On Narrowing the Credibility GAAP: Has the Financial Accounting Standards Board (FASB) Enhanced the Credibility of Generally Accepted Accounting Principles (GAAP)?

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Abstract

The purpose of this study was to apply social-psychological research methods to address an issue of widespread concern in the accounting profession. One of the primary motives underlying the creation of the Financial Accounting Standards Board (FASB) was to increase the credibility of Generally Accepted Accounting Principles (GAAP). Our main objective was to assess any differences in the perceived credibility of FASB GAAP and pre-FASB GAAP, as indicated by three groups of FASB constituents familiar with these procedures: 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 (a) the credibility of accounting principles can be assessed, (b) not all dimensions that have been touted as contributors to the "credibility" of accounting practices predict accountants' perceptions of credibility, and (c) examples of FASB GAAP were perceived as less credible than corresponding examples of pre-FASB GAAP by each of the above three groups of FASB constituents. Some implications of these results and suggestions for future research are discussed.

Introduction

Every major U.S. corporation must produce for the benefit of its shareholders and regulatory agencies an annual financial report, which consists of an income statement, balance sheet, statement of cash flows, and various supporting information. Since the stock market crash of 1929, which triggered a demand for regulation of U.S. corporations and their financial reporting, skepticism has existed concerning the financial reporting of U.S. corporations. Much of the skepticism has been associated with the underlying accounting methods (referred to as generally accepted accounting principles, or GAAP) used by corporations to prepare financial reports.

In March 1971, the American Institute of Certified Public Accountants (AICPA) appointed the Study

Group on the Establishment of Accounting Principles (known as the Wheat Committee) "to study and make recommendations for improving the process of establishing accounting principles" (American Institute Certified Public Accounting, 1972). The Wheat Committee's report, published a year later, recommended the establishment of the Financial Accounting Foundation (FAF), that would be responsible for appointing seven full-time members to a Financial Accounting Standards Board (FASB) and raising the funds necessary to support the Board. A major impetus for the creation of the FASB was a concern about the understandardized and potentially incredulous ways in which accounting practices were established and applied. For years such credibility problems had been underscored by the writings of Abraham J. Briloff, as typified by his book *Unaccount-*

able Accounting (Briloff, 1972). Briloff was not alone in his criticism; articles such as "Called to Account: Accountants Are Striving to Close the Credibility GAAP," which appeared in Barron's (Barron's, 1972) were fairly common. This particular article discussed how the accounting profession and the Securities and Exchange Commission (SEC) were optimistic that the establishment of the FASB would enhance the credibility of GAAP in financial reporting.

After it was established, the FASB recognized that some people believed "that the credibility of corporate financial reporting [had] eroded in recent years" and stated its belief that "[c]onfidence in financial information is vital not only to ensure that individual decisions result in an equitable allocation of capital but to ensure continuing public support of the free enterprise system as a whole" (Financial Accounting Standards Board, 1976). It elaborated further:

Skepticism about financial reporting introduces an imperfection into the capital market--an imperfection that is pervasive in that financial statements of all enterprises, from the most conservative to the least, suffer from the weakened credibility. All enterprises are harmed, because the skepticism creates artificial uncertainty--which has a cost: Investors and credit grantors demand a higher price to compensate for the perceived higher risk (p. 4).

Thus, it is clear that a major reason that the FASB was created and a major objective recognized early by the FASB was to increase the credibility of GAAP and the credibility of financial reporting.

Has the FASB Accomplished Its Objective?

In 1985, the Financial Accounting Foundation (FAF) commissioned Louis Harris and Associates to survey the FASB's constituents, seeking to determine whether GAAP generated by the FASB would be perceived as more "credible" by FASB constituents (i.e., preparers, auditors, and users of financial reporting) than GAAP issued by the FASB's predecessors. Respondents were simply asked to indicate how much they thought the FASB had increased the credibility of financial reporting. According to the published results, 61% of those surveyed reported that GAAP issued by the FASB had increased the credibility of financial reporting "a great deal"; 38% said that the FASB had increased such credibility "some," while 4% felt the FASB had increased GAAP's credibility "only a little" and only 1% said "not at all" (Financial Accounting Foundation, 1985).

