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STATE BY STATE REQUIREMENTS FOR THE CPA LICENSE

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ABSTRACT

In a country that is defined by its uniqueness there are no two states that share the same requirements for CPA licensing. While many of the states do have similarities with respect to education and experience, each state throws in their own requirements for licensing. Whether a particular state requires 120 or 150 credit hours, work experience or no work experience, each governing board is setting a standard to enable a CPA to acquire important business and technical skills before receiving their license. All of the states require that the CPA examination be passed, in addition to continuing education, periodic dues, and so on.

The primary difference between an accountant and a CPA is that a CPA is legally allowed to sign off on an audit report for a public company. However, being a CPA and passing the CPA exam is still socially compared to a person passing the state bar exam to become a lawyer or passing the medical boards to become a doctor.

Legislated state mandates for 150-hour education (effectively graduate accounting education) first occurred [in 1977] in Hawaii and Colorado. Today, some states require a person to complete 120 semester hours before they can sit for the exam and require 150 semester hours before they can officially be licensed to perform as a CPA while others states do not allow a person to even sit for the exam unless they have completed 150 semester hours. Although the additional thirty semester hours are open to the student, the NASBA Educational Committee does express its preference that the 150-hour requirement be met by a master's degree in accounting or business, as opposed to simply adding thirty hours to an undergraduate degree.

A COMPARATIVE ANALYSIS OF SIGNIFICANT INFLUENCES ON THE ACCOUNTING SYSTEMS OF DIVERSE EUROPEAN COUNTRIES AND THE U.S.A

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ABSTRACT

An accounting system can be defined as a combination of inputs organized into a complex whole with the purpose of providing relevant information for decision making. The purpose of this paper is to analyze the "inputs" that are involved in the accounting systems of France, Romania, Spain, Sweden and the United Kingdom as compared with the United States.

These inputs are economic, political, legal, educational, and religious factors. As each input varies from country to country, it only stands to reason that the accounting systems from country to country vary. The following are conclusions drawn from this analysis:

- *The accounting systems for the United States and the United Kingdom are the most closely related. They are both leading economic powers. They both have common law legal structures. Further, their accounting practices are determined by private organizations. The education requirements for the accounting profession are strenuous and they both have strong Christian historical ties.*
- *The Continental European countries of France, Romania, Spain and Sweden differ from the United States especially when it comes to the legal structure. They are code law countries in which accounting practices have historically been dictated directly from the government. Today, due to the EU's work toward convergence in Europe, there has been an influx of International Accounting Standards being incorporated into European accounting systems in varying degrees. In addition, all of the countries are democratic in nature though the history of democracy varies. The requirements of education are also stringent as in the United States. Finally, Christianity is the predominant religion in each country.*

CAN TRADING ON FEDERAL FUNDS RATE CHANGE ANNOUNCEMENTS PRODUCE ABOVE NORMAL STOCK MARKET RETURNS? A TEST OF MARKET EFFICIENCY

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ABSTRACT

Efficient market theory contends that investors are unable to make an above normal return by trading on public information. Can an investor earn an economic profit in the stock market by trading on the basis of Federal Reserve (Fed) rate change announcements? The purpose of this study is to determine whether the announcement of a federal funds rate target change affects stock prices in the short run (5 to 30 days after the announcement). Over the period 1988 to 2007 results show a statistically significant negative correlation between target federal funds rate changes and the S&P 500 index in the short run. Regression results suggest that changes in the federal funds rate target appear to stimulate opposite changes in the 5-day, 10-day, and 30-day post announcement returns. Evidence shows that the strategy of purchasing the S&P 500 market index on the announcement of a federal funds target rate cut can yield 5-day, 10-day, and 30-day post announcement excess returns. Results also confirm that negative correlation between target federal funds rate changes and the S&P 500 index significantly decreased as periods of time following a rate change increased. This study suggests that the market is not efficient with respect to announcements of Federal Funds rate changes in the short term.

INTRODUCTION

Macroeconomic theory suggests that changes to the federal funds rate target (FFRT) should related negatively to stock prices. How fast does the stock market react to FFRT change announcements? Efficient market theory claims that no investor can earn an above normal return by acting on publicly available information. Instead, the market reacts so fast to all public announcements that no investor can beat the market by a trading rule that uses such information. It follows that public announcements of FFRT changes should not stimulate significant stock market price reactions. However, evidence here identifies significant short term rallies following a FFRT cut allowing an investor to earn an above normal return by purchasing a Spider (an investment in the S&P 500 index) and holding it for a short period following a FFRT change announcement. A possible explanation to this and other efficient market anomalies is offered by recent behavioral finance literature suggesting that the stock market can be strongly influenced by investor emotion and other non-rational phenomena keeping stock out of equilibrium for short periods of time.

