	2	3	4	5	6	7		
...be consistent from period to period?	1	2	3	4	5	6	7		
...be neutral (absence of bias)?	1	2	3	4	5	6	7		
...be verifiable?	1	2	3	4	5	6	7		
...provide comparability (reveal similarities or differences between two sets of economic phenomena)?	1	2	3	4	5	6	7		
...enhance credibility (belief in the accounting information)?	1	2	3	4	5	6	7		
...be familiar to you?	1	2	3	4	5	6	7		

In addition, a final page of the questionnaire asked participants to identify the professional group to which they belonged (i.e., preparers, auditors, or users) as well as their age and amount of formal education. Space was

also available for miscellaneous comments.⁴

A pilot study was conducted to pretest the questionnaire using a small group of 20 preparers, auditors, and users. The participants were not informed of the overriding purpose of the study (i.e., to compare the credibility perceptions of three FASB constituent groups). In addition to rating each example of GAAP on the eight credibility dimensions, the pilot study participants were invited to comment on the clarity of the questionnaire and to make suggestions for improving the instrument. Comments received from the 20 participants (6 preparers, 7 auditors, and 7 users; 100% of those polled) indicated that the questionnaire was understandable and that only minor wording changes (e.g., addition of synonyms to clarify the meaning of dimensions such as "neutrality") would be desirable. These minor changes were made to the questionnaire.⁵

Choice of Participants

According to the FASB, there are three major groups that have a professional interest in financial reports: (1) accountants in private industry who must apply GAAP to prepare financial reports (preparers), (2) CPAs in public practice who audit financial reports to ascertain adherence to GAAP (auditors), and (3) users of financial reports (users) (FASB, 1978).

To represent preparers, members of the Institute of Management Accountants (IMA) (formerly the National Association of Accountants) with a job title of corporate controller were randomly chosen to participate. CPAs who were members of the American Institute of Certified Public Accountants (AICPA) and who were partners in CPA firms with more than 100 AICPA members were randomly chosen to represent auditors.

The FASB identifies investors and creditors among the major users of financial reports (FASB, 1978). We randomly chose members of the Financial Analyst Federation (FAF) with the job title of "portfolio manager" to represent investors. To represent creditors, "loan officers" were randomly chosen from a mailing list of "key bank officials" obtained through a national database available from Polk Publishing Corporation. For statistical testing purposes, investors and creditors were consolidated into a single group we called "users".⁶

Sampling Procedures

Our research questions were addressed by presenting participants with a questionnaire packet (described below) containing ten examples GAAP. Each example of GAAP was accompanied by eight credibility dimen-

sions with associated seven-point Likert-type scales. A total of 763 questionnaires were sent to the three groups of participants in the first mailing. Six weeks after the first mailing, a second mailing of the questionnaire packet was made to a random sample of half the original participants requesting that they respond if they had not already done so. After the two mailings 107 usable questionnaires were returned, consisting of 32 preparers, 41 auditors, and 34 users.⁷

Results and Discussion

The results of these statistical tests from which inferences could be drawn concerning the three constituent groups' attitudes towards GAAP, the perception of the credibility of the five areas of accrual accounting, and the appropriateness of the credibility dimensions selected as measures of respondents' perception of the credibility of GAAP are presented and discussed below.

Multivariate Analysis of the Respondent Perceptions

The major purpose of this study was to determine if there is a significant difference in the credibility perception of three FASB constituent groups. Our first step in addressing this issue was to submit the eight Likert-type "credibility" scales to a 3 (Type of constituent) X 5 (Type of accrual accounting) multivariate analysis of variance (MANOVA). This analysis produced two noteworthy outcomes: a main effect for Type of constituent, $F(16,2014)=13.46, p<.001$; and a main effect for Type of accrual accounting, $F(32,3715)=6.38, p<.001$. The Type of constituent results indicate that at least one of the three constituent groups has a statistically different perception of the credibility of GAAP than the other two and possibility all three groups have perceptions of the credibility of GAAP which are different from one another. The Type of accrual accounting results indicate that at least one of the areas of accrual accounting is perceived as statistically different than the other areas of accrual accounting.