Taken at face value, the FAF survey seems to suggest that the FASB has accomplished its primary objective. However, the structure of the survey's target item is biased in that it implies but one conclusion [i.e., the FASB has enhanced the credibility of GAAP] and

contains no alternatives suggesting an opposite conclusion (namely, that the FASB may have undermined credibility by issuing new accounting procedures). Moreover, the survey measured global impressions of the effect FASB GAAP has had on the credibility of financial reporting without ever assessing constituent's 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 the FASB and/or their positive sentiments toward its objectives rather than the actual credibility of the FASB's pronouncements. Indeed, this view seems not at all unreasonable in light of the fact that 18 years have passed since the FASB began to oversee accounting practices and the credibility of financial reporting remains a highly contentious issue (Berton, 1990; Solomons, 1986).

The major purposes of the present study are (a) to apply accepted methods of attitude/survey research in an attempt to measure the credibility of specific accounting practices (GAAP), and (b) to compare the credibility that three groups of FASB constituents assign to common and comparable examples of GAAP issued by the FASB and GAAP stemming from the FASB's predecessors.¹ Hopefully, these procedures will permit a relatively straightforward assessment of whether the FASB has enhanced the credibility of accounting practices -- an assessment that is less constrained than were the FAF survey data by any positive sentiments that respondents may have about the FASB and/or its global objectives.

Method

Subjects and Design

Subjects were 107 professional constituents of the FASB who are regularly involved in the preparation, audit, or use of corporate financial statements: 32 corporate controllers (preparers), 41 CPA partners involved in the audit of financial reports (auditors), and 34 portfolio managers and loan officers who use financial statements to make investment and credit decisions (users). Each participant assessed the credibility of 10 generally accepted accounting principles (GAAP) that represented five different areas of accrual accounting: accruals, deferrals, cause and effect allocations, systematic and rational allocations, and immediate recognition allocations. One example of GAAP from each of the above areas had been issued by the Financial Accounting Standards Board (FASB), thus qualifying as FASB GAAP, whereas the second example in each category originated from the FASB's predecessors and represented pre-FASB GAAP. Thus, the design was a 3 (Type of constituent) X 5 (Type of accrual accounting) X 2 (Type of GAAP) factorial.

To accomplish its aims, this project 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].

Selecting Examples of FASB and pre-FASB GAAP

Two samples of GAAP were selected, one for FASB GAAP and one for pre-FASB GAAP. To make both samples comparable, a framework was chosen for selecting the respective samples of GAAP.

According to the FASB, "accrual accounting generally provides a better indication about an enterprises's performance than information about current cash receipts and payments" (Financial Accounting Standards Board, 1978, para. 44; see also Wilson, 1987). Thus, we limited our sampling of GAAP to examples that apply to accrual accounting. Accrual accounting can be partitioned into five categories: (1) accruals, (2) deferrals, (3) association of cause-and-effect allocation, (4) systematic and rational allocation, and (5) immediate recognition allocation. In order to make the samples of FASB GAAP and pre-FASB GAAP in this study fully reflect accrual accounting, a specific example of GAAP for each of these five categories of accrual accounting was included for each of the two samples.

As a practical matter, the two samples of GAAP had to consist of examples with which participants in the study 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 (Financial Accounting Standards Board, 1984; 1985) identified numerous examples of FASB and pre-FASB GAAP as "common examples." In addition, the aforementioned 1985 FAF study and an earlier FAF study (Financial Accounting Foundation, 1980) conducted in 1980, measured subject "familiarity" with eight examples of FASB GAAP. Four examples of FASB GAAP in the FAF studies were found to be familiar to at least 80% of the participants in those studies and therefore were considered for inclusion in this study.

The final choice of examples of GAAP to be used in this study took into account several selection criteria. 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, five FASB GAAP and five pre-FASB GAAP, were matched into pairs by the five categories of accrual accounting. When more than one example of GAAP was available for inclusion within a category, we chose one on the basis of simplicity of the accounting method. The two samples of GAAP, containing the ten examples of GAAP selected, are presented in matrix form in Table 1.

Table 1
Matrix of Selected Examples of GAAP

Area of accrual accounting	Type of GAAP	
	FASB GAAP	pre-FASB GAAP
Accruals	Accounting for Marketable Securities (FASB St. No. 12)	Accrued interest expense
Deferrals	Accounting for Contingencies (FASB St. No. 5)	Unearned subscriptions
Allocation; associating cause and effect	Accounting for Compensated Absences (FASB St. No. 43)	Cost of goods sold
Allocation; systematic and rational	Employer's Accounting for Pensions (FASB St. No. 87)	Depreciation expense
Allocation; immediate recognition	Accounting for R&D Costs (FASB St. No. 2)	Selling and administrative salaries

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 asked participants to rate examples of FASB GAAP and pre-FASB GAAP on Likert-type scales designed to represent these "credibility" dimensions.