The purpose of this study is to determine whether the announcement of a FFRT change affects stock prices in the short run in a manner that would allow an investor to earn an above normal return by following a trading strategy based on such information. If FFRT changes are highly correlated with stock price movement, the opportunity to earn an above normal return may exist in contradiction to efficient market theory. This study tests the efficient market hypothesis using FFRT changes and S&P 500 market data from 1988 to the present. We hypothesize that FFRT changes generate negative short term effects on the market. These are likely more pronounced during economic declines when the Fed is cutting rates. As the economy slows, the Fed generally attempts to soften a recession landing by increasing the money supply to effectively reduce interest rates. We hypothesize that when rates are cut, there is a short-term above average jump in stock prices that allows an investor to earn an above normal return by acting on the rate change announcements.

LITERATURE REVIEW

Fama (1970, 1976) defined market efficiency in three forms: weak-form, semi-strong-form and strong-form market efficiency. Weak-form efficiency deals with the notion that no investor can earn an above economic return by developing trading rules based on past price or return information. Numerous studies (Fama, 1965; Alexander, 1961; Fama and Blume, 1966; Granger and Morgenstern, 1970) support the random walk theory in support of weak form efficiency. Semi-strong-form market efficiency states that no investor can earn an above economic return based on any publicly available information. Tests of semi-strong form efficiency (Fama, Fisher, Jensen, and Roll, 1969; Ball and Brown, 1968; Aharony and Swary, 1980, 1981; Joy, Litzenberger, and McEnally, 1977; Watts, 1978; Patell and Wolfson 1984; Scholes, 1972; Kraus and Stoll, 1972; Mikkelson and Partch, 1985; Dann, Mayers, and Raab, 1977) document the claim that no investor can earn an above normal return on publicly available information such as accounting statements, stock splits, dividend announcements, sale of stock announcements, repurchase of stock announcements, block trades, and earnings announcements.

Strong-form efficiency theory suggests that no investor can earn an above economic return from using any information, public or private. Studies on the validity of strong form efficiency offer mixed results (Jaffe, 1974; Finnerty, 1976; Givoly and Palmon, 1985; Friend, Blume, and Crockett, 1970; Jensen, 1968). A large body of literature cites numerous anomalies that question market efficiency theory. Researchers that have explored these types of discrepancies include: Reilly and Hatfield, 1969; Stickney, 1970; McDonald and Fisher, 1972; Logue, 1973; Stigler, 1964; Shaw, 1971; Loughran and Ritter, 1995, Bray and Gompers, 1997; Mitchell and Stafford, 1997; Lowrey and Schwert, 2002; Weinstein, 1978; Grinblatt, Masulis, and Titman, 1984; Foster and Vickery, 1978; Woolridge, 1983; Copeland, 1979; Ohlson and Penman, 1985; Brennan and Copeland, 1988; Dharan and Ikenberry, 1995; Ikenberry, Rankine, and Stice, 1996; Fama, 1998; Mitchell and Stafford, 1997; Black, 1971; Copeland and Mayers, 1982; Chen, Copeland, and Mayers, 1987; Stickel, 1985; Lakonishok and Vermaelen, 1990; Ikenberry, Lakonishok, and Vermaelen, 1995; Mitchell and Stafford, 1997; Friend and Vickers, 1965; Sharpe, 1966; Treynor, 1965; Farrar, 1962; Friend, Blume, and Crockett, 1970; Jensen, 1968; Mains, 1977; Henricksson, 1984; French, 1980; Dyl, 1973; Branch, 1977; Keim, 1983; Reinganum, 1983; Roll, 1983; Gultekin and Gultekin, 1983.

This academic camp providing documentation of anomalies questioning market efficiency adheres to what has recently become known as the behavioral challenge to market efficiency. That is, not all investors are rational, a critical assumption underpinning the behavior necessary to make the market efficient. Many investors buy, not necessarily when the stock price is below its economic value, but when they get their tax refund and sell to raise money for a down payment on a car. Many overact based on too few observations driving stock price either down too low or up too high for extended periods of time. The bubble in internet stocks in the 1990s is an example. Likewise, others are too conservative, motivating them to delay their reaction to valid economic information too long resulting in holding winners and losers too long. They appear to develop an emotional attachment to a position in their portfolio and hold on too long in the face of significant positive or negative news. These psychological behavioral patterns could explain the numerous anomalies cited above and also apparent in the findings of this study. For a complete review of the behavioral conditions that impact market efficiency, see Shleifer (2000).