What these omnibus MANOVA effects do not reveal, however, are the categories of accrual accounting in which GAAP is viewed as most (or least) credible, and, more importantly, the constituents groups who view GAAP as more (or less) credible. To answer these questions, we used two additional steps: 1) three MANOVA tests of two constituent groups at a time (preparers and auditors, preparers and users, auditors and users) and 2) univariate analyses of the dependent measures.

Table 2

**Multivariate Analysis of Variance (MANOVA) F-Statistics
of Credibility Dimensions¹ for Preparers, Auditors, and Users
for Type of Respondent Effect**

Respondent Groups	F-statistic	df	p-value
Preparers vs. auditors	6.71	8,708	0.0001
Preparers vs. users	8.40	8,634	0.0001
Auditors vs. users	21.51	8,719	0.0001

¹The scores for the Likert-type scales for reliability, representational faithfulness, consistency, neutrality, verifiability, comparability, credibility and familiarity were used as credibility dimensions in this study.

(reliable, verifiable, etc.) than did preparers and users. Preparers and users did differ in the MANOVA results. The apparent locus of those differences from the univariate ANOVAs indicate that preparers and users differed in their perceptions on only the neutrality, the comparability, and the familiarity of GAAP; neutrality and comparability were higher for users than preparers, with just the opposite results for familiarity.⁸

Two-group MANOVA Tests

To determine which of the three constituent groups have significantly different credibility perceptions from each other, the overall MANOVA tests discussed above were repeated, but for only two constituent groups at a time. These steps generated three MANOVA results (1. preparers and auditors, 2. preparers and users, and 3. auditors and users) which are presented in Table 2. The results indicate that all of the three constituent groups are significantly different from one another in their perception of the credibility of GAAP. However, these MANOVA results do not indicate if a significant Type of constituent effect exists for each of the eight credibility dimensions. To address this issue, univariate results are next presented and discussed.

Univariate Analyses

Each of the eight Likert-type credibility scales was subjected to a 5 (Type of accrual accounting) X 3 (Type of constituent) ANOVA to identify the source of the above multivariate main effects.

Effects for Type of constituent

The univariate ANOVAs (displayed in Table 3) produced main effects of Type of constituent for all eight dependent variables. The pattern of the means across these eight variables was consistent in that auditors generally perceived GAAP to be more credible

Multivariate Analysis of Covariance

The fact that auditors had more favorable perceptions of the credibility of GAAP than do preparers and users may stem from the fact that auditors are more familiar with the examples of GAAP we used (see Table 3) and that people may be more comfortable with familiar measurement stimuli. To test for the influence of respondent familiarity with the examples of GAAP, we conducted a multivariate analysis of covariance (MANCOVA) of the credibility dimensions using the scores of the Likert-type scale for familiarity as a covariate. The results of this MANCOVA test revealed that the main effect for "Type of constituent" remained significant after covarying any effects attributable to the familiarity dimension, $F(14,2064)=4.17, p<.001$. These results suggest that the degree of respondent familiarity with the given examples of GAAP was not wholly responsible for differences among auditors, preparers, and users in the perceived credibility of these accounting procedures.

Response Bias

The presence of one form of response bias was tested for by conducting a MANOVA test for "Type-of-constituent" effect for both early responses (those received from the first mailing) and late responses (those received from the second mailing). The results indicate that the type of constituent effect was statistically significant for both early responses, $F(16,1512)=6.25$,

Table 3

Mean Ratings of Preparers, Auditors, and Users of 10 Examples of GAAP on Eight Credibility Dimensions and Univariate F-Statistics for the Type of Respondent Effect

Credibility Dimensions	Mean Scores			Univariate ANOVAS F-statistic
	Preparers	Auditors	Users	
Credibility	4.85 _b	5.33 _a	5.03 _b	10.32 **
Reliability	5.14 _b	5.46 _a	5.23 _b	6.27 *
Verifiability	5.19 _b	5.46 _a	5.11 _b	6.08 *
Neutrality	4.74 _b	5.17 _a	5.12 _a	8.42 **
Representational Faithfulness	5.03 _b	5.41 _a	5.16 _b	8.21 **
Comparability	4.76 _b	5.27 _a	5.07 _a	10.92 **
Consistency	4.99 _b	5.50 _a	5.19 _b	12.81 **
Familiarity	5.49 _b	6.08 _a	4.82 _c	79.60 **