Our selection of these dimensions (or components) of credibility was partly intuitive but primarily based on the FASB's own statements about factors that should make GAAP credible to its constituents. On the intuitive side, one obvious dimension for inclusion was the factor "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 FASB and pre-FASB GAAP.²

The remaining dimensions of credibility were chosen after examining the FASB's views on the credibility of GAAP. *Statement of Financial Accounting Concepts No. 2*, "Qualitative Characteristics of Accounting Information" (Financial Accounting Standards Board, 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.

The FASB 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" (Financial Accounting Standards Board, 1980, para. 107).

Reliability, therefore, was firmly linked to credibility, and so it seemed 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 dimensions for scalar measures of credibility. "Credibility" itself was included as a scalar measure as was "familiarity" for control purposes. Thus, ratings along these eight dimensions of

each example of FASB and pre-FASB GAAP constitute the dependent variables in the study.

Choice of Participants

The FASB states that 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) [Financial Accounting Standards Board, 1980].

To represent preparers, members of the National Association of Accountants (NAA) with a job title of corporate controller were chosen to participate. Auditors were represented by 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.

The FASB identifies investors and creditors among the major users of financial reports [Financial Accounting Standards Board, 1980]. Therefore, members of the Financial Analyst Federation (FAF) with the job title of "portfolio manager" were used as participants to represent investors. To represent creditors, "loan officers" were randomly chosen as participants from a mailing list of "key bank officials" obtained through a national database available from the Polk Publishing Corporation. For statistical testing purposes, investors and creditors were consolidated into a single group we called "users".³

Sampling Procedures

Our research questions were addressed by presenting participants with a questionnaire packet (described below) containing 5 examples of FASB GAAP and 5 comparable examples of pre-FASB GAAP. Each example of GAAP was accompanied by eight credibility dimensions with associated seven-point Likert-type scales. A total of seven hundred and sixty three 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. One hundred and seven usable questionnaires (14%) were returned.⁴

The Questionnaire

In the questionnaire, each of the five examples of GAAP was separated from its comparable example of pre-FASB GAAP, and none of these FASB accounting practices was labeled as FASB or pre-FASB for respon-

dents. Each example 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).

Participants were asked to evaluate each example of GAAP by rating it on the eight "credibility" dimensions mentioned earlier. Each of the credibility measures was named and followed by a 7-point Likert scale with endpoint 1 labeled "not at all" and end point 7 labeled "totally." In addition, a final page of the questionnaire asked participants to identify the professional class 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.⁵

A pilot study was conducted to pretest the questionnaire. A small group ($n=5$) of managers in the Southeast (e.g., bank officials; supervisors of brokerage firms) was contacted and asked to administer the questionnaire to the financial and accounting professionals under their supervision. Neither the managers nor their supervisees were informed of the overriding purpose of the study (i.e., to compare the credibility of comparable examples of FASB or pre-FASB GAAP) and the GAAP they rated was not labeled as FASB or pre-FASB. In addition to rating each example of GAAP on the eight credibility dimensions, the respondents 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.⁶

Results and Discussion

Multivariate Analysis of the Respondent Perceptions

The major purpose of this study was to determine if there is a significant difference in respondent perception of the credibility of FASB GAAP and pre-FASB GAAP. 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) X 2 (Type of GAAP) multivariate analysis of variance (MANOVA). This analysis produced three noteworthy outcomes: a main effect for Type of accrual accounting, $F(32,3715)=6.38, p<.001$; a main effect for Type of constituent, $F(16,2014)=13.46, p<.001$; and a main effect for Type of GAAP, $F(8,1007)=26.39, p<.001$. 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, the type of constituent

who view GAAP as more (or less) credible, and more importantly, the type of GAAP (FASB vs. pre-FASB) that respondents view as the more credible. To answer these questions, we now turn to univariate analyses of the dependent measures.

Univariate Analyses

Each of the eight Likert-type credibility scales was subjected to a 3 (Type of constituent) X 5 (Type of accrual accounting) X 2 (Type of GAAP) ANOVA to identify the source of the above multivariate main effects.