The literature offers a wealth of evidence both supporting and contradicting efficient market theory. But, most of the research agrees that the market is at least weak-form efficient with respect to past information. Therefore, no investor should earn an above normal return in the days and weeks following a FFRT change announcement. If so, then the work here can add to the body of knowledge that calls into question market efficiency theory.

METHODOLOGY

To test the relationship between FFRT changes and stock price, we observe FFRT changes over the period from January 1988 to September 2007. During this 20 year period there were 87 FFRT changes, 45 negative and 42 positive. The S&P 500 market index is used as a proxy to represent the stock market. To test the relationship between FFRT and stock price, we employ the following null and alternate hypotheses:

H_o: From 1988 to 2007, there is no statistically significant negative relationship between FFRT changes and the S&P 500 index in the short run.

H_a: From 1988 to 2007, there is a statistically significant negative relationship between FFRT changes and the S&P 500 index in the short run.

Data for the 87 FFRT changes and corresponding S&P 500 closing values for the time period 1988 to 2007 were collected. Following each of the 87 FFRT changes, short term changes in the S&P 500 were calculated. Post announcement holding period returns (HPRs) of the S&P 500 index were calculated using the following formula: Holding period return = (end of period close price – beginning of period close price)/beginning of period close price.

Holding period returns were calculated subsequent to the FFRT change for 5-day, 10-day, 30-day periods, and for the entire interval of time before the FFRT changed again. For example, if the Fed announces a rate change on day 0 and another rate change on day +200, we calculated the 5-day, 10-day, 30-day, and 200-day HPRs for the S&P 500 market index following announcement day 0. We collected over 4937 observations of the 87 FFRT changes and the S&P 500 market index

over the 20 year study period. We then regressed the HPR data against the FFRT changes to test the hypotheses using ordinary least squares linear regression as follows: S&P $HPR_{Time\ Interval} = \alpha + \beta(\%\ FFRT) + \varepsilon$ where the independent variable = % FFRT change; dependent Variable = S&P 500 HPR for time interval after announcement; α = alpha or Y intercept; β = beta or relationship between change in HPR and change in FFRT; and ε = error term.

Four regressions were conducted using the percentage changes in the FFRT as the independent variable and the 5-day, 10-day, 30-day, and the time-between-rate-changes HPRs as the corresponding dependent variables. Also, we computed the post announcement arithmetic 5-day, 10-day, and 30-day HPR means for: the sample of 45 FFRT cuts; all 87 FFRT changes; and for all possible consecutive 5-day, 10-day, and 30-day HPRs over the 20 year period. To determine excess returns the corresponding means for the sample of FFRT cuts were then compared to the overall average 5-day, 10-day, and 30-day HPRs of the S&P 500 for entire sample of 87 FFRT changes and to the mean HPRS for all possible consecutive 5, 10, and 30-day HPR means for the S&P 500 over the entire 20-year period.

QUANTITATIVE TESTS AND RESULTS

Data analyzed include all 87 FFRT changes from January of 1988 to September 2007. Table 1 summarizes the regression results. The data support the alternate hypothesis.

Table 1. Regression Results for 87 FFRT Change Announcements

Period After Announcement	Alpha Coefficient	Beta Coefficient	Correlation Coefficient	P-Value	F-Value
5-Day	0.001402	-1.94896**	-0.25937	.0145	6.22
10-Day	0.002947	-1.59028**	-0.18629	.0694	3.38
30-Day	0.11191	-1.379	-0.08304	.4301	0.63
Until Next Rate Change	0.021868	.698257	0.02997	.784155	0.07

**Significant at the 95% level of confidence

Table 1 shows that as the length of the HPR time interval increases, the strength of the linear regression weakens. The P-values for significance rise as the time interval increases suggesting greater potential for excess return the shorter the time period after the announcement. The 5-day return shows the greatest significance almost at the 99% confidence interval. Likewise, the 10-day return tested significant at the 95% level. F-values decrease as the holding periods increase suggesting that after a rate change is announced, a linear relationship with market return decreases as the time interval increases. As expected, the correlation coefficients (all negative as expected for the 5, 10, and 30 day intervals) move closer to zero as the time lapse after the announcement increases.