* $p < .01$

** $p < .001$

Note: Means with common subscripts in each row are not significantly different (at $p < .05$) by the Duncan's Multiple Range Test.

which they were drawn.⁹ Thus, our respondents were not notably younger or older, nor were they any more or less educated than other accounting professionals. Second, and more important, we subsequently analyzed the ratings of GAAP provided by our pilot sample, and the analysis revealed the same multivariate main effect for Type of constituent, $F(16,234) = 2.20, p < .01$, that emerged from the analysis of our survey data. Though our pilot study participants were not chosen randomly their responses are not biased in the same way that a low response rate to a

$p < .001$, and late responses, $F(16,484) = 3.56, p < .001$. Moreover, univariate analyses corroborate Type of constituent effects for both early and late respondents. For early respondents six of the eight dimensions were significant (all p 's $< .05$), while for late respondents seven of the eight dimensions were significant (all p 's $< .05$). These results suggest that the differences in credibility perception among constituent groups was not due to the influence of any temporal response bias.

Response Rate

Finally, our low overall response rate (14%) raises the possibility that our participants comprised a nonrepresentative sample of FASB constituents -- one with opinions about GAAP that do not reflect those of the majority of accounting professionals. Although we cannot rule out this interpretation, there are at least two sources of data that render it implausible to us. First, the distribution of our samples of preparers and one of the two "user" groups (portfolio managers) on the demographic variables of age and amount of education matched almost exactly (both χ^2 's $< 2, n.s.$) those of the populations of preparers and portfolio managers from

survey might imply. And given that the responses of pilot test participants also showed significant Type of constituent effects, we are inclined to believe that the Type of constituent effect that emerged from our survey sample is reliable and reflects the opinions of a representative group of accounting professionals.

Perceptions of the Dimensions of the Credibility of GAAP

In addition to assessing respondents' global impressions of the credibility of various examples of GAAP, the study sought to determine if the three groups perceived the six qualitative characteristics from SFAC No. 2 (reliability, verifiability, neutrality, representational faithfulness, comparability, and consistency) as credibility dimensions. Though there are many ways of exploring the relationship of these credibility dimensions to respondents' "credibility" ratings, we chose to calculate Pearson correlation coefficients and to conduct principal factor analysis. In analyzing the correlation results, respondents' ratings of "credibility" were viewed as the criterion and responses to the other seven rating scales were considered predictors. The purpose of conducting the factor analysis was to determine if the variables all

load on a single factor, which we might presume to be credibility. A summary of the results of this analysis appears in Table 4.

The correlation results indicate that the six qualitative characteristics are highly correlated to "credibility" among all three groups. With the exception of users' perception of verifiability the correlations of the six credibility dimensions with participants' credibility ratings ranged between .71 and .86 (see Table 4). An encouraging result was that familiarity was not as highly correlated with credibility as were the six qualitative

six qualitative characteristics and credibility have a high degree of covariance. As with the correlation results, familiarity's factor loadings were distinctly lower than for the six credibility dimensions. The factor analysis produced an explained variance of 74.7% for preparers, 71.7% for auditors, and 69.1% for users. The relatively low factor loadings for familiarity support our other test results which indicate that respondents' familiarity with examples of GAAP is not driving the primary results of this study.^{10 11}

The correlation and factor analysis results provide sufficient evidence to suggest that the six qualitative characteristics are valid dimensions of the credibility of GAAP for all three constituent groups. Therefore our earlier findings of group differences in the perception of the extent of the presence of credibility, reliability, verifiability, etc. in examples of GAAP would seem to be meaningful and were not confounded by significant disagreement among groups on what qualitative characteristics are in fact dimensions of the credibility of GAAP.¹²

Conclusions and Implications

The purpose of this study was to determine whether three FASB constituent

groups -- preparers, auditors, and users of financial reporting -- have the same perception of the credibility of ten common examples of GAAP. The results indicate that perceptions of credibility of constituent groups do differ and that auditors have more favorable perceptions of the credibility of GAAP than do preparers and users.

characteristics. This suggests that respondents' perception of the credibility of GAAP was not strongly associated with respondents' familiarity with GAAP. This finding is consistent with the MANCOVA test which found that a shared variance with familiarity was not driving the constituent effect results.