Effects for Type of constituent

The univariate ANOVAs produced main effects of Type of constituent for all eight dependent variables (all F 's $> 6.08, p$'s $< .001$). Examination of the patterning of the means across these eight variables was consistent and indicated that auditors generally perceived GAAP to be more credible (reliable, verifiable, etc.) than did preparers and users, who, in turn, did not differ significantly in their assessments. This finding is not surprising in that GAAP represents somewhat of an absolute standard for auditors, whose job is to ensure that their clients have conformed to these principles.

Effects for Type of accrual accounting

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.⁷

Effects for Type of GAAP

In terms of the questions that guided this research, the most interesting issue concerned the direction of the "Type of GAAP" main effect identified in the above MANOVA. Respondents' mean ratings of FASB and pre-FASB GAAP for each of the eight credibility dimensions are presented in Table 2. As the Table indicates, the univariate main effects for Type of GAAP was significant for each of the eight credibility items. And inspection of the means reveals that on every dimension, respondents rated pre-FASB GAAP to be more credible, reliable, neutral, etc. than FASB GAAP. Interestingly, all three groups of constituents showed this inclination to favor pre-FASB GAAP to FASB GAAP, as the Type of constituent X Type of GAAP interaction effects were insignificant in all eight analyses. More-

over, the absence of disordinal Type of accrual accounting X Type of GAAP interaction effects indicates that regardless of the area of accrual accounting respondents were considering, they perceived the example of pre-FASB GAAP to be more credible, reliable, neutral, etc. than the corresponding example of FASB GAAP. So, the evidence clearly indicates that the FASB constituents in this study found FASB GAAP to be significantly less "credible" than pre-FASB GAAP.

taken to provide comparable examples of GAAP for both samples. The examples of FASB GAAP and pre-FASB GAAP were paired according to the five categories of accrual accounting, thus assuring that comparable accounting methods were used in comparing the two types of GAAP. In addition, all the examples of GAAP have the same income effect direction, which was negative. Had some examples had a positive impact on income while others had a negative impact, this would have added a confounding variable into the study.

Table 2
Mean Ratings of FASB GAAP and pre-FASB GAAP
on Eight Credibility Dimensions and Univariate
F-Statistics for the Type of GAAP Effect

Credibility Dimensions	Mean Scores		Univariate ANOVAs for Type of GAAP Effect	
	FASB GAAP	pre-FASB GAAP	F-statistic	p-value
Reliability	4.78	5.80	158.08	0.0001
Representational				
Faithfulness	4.76	5.68	116.70	0.0001
Consistency	4.70	5.80	172.03	0.0001
Neutrality	4.50	5.50	122.89	0.0001
Verifiability	4.75	5.79	141.85	0.0001
Comparability	4.51	5.59	136.87	0.0001
Credibility	4.54	5.64	144.04	0.0001
Familiarity	5.14	5.87	79.60	0.0001

Potential Criticisms

One possible explanation for respondents finding FASB GAAP less credible than pre-FASB GAAP is that they appear to have been less familiar with examples of FASB GAAP and may thus have been inclined to rate FASB GAAP lower than pre-FASB GAAP for that reason. To test for the influence of respondent familiarity with the examples of GAAP, a multivariate analysis of covariance (MANCOVA) of the credibility dimensions was conducted 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 GAAP" remained highly significant after covarying any effects attributable to the familiarity dimension, $F(7,1034)=17.95, p<.001$. These results suggest that the degree of respondent familiarity with a given example of GAAP was not wholly responsible for FASB GAAP being perceived as less credible than pre-FASB GAAP.

Another possible explanation for why respondents found FASB GAAP to be less credible than pre-FASB GAAP is that the examples of FASB GAAP used in the questionnaire may have been perceived as more complex than the corresponding examples of pre-FASB GAAP. While measurement of participants' perceptions of the complexity of GAAP was not conducted, steps were

Though somewhat more difficult to demonstrate, all of the examples of GAAP used in the study were very simple examples of the accounting method involved. In instances where the accounting method relating to an example of GAAP may have potentially complex applications, only a simple application of the accounting method was used in the questionnaire. In fact, recall that all the examples of GAAP used in the study were selected from FASB or FAF publications which described the examples of GAAP as either "common examples" (Financial Accounting Standards Board, 1984; 1985) or highly "familiar" examples (Financial Accounting Foundation, 1980; 1985) to its constituents. For the above reasons, then, the complexity interpretation seems rather implausible to us.