The regression beta coefficients suggest that changes in the FFRT stimulate opposite changes in the 5-day, 10-day, and 30-day post announcement HPRs. And the statistical significance of this relationship declines as the HPR time interval increases providing support for short-term effect of the announcement.

Table 2. S&P Mean HPRs Over the 20 Year Time Period

Time Interval	A Mean HPR for 45 negative rate	B Mean HPR for all 87 rate changes	C Mean HPR-all consecutive intervals	EXCESS RETURN A-B	EXCESS RETURN A-C
5-day	0.774%	0.179%	0.20%	.595	.574
10-day	0.772%	0.327%	0.394%	.445	.378
30-day	2.159%	1.147%	1.185 %	1.012	.974

Table 2 shows the mean of short term S&P 500 HPRs for: the sample of FFRT cuts; the entire sample 87 FFRT changes; and for all possible consecutive 5-day, 10-day, and 30-day HPRs over the 20 year period. As shown, the sample of FFRT cuts produced the highest 5-day, 10-day, and 30-day HPRs. Mean HPRs for the sample of FFRT cuts exceeded all corresponding mean returns for the entire sample of 87 FFRT changes (Column A-B) and for the sample of all possible consecutive mean returns (Column A-C). For example, the mean HPR of all 87 5-day post announcement intervals was 59.5 basis points under the corresponding 5-day post announcement HPR for the sample of 45 FFRT cuts. The mean HPR for all possible consecutive 5-day intervals over the 20 years was 57.4 basis points under the corresponding mean of sample of 45 FFRT cuts. Excess returns for the 10 and 30-day intervals for the FFRT cut sample ranged from around 39 to 101 basis points. These results further confirm the substantial short-term reaction of the market to Fed funds rate target changes.

CONCLUSION

Efficient market theory contends that investors are unable to make an above normal profit based on information that is readily available to the public. However, the evidence here suggests numerous rallies following a Fed rate cut. The purpose of this study was to determine whether the announcement of a FFRT change affects stock prices in the short run (5 to 30 days after the announcement) in a manner that would allow an investor to earn an above normal return by following a trading strategy based on such information. Over the period 1988 to 2007, results show a statistically significant negative correlation between target federal funds rate changes and the S&P 500 index in the short run. Regression results suggest that changes in the federal funds rate target appear to stimulate opposite changes in the 5-day, 10-day, and 30-day post announcement returns. Evidence shows that the strategy of purchasing the S&P 500 market index on the announcement of a federal funds target rate cut can yield 5-day, 10-day, and 30-day post announcement excess returns. Results also confirm that negative correlation between target federal funds rate changes and the S&P 500 index significantly decreased as periods of time following a rate change increased. This study suggests that the market is not efficient with respect to announcements of Fed funds rate changes in the short term. Results here question the strength of market efficiency and may offer additional evidence in support of the behavioral challenge to efficient market theory (Scheifer, 2000).

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CHANGE IN THE TAXPAYER-TAX PREPARER RELATIONSHIP: THE EFFECTS OF CIRCULAR 230

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ABSTRACT

Tax advisors have become the most recent profession to receive public investigation after being exposed for unethical and abusive practices. High profile cases resulting in costly penalties due to fraudulent tax activities have brought accounting ethics once again to the forefront.

As a result, U.S. Treasury Regulations for those providing tax advice have been modified to provide stronger direction for practitioners and greater authority for implementation. These address a wide-range of topics, from probability analysis of tax positions to enforceable sanctions for noncompliance. The U. S. Treasury Department's Circular 230 provides detailed procedures for practice before the Internal Revenue Service – with a particular focus on curbing abusive tax shelters. This paper describes the requirements of Circular 230, reviews the taxpayer-tax preparer relationship, examines the anticipated effects on current practice, and concludes with suggestions for future research.

THE COSTS OF HOME OWNERSHIP AND THE DEDUCTIONS ALLOWED FOR CALCULATING FEDERAL INCOME TAXES: THE DEBATE CONTINUES

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ABSTRACT

Americans have traditionally placed a high value on the ability of ordinary families to purchase a home, endearing the principle of home-ownership as part of the "American Dream." It is widely believed that income tax deductions available to home owners have provided assistance to the less advantaged in achieving this dream. These deductions have centered around the deductions for mortgage interest and real estate taxes, and the ability to exclude some, or all, of the gain on the sale of a personal residence.