The principal factor analysis results showed that the

Table 4

Correlation and Factor Analysis of Eight Scaler Measures of Credibility for Preparers, Auditors, and Users

Variables	Preparers		Auditors		Users	
	PPMCC ¹	FL ²	PPMCC	FL	PPMCC	FL
Credibility	1.00	.90	1.00	.91	1.00	.89
Reliability	.79	.91	.84	.92	.80	.93
Verifiability	.73	.85	.71	.81	.56	.66
Neutrality	.81	.91	.71	.81	.76	.85
Representational						
Faithfulness	.85	.93	.86	.90	.81	.91
Comparability	.82	.88	.85	.89	.85	.90
Consistency	.81	.91	.77	.89	.80	.91
Familiarity	.53	.57	.58	.64	.46	.50
p value	.001		.001		.001	
Eigenvalues	5.98		5.73		5.53	
Explained variance	74.7%		71.7%		69.1%	

¹Pearson Product Moment correlation coefficients.

²Factor loadings.

It is important to emphasize that the differences in credibility perception between auditors and users is evident even after controlling for differences in respondent familiarity with the ten examples of GAAP used. The differences in credibility perception between auditors and preparers may be due, in part, to the degree of respondent familiarity with the ten examples of GAAP. But even after controlling for differences in constituents' familiarity with the sampling of GAAP they rated, the differences in perceived credibility between auditors and preparers nonetheless exist.

Our findings are at variance with the results of the 1985 FAF survey (FAF, 1985), the results of which would lead one to believe that all three groups had essentially the same perception of the credibility of GAAP. It is likely that methodological variations contributed to this discrepancy. The FAF survey simply asked respondents to provide their global impressions of the extent to which GAAP had added to the credibility of financial reports. It thus consisted of a loaded question, the responses to which may have reflected strong social desirability biases and/or respondents' wishes, hopes, etc., that the FASB would improve the credibility of financial reporting. By contrast, our study sampled respondents' assessments of the credibility of specific common and familiar examples of GAAP.


We can have confidence in our assessments of the perceived credibility of GAAP, because all six of the dimensions cited by the FASB as underlying the credibility of GAAP were reliable predictors of the credibility ratings provided by the three respondent groups (see Table 4).

So when an objective methodology that minimizes respondents' positive sentiments toward GAAP and its objectives was employed, the findings imply that GAAP is perceived as more credible by auditors than by preparers and users. The underlying implication is that the FASB's assumption concerning the existence of a consensus among the three main constituent groups concerning the credibility of GAAP may not be correct. This finding is important because of the FASB's mandate to study, formulate, and promulgate accounting principles that would enhance the consensus of the credibility of accounting procedures and financial reporting. Apparently GAAP is more credible to auditors than to preparers who apply GAAP, and to users who are the primary beneficiaries of GAAP.

One obvious constraint on our study is that the sample of GAAP (used as stimuli) was limited to ten examples. It was not possible, either practically or methodologically, to include a large portion of all

GAAP. Therefore, it would be quite inappropriate to draw sweeping inferences based on the results of this study. Nevertheless, our study presents clear evidence that credibility perceptions among constituent groups cannot be assumed to be similar.

Suggestions for Future Research

Our study describes an objective methodology for measuring credibility perceptions of GAAP by the FASB's three main constituent groups. This methodology approach can be used to assess the credibility of other examples of GAAP beyond the ten we examined. Thus, a series of replications, each using new samples of GAAP should contribute to a more extensive knowledge of the relative credibility perceptions of the FASB's three main constituent groups. In view of the differences in credibility perceptions we have reported across constituent groups and their possible implications for future deliberations, we urge that future research explore these differences further. 