The presence of one form of response bias was tested for by conducting a MANOVA test for "Type-of-GAAP" 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 GAAP effect was statistically significant for both early responses, $F(8,772)=20.74, p<.001$, and late responses, $F(8,254)=5.20, p<.001$. Moreover, univariate analyses suggest that FASB GAAP is perceived as less credible than pre-FASB GAAP by both early and late respondents. These results suggest that the relatively high

credibility assigned to pre-FASB GAAP was not due to the influence of any temporal response bias.

Finally, our low overall response rate 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 ($\chi^2 < 2, n.s.$) those of the populations of preparers and portfolio managers from which they were drawn.⁸ 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 GAAP $F(8,117) = 2.11, p < .04$ (with FASB GAAP rated lower on all 8 dimensions), and Type of constituent, $F(16,234) = 2.20, p < .01$, that emerged from the analysis of our survey data. (The "Type of accrual accounting" main effect was not significant for the pilot sample). Though our pilot study subjects participated because they were told to by supervisors and thus, are not a random sample of accounting professionals, their responses are not biased in the same way that a low response rate to a survey might imply. And given that pretest participants perceived FASB GAAP to be less "credible" than pre-FASB GAAP, we are inclined to believe that the Type of GAAP effect that emerged from our survey sample is reliable and does not merely reflect the opinions of a nonrepresentative group of accounting professionals.

On the Meaning (or Components) of Credibility

In addition to assessing respondents' global impressions of the credibility of various examples of FASB and pre-FASB GAAP, the study sought to determine if the six dimensions cited by the FASB as important to the establishing the credibility of accounting practices do, indeed, predict respondents' credibility ratings. Though there are many ways of exploring the relationship of these "credibility" dimensions to respondents' credibility ratings, we chose to conduct a stepwise multiple regression analysis, treating respondents' ratings of "credibility" as the criterion and their responses to the other seven rating scales as predictors. A summary of the results of this analysis appears in Table 3.

Notice in examining the Table that five of the credibility dimensions [representational faithfulness, consistency, neutrality, comparability, and familiarity] were strongly related to respondents' ratings of the credibility

of specific examples of GAAP (all t 's $> 2.61, p$'s $< .005$), whereas two dimensions [reliability; verifiability] were not (t 's $< 1, n.s.$). The fact that four of the variables that the FASB assumes to be related to the credibility of accounting practices (familiarity was our intuitive addition) were indeed predictive of respondents' credibility ratings (a) increases our confidence that we were indeed assessing respondents' perceptions of the credence of specific accounting procedures, and (b) provides future investigations in the accounting field with a potentially useful methodological tool for measuring the credibility of yet other examples of GAAP. Yet, we were initially puzzled that two of the credibility dimensions were essentially unrelated to respondents' credibility ratings. Perhaps verifiability did not prove to be a significant credibility dimension because accounting information can be verified to be in conformity with generally accepted accounting principles (GAAP), but the underlying GAAP may still lack credence. At any rate, our results imply that verifiability per se does not appear to be a central component of credibility. The failure of reliability ratings to predict the credibility of specific examples of GAAP may also seem surprising, given that the word "reliability" is often used as a synonym for and/or included in dictionary definitions of credibility. Perhaps we (and the FASB) simply gave our respondents too little credit, for the lack of a strong relation between reliability and credibility seems to imply that respondents recognized that faithful application of either credible and incredulous accounting practices can be counted on to give replicable (or consistent) outcomes.

Conclusions and Implications

The results of this study indicate quite clearly that three groups of professional constituents of the FASB -- preparers of financial reporting, auditors, and users -- concurred in their assessment that the five examples of FASB GAAP sampled in our survey instrument were less credible than comparable examples of pre-FASB GAAP. This finding would undoubtedly surprise many accounting professionals in view of the FASB's mandate to study, formulate, and issue accounting practices that would enhance the credibility of accounting procedures and financial reporting.