Changes in the tax code affecting the deductibility of these home ownership costs have been proposed by Congress in the past and continue to resurface with regularity. The home mortgage interest deduction (MID) and the deductibility of real estate taxes were recommended for elimination or significant modification by President's Bush's Advisory Panel on Tax Reform in 2005. This Panel has again submitted its recommendations to the President (April, 2007). The MID and property tax deductions are main components of the Panel's two-part plan. In the interest of clarifying this complex issue, this paper presents a basic review of the three major tax incentives for home ownership as well as the economic benefits and costs to society relating to maintaining these controversial home ownership tax incentives. A simulated model is shown for two families with large home price and income level differences to illustrate their relative economic gain from the current tax code.

NINETEENTH CENTURY MISSISSIPPI COTTON PLANTATIONS' SUBSTITUTION OF COTTON FOR CURRENCY IN EXCHANGES

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ABSTRACT

Barter accounting was used extensively throughout the colonies and territories in the United States after the Revolutionary War as reported by several authors. As reported by these authors, barter was used in exchanges, but the exchanges money was used in recording the transaction. The shortage of currency, trade both domestically and internationally, and the need for clear records in shaping social relationships all play a significant role in the development of barter accounting. Unlike colonial America, evidence exist that cotton growers in the Mississippi territory used pounds of cotton rather than currency as a unit of measure. This paper examines Mississippi cotton grower's accounts as recorded in the Dupree (H.T.T.) Plantation Account Book for the year 1815. Examples are provided that show how pounds of cotton was used in transactions.

BACKGROUND

Several years ago, in a conversation with one of my son's history teachers in Claiborne County, Mississippi he related to me that he had discovered several books in the attic of one of the oldest buildings on campus that contained financial information about Oakland College, the predecessor to Chamberlain-Hunt Academy. The possibility of financial records surviving from pre-civil war times and of a non-profit nature intrigued me. However, at that time, I had several other projects in the works and did not immediately follow up. Recently, I decided to determine the extent of the documents that existed. The documents had since been removed from the academy and placed in the Mississippi Department of Archives and History in the collection of historical documents in Jackson, MS. The documents concerning Oakland College that still existed were list of contributors to the college and some original information about the goals of the college. However, the Dupree (H.T.T.) Plantation Account Book and the Snodgrass Record Book were mixed with the other documents. The Dupree documents dealt primarily with the year 1815 and is the subject of the current paper. Only a few pages are still available from this book. The Snodgrass Record Book will be discussed in a future paper.

The purpose of this paper is to examine the use of pounds of cotton as the medium of exchange in south-central Mississippi during the War of 1812. My purpose is not to determine whether slavery is an economic or efficient means of cotton cultivation nor am I trying to determine the morally of the use of slaves. A comparison is drawn between barter accounting as practiced in Mississippi and that reported by Bloom and Solotka (2004) in *Barter Accounting in the US During the Late Eighteenth and Early Nineteenth Centuries* and Baxter (1956) in *Accounting in Colonial*

America with the accounting as develop among the cotton plantation owners in early nineteenth century Mississippi. Another contributor to the genre, Carnegie (2004) in *Re-examining the determinants of barter accounting in isolated communities in colonial societies* provides further reasons for the use of barter accounting in early American society.

PRIOR STUDIES IN BARTER ACCOUNTING IN THE NINETEENTH CENTURY

Bloom and Solotka (pp. 97) reported the barter economy that developed in colonial America along the Northeastern coast. They cited two factors that led to the development of a barter economy. These factors are "an insufficient money supply and increased trade domestically and internationally.

Baxter (pp. 272) identified two conditions for a barter economy developing in U.S. markets. First, small communities meant only a limited number of individuals to trade and secondly, either currency of limited or no value.

Carnegie (pp. 75) suggests that "economic determinants" alone are not enough "in shaping the structure and usage of barter accounting" but the "role of society" also plays a part. He further states "that accounting , as a written record, defines and reflects social relationships and, in particular, relationships of power and control in both commercial institutions and social institutions."

In each of the cases cited above, even when a barter economy existed, currency was still used to record the information. Wikipedia encyclopedia states that a "good definition of money is this: **the most marketable commodity.** To be widely marketable, a medium of exchange should possess the following characteristics:

1. Transportability
2. Divisibility
3. High market value in relation to volume and weight
4. Recognizability
5. Resistance to counterfeiting"

Cotton meets the criteria in all but high market value in relation to volume and weight. However, even this characteristic could be subject to arguement.