Footnotes

1. To support this contention the FASB cited the conclusions of the American Accounting Association, the Accounting Principles Board, the Study Group on the Objectives of Financial Statements, and the Accounting Standards Steering Committee of The Institute of Chartered Accountants in England and Wales. See Financial Accounting Standards Board, CONCEPTUAL FRAMEWORK FOR FINANCIAL ACCOUNTING AND REPORTING: ELEMENTS OF FINANCIAL STATEMENTS AND THEIR MEASUREMENT (Stamford: FASB, 1976), Par. 321 and p. 149.
2. Financial Accounting Standards Board, CONCEPTUAL FRAMEWORK FOR FINANCIAL ACCOUNTING AND REPORTING: ELEMENTS OF FINANCIAL STATEMENTS AND THEIR MEASUREMENT (Stamford: FASB, 1976), Pars. 324-326.
3. One example of GAAP from each of the five areas of accrual accounting had been issued by the Financial Accounting Standards Board (FASB), whereas the second example in each area originated from one of the FASB's predecessors (The Committee on Accounting Procedure *Accounting Research Bulletins* (1939 -1959) or The Accounting Principles Board *Opinions* (1959 - 1973)).
4. Copies of the questionnaire are available upon request.
5. The ratings of GAAP that pilot test participants provided were analyzed and will be discussed in the context of interpreting the data provided by our

larger sample.

6. The subsequent survey responses provided by portfolio managers and loan officers did not differ significantly for any of the dependent variables (all F 's < 2, ns), thus apparently justifying our consolidation of these two groups into a single "user" category.
7. Our response rate (14%) is consistent with those obtained in nationwide mail surveys of business and financial professionals (see, for example, Wilson, 1987). Nevertheless, we recognized that a low response rate raises the possibility that our data may reflect the impressions of a nonrepresentative sample of FASB constituents -- a point to which we return later in the manuscript.
8. The univariate ANOVAs also produced main effects of Type of accrual accounting for all eight dependent variables (all F 's > 9.15, p 's < .001). Examination of the means of these analyses reveals a reasonably consistent pattern of differences in which GAAP addressing accruals and cause and effect allocations are viewed as more credible than GAAP governing deferrals, with GAAP addressing systematic/rational allocations and immediate recognition allocations being perceived as of intermediate credibility. The univariate effects for type of accrual accounting are presented in the abbreviated form because they are clearly secondary to our research interests and in no way qualify the "Type of constituent group" effects that emerged. More detailed descriptions of these analyses (e.g., means) are available upon request.
9. Population statistics for preparers and portfolio managers were available from the Institute of Management Accountants (formerly the National Accounting Association) and the Association for Investment Management and Research. No comparable figures exist for auditors and our other "user" group (loan officers) and thus, we could not compare the demographics of auditors or loan officers with that of the larger population from which they were drawn.
10. The criticism may be raised that the principal factor analysis results are limited by the level of the response rate (14%). However, recent work in the field of psychology by Arrindell and van der Ende (1985) has shown that the crucial consideration in factor analysis is that "sample size should be related to the number of factors drawn." Arrindell and van der Ende found that "stable factor solutions may be obtained when the sample size is approximately 20 times the number of factors." [See W. Arrindell and J. van der Ende, "An Empirical Test of the Utility of the Observations-To-Variables Ratio in Factor and Components Analysis", *Applied Psychological Measurement*, Vol. 9, June, 1985, pp. 165-178.]

This study's factor analysis results for preparers, auditors, and users were all one-factor solutions. Therefore, the "sample size / number of factors" ratios in this study exceeded 20 for all three constituent groups: preparers (32/1=32), auditors (41/1=41), and users (34/1=34). Based on the findings of Arrindell and van der Ende, stable factor solutions were generated by this study, and the conclusions drawn are based upon reliable results. In addition, both factor analysis and Pearson correlation coefficients are generally considered robust statistical tests.

11. Usually the largest factor loading is used as "the factor" that all the other dimensions are loading on. However, since the factor loadings in Table 4 have such a close numerical proximity to one another, it may be difficult to identify "the factor" that is the dominant dimension of accounting information credibility.
12. A more detailed discussion and analysis of the six qualitative characteristics is the subject of a separate study currently in process.

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