Our findings are also at variance with the results of the aforementioned FAF survey (Financial Accounting Foundation, 1985), which found that respondents generally perceive the FASB as having been successful at furthering the credibility of financial reporting. And it is likely, we think, that methodological variations contributed to this discrepancy. Recall that the FAF survey simply asked respondents to provide their global impressions of the extent to which FASB GAAP had added to the credibility of financial statements. It thus

Table 3
Results of Multiple Regression Analysis of Credibility Dimensions

Panel A					
Criterion Variable	Predictor Variables	F-statistic	df	p-value	r-squared
Scores for Credibility Scale ¹	Scores for Credibility Dimensions ²	611.01	7,1036	0.0001	0.805009
Panel B					
Parameter	Estimate	t-statistic	p-value		
Intercept	-0.3023	-3.08	0.0021		
Comparability	0.3669	13.61	0.0001		
Representational Faithfulness	0.3777	10.79	0.0001		
Consistency	0.1333	4.14	0.0001		
Familiarity	0.0583	3.37	0.0008		
Neutrality	0.0662	2.61	0.0092		
Reliability	0.0264	0.68	0.4961		
Verifiability	0.0149	0.67	0.5044		

¹The scores of the Likert-type scale for "credibility."

²The scores for the Likert-type scales for reliability, representational faithfulness, consistency, neutrality, verifiability, comparability, and familiarity.

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 succeed in its mission to improve the credibility of GAAP. By contrast, our study sampled subjects' assessments of the credibility of specific and comparable examples of FASB and pre-FASB GAAP -- assessments that were made "blindly" in that the examples of GAAP they judged were not explicitly labeled as emanating from either the FASB or its predecessors. We are confident that we truly were assessing the perceived credibility of GAAP, for several of the dimensions cited by the FASB as underlying the credibility of GAAP were indeed strong predictors of the credibility ratings provided by our respondents. And it is important to emphasize that the relatively higher ratings assigned to pre-FASB GAAP were observed in each of the five areas of accrual accounting we sampled and were evident even after controlling for differences in respondent familiarity with the two types of GAAP. So when an objective methodology that minimizes respondents'

positive sentiments toward the FASB and its objectives was employed, the findings imply that FASB GAAP is perceived as no more (and, indeed, even less) credible than pre-FASB GAAP by the FASB's constituents. Of course, the underlying implication is that the FASB may not be achieving a critically important part of its mission.

Having made this observation, it would be quite inappropriate to draw sweeping conclusions about the credibility of all FASB GAAP based on the present results. One obvious constraint on our study is that samples of FASB and pre-FASB GAAP were each limited to but five examples that were carefully chosen to ensure the comparability of the FASB and pre-FASB examples on dimensions (e.g., complexity, direction of income impact, area of accrual accounting) that might influence respondents' credibility assessments. It was not possible, either practically or methodologically, to include a large portion of all the GAAP that had been issued to date. However, one important contribution of

this project, we believe, is its establishment of an objective methodology for measuring the credibility of GAAP -- a method derived from the thinking of accounting professionals (and, most notably, the FASB itself) about the characteristics that contribute to the credibility of various accounting procedures.

Suggestions for Future Research

Clearly, this study's methodological approach can be used to assess the credibility of other examples of GAAP beyond the ten examined in this project. Thus, a series of replications, each using new samples of FASB GAAP and pre-FASB GAAP, should vitiate the sample-size limitation of any single study and contribute to a more extensive knowledge of the relative credibility of FASB and pre-FASB GAAP. In view of the unexpected findings we have reported and their implications about the possible failure of the FASB to accomplish its mission, we urge that future research address those objectives. ■

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Footnotes

1. Although the FASB's predecessors were also committees appointed by the American Institute of Certified Public Accountants, these prior boards issued policy based on their own deliberations and were not receptive to input from outside sources (e.g., private accountants and investors and creditors) a practice specifically called for when the FASB was created.
2. Our thinking was these familiarity ratings could also serve an important control function in interpreting any differences that were found in FASB GAAP and pre-FASB GAAP should one type of GAAP prove to be more familiar than the other to our respondents.
3. The subsequent survey responses provided by portfolio managers and loan officers did not differ significantly on any of the dependent variables (all F 's < 2, ns), thus apparently justifying our consolidation of these two groups into a user category.
4. Our response rate is consistent with those obtained in 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 manu-

script.

5. Copies of the questionnaire are available upon request from the first author.
6. The ratings of GAAP that pretest subjects provided were analyzed and will be discussed in the context of interpreting the data provided by our larger sample.
7. The univariate effects for type of constituent and 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 GAAP" effects that emerged. More detailed descriptions of these analyses (e.g., means, post hoc comparisons among groups) are available from the first author upon request.
8. 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.

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