BARTER ACCOUNTING IN NINETEENTH CENTURY MISSISSIPPI

In the deep south, the invention of the cotton gin in 1793 by Eli Whitney made short staple cotton a viable cash crop. In the western part of the Mississippi Territory several plantations were founded near the Mississippi River. The ability to separate the cotton lint from the seed efficiently and economically and the ability to transport cotton bales, via the river to market gave rise to fortunes being made by the plantation owners. [1]

However, during the War of 1812, the British blockade prevented the cotton from reaching either the developing textile mills in the Eastern U.S. or international markets. The blockade, plus this part of the Territory of Mississippi was under four different flags (and currencies) Spanish, French, English and the United States by the War of 1812 limited the currency available for the purchase of necessary items to operate the plantations. The blockade further

isolated the community despite being located on the Natchez Trace between Natchez, MS and Nashville, TN or other places in Tennessee. Barge men after delivering cotton bales to New Orleans in the Louisiana Territory would make their way back to Natchez bringing other goods for trade and then further up the trace. After the Port of New Orleans was closed, there was no market for the cotton grown in the Mississippi Delta and except what commodities could be brought down the Trace there was little outside goods available to the plantation owners.

The Dupree (H.T.T.) Plantation Account Book gives evidence of a barter economy evolving among the plantations for the ginning of their cotton and in exchange for other commodities. In this record book it appears that currency is not used as a unit of measure, but pounds of cotton are used as the unit of measure. (Copies of the original documents are attached)

The account of A. Montgomery provides a view of how transactions were handled at this time. Seed cotton was brought to the cotton gin and a credit was made to his account in the weight in pounds of seed cotton. Once the cotton was "gind" a debit was made to the account in number of bales of cotton. A factor of 4+ was applied to the bales to indicate the loss of weight during the ginning process.[2] In this way the debits would equal the credits in pounds of cotton.

FIG. 1

	A. Montgomery quarter		Dr
1815			
Jany 25	To 19 pounds gind Cotton}		
31	To 9 pounds gind Cotton}		126
Feby 28	To Seed Cotton to J Montgomary		5823
28	To 12yds Baging	18 lb	80
March 4	To 2 Bales	no 6.396 }	
		7-400 }	3537 ½
15	To 4 Bales of Cotton	no 9-426}	
		10441}	
	This Bale is charged	11444}	7848 ½
	to Tho Owens	12445}	
		13454}	
30	To 2 Bales Cotton	20431 }	
		22-437 }	3857 ½
	These Clgt to J. Shodgrass	23420	
		24399	
	To Bal. Of Baling 75 lb		333
			21603

1814	A Montgomery quarters	Cr	
Dec 22	by Seed Cotton	2644	
23	by Seed Cotton	1605	
1815			
Jany 3	by Seed Cotton	1511	
4	by Do	1628	
5	by Do---Do	1699	
6	by Do---Do	1546	
7	by Do---Do	1322	
9	by Do---Do	1209	
10	by Do---Do	1221	
11	by Do---Do	1167	
12	by Do---Do	1068	
25	by Do---Do	716	
Feb 16	by Seed Cotton	1142	
17	by Seed Cotton	1039	
28	by Seed Cotton	778	
			20382 lb
	by 96 1/4 yards Baging	151 lb	
	by 1 coile Cordage	80	
	by 1 hank of Twine	1	
	by Cordage	19	
		251 =	1115
	by 24 clean ownrd by J Shodgrass the 2 Bales no 20-22		106
			21603

error in addition in original document

We can only speculate, because of the volatility of cotton prices or the lack of markets during the War of 1812 or both that the weight of cotton was used as a unit of measure. A correction was made on A. Montgomery's account for 5,823 pounds of seed cotton that should have been credited to J. Montgomery's account. This error appears to have occurred because of name similarity. Another error appears to have been caused by the sequence of cotton bale numbers.

Among the cotton bales nos. 9,10,12, 13 debited to A. Montgomery's account a debit for cotton bale no. 11 which should have been charged to Tho. Owens was inadvertently put in A. Montgomery's account and later XXXed out. (Highlighted above)

From the surviving records for 1814-1815, it appears that the record keeper maintain all exchanges in pounds of cotton. In many instances it appears that the cotton planters made up any differences needed to complete a bale of cotton. Here J. Snodgrass paid the difference in pounds of cotton for John Montgomery.

John			Dr	Montgomery		Cr
1815	To 3 Bales Cotton	no 3–422		1815	by Seed Cotton 5823	1310
		no 4–411				
		no 5–426				
		1257	1259			
	To Balance paid by J. Snodgrass		51			
			1310			

error in addition in orginal document

Other examples of the interaction between the cotton growers can be seen in the typed exhibit at the end of this paper. One account of note is that of Lewis Humphreys. In the transaction Humphreys exchanged 22 ½ pounds of "gind" cotton for 139 pounds of bacon. All the other surviving transactions are for seed cotton brought in by the

Lewis Humphrys		Dr		Cr
1815				
June 5	To 22 ½ pounds gind Cotton	611 xxxxx Bacon xxxxx Rec		139 lbs

no dollar amounts given nor was name on the credit entry in the original entry. xxxxx represents an unknown word.

planters and receiving bales of cotton or clean cotton if less than a bale in exchange. Currency was not used in any of the transactions observed to either pay for the seed cotton by the cotton gin nor was the cotton gin paid in currency for ginning bales of cotton. Instead, from the information gathered, the cotton gin would take a toll from each ginning process.

Financial records prior to 1815, except for the two entries in December 1814 and between the years 1816 and 1820 have either been lost, destroyed or in such condition the Mississippi State Archives would not make them available to this researcher. By 1820, currency was again used in transactions as evidenced in the following: not in account or journal form in original:

Baker Dr to 164 ^{lb} sugar @ 11	=	18.04
Dr to his part E----------		1.25
		19.29
Recd in cash fhim		19.00
Owe by Baker		.29

While barter in the traditional sense was still being used, the records were now being kept in currency as the unit of measure. The following entry demonstrates this in this excerpt from a larger account:

	J. Snodgrass			J. Snodgrass	
1820			1820		
July 26	1 bag of salt four dollars and fifty cents	4.50	July 26	bought by J.S. of Gibsons 4 bags of salt $4&50 cts per bag	18.00
	Other purchases and charges balanced the account				

The ability to again ship baled cotton down the Mississippi River to New Orleans and beyond, reestablished trade and cash once again became available to the cotton plantations. Mississippi became a state in 1817 which further helped the plantation owners find a market for their cotton and to provide articles that had not previously been available.

CONCLUSION

Previous papers reported that while a barter system existed in colonial America, the exchanges were recorded in the currency of the time. With currency as the unit of measure, transactions were simplified as different commodities could be exchanged by determining their relative value in the currency in use.

In the western part of Mississippi in 1815, the plantations did not use currency in their exchanges. Factors that contributed to the development of barter accounting reported by previous researchers include; an inadequate money supply, the existence of available trade, both domestically and internationally and societal needs existed for the cotton growers in Mississippi. One ingredient that was Mississippi however, was the ability to trade the cotton for cash or other commodities during the War of 1812. The War of 1812 further isolated the west central parts of Mississippi. Without a market for the cotton plantations to determine the relative value of their cotton, the cotton growers resorted to pounds of cotton as the unit of measure. By 1820, trade was restored and exchanges were expressed in terns of cash as the unit of measure. In some cases commodities were paid for with cash much as done today. I would appear that, without a firm market and lack of ready cash the plantation owners reverted to a direct exchange of the only commodity available.

FURTHER RESEARCH

Further research should be conducted to determine if this was an isolated case or if the isolated communities during the Revolutionary War and the War of 1812 resulted in a barter economy developing that did not depend on currency as a medium of exchange or of recordkeeping.

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ENDNOTES

[1] Natchez boasted more millionaires per capital before the Civil War than in the rest of the United States.

[2] According to the United States Department of Agriculture, it takes about 1470 pounds of freshly picked seed cotton from spindle pickers to produce a 480 pound of lint . . .[bales]

FACTORS AND VALUATION ASSOCIATED WITH THE LEVEL OF SUPERFUND DISCLOSURES

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ABSTRACT

We examine whether the level of Superfund disclosure is associated with profitability, and whether the level is relevant to investors. We also look at disclosure practices over time. Finally, we examine whether market valuation depends on management strategy.

INTRODUCTION

Social responsibility by various corporate stakeholders makes the reporting of environmental obligations a prominent issue for accounting regulators and researchers. We aim to extend our knowledge about the determinants and market value of environmental liability disclosures by focusing on the reporting requirements outlined by the Financial Accounting Standards Board (FASB) and the U. S. Securities and Exchange Commission (SEC), which collectively form the generally accepted accounting principles for environmental liabilities (henceforth called "environmental GAAP"). These insights help regulators with input on the need for additional reporting guidance, and help researchers develop social responsibility theory.

Consistent with Neu, Warsame, and Pedwell (1998), we believe that the level of Superfund disclosures is related to profits; however, conditional on the firm's communication strategy. We observe a positive relation between environmental GAAP and profits when the firm provides the information in the context of confirmatory environmental disclosures; negative otherwise in the context of non-confirmatory disclosures. We define a confirmatory disclosure as one intended to give "confirmation" that profitability has not been at the expense of the environment. These disclosures are intended to correct the misperceptions by stakeholders that financial success and environmental responsibility are incompatible.

Stakeholders, however, are free to interpret the implications of how the GAAP disclosures are framed, and so as a follow-up we test the market valuation of these same environmental disclosures. We find that stock returns are significantly related to environmental GAAP, but the magnitude of the impact of environmental GAAP on stock returns is also conditional on the disclosure strategy. An important implication in our study is that the mixed findings on the environmental-disclosure-to-profits relation in previous research may be due to an omitted variable for communication strategies.

BACKGROUND

Environmental regulations define environmental costs and the related disclosures. Statement of Position 96-1, *Environmental Remediation Liabilities*, summarizes the regulatory process with regard to the Superfund Act (AICPA, 1996).

Professional standards provide recognition and disclosure requirements with respect to environmental liabilities. Our study relies on these 29 items to measure the level of environmental disclosure in 10k reports.

RELATED LITERATURE

The focus of environmental accounting research can be either on voluntary or mandatory disclosures. The voluntary environmental disclosure stream provides important insights for required environmental disclosures, especially in light of the discretion exercised by managers with the GAAP-based reporting guidelines (Berthelot, Cormier, and Magnan 2003b, Neu, Warsame, and Pedwell 1998, and Cormier and Magnum 1999).

Previous research examining the both mandatory and voluntary environmental disclosure generally provides mixed findings. Regarding the market effects of mandatory environmental disclosures, Li and McConomy (1999) and Berthelot, Cormier, and Magnan (2003a) find the adoption of environmental reporting standards lowers stock price, while Blacconiere and Northcut (1997) find a positive relation between returns and environmental information in the time leading up to the adoption of the Superfund amendments. Consistent with Blacconiere and Northcut (1997), Freedman and Stagliano (1995) and Blaconniere and Patten (1994) find there is less of a stock price penalty imposed by investors on firms disclosing environmental information. However, these firms are still penalized overall, which seems to be inconsistent with arguments by Porter and van der Linde (1995) who suggest that firms that make forthcoming disclosures about their environmental activities will be positively rewarded.

Regarding voluntary disclosures, Berthelot, Cormier and Magnan (2003a) find that accounting provisions for site removal and remediation specified under Canadian Institute of Chartered Accountants' standards are positively associated with changes in earnings. For the relation between voluntary environmental disclosure and profitability, Cowen, Ferreri, and Parker (1987) and Patten (1991) document an insignificant relation, Cormier and Magnan (1999) document a positive relation, while Neu et al. (1998) document a negative relation. Our paper adds to this research by testing for differences in how managers present, and investors interpret, environmental disclosures under alternative communication strategies.

HYPOTHESES

We propose that corporate managers are concerned with the implications that financial performance holds for the perception of responsible social behavior. Therefore, managers will use disclosure to explain environmental actions to the firm's important stakeholders. We posit six different hypotheses.

H1: The level of environmental GAAP disclosed is associated with profitability.
H2: Given a confirmatory framework, the level of environmental GAAP disclosed is positively associated with profits.
H3: Given a non-confirmatory framework, the level of environmental GAAP disclosed is negatively associated with profits.
H4: Market returns are associated with the level of environmental GAAP disclosed.
H5: Given a confirmatory framework, market returns are positively associated with the level of environmental GAAP disclosed.
H6: Given a non-confirmatory framework, market returns are negatively associated with the level of environmental GAAP disclosed.

RESULTS

The environmental GAAP model results suggest there is a differential effect of profits on environmental disclosure for a given disclosure framework. Under a confirmatory framework, managers are providing more environmental GAAP disclosures to persuade constituents that profits are not at the expense of the environment. Under a non-confirmatory framework, managers have not committed to future environmental investment, and therefore, do not make disclosures that profitability and environmental investment are compatible goals for the future. A related implication is that managers prefer to disclose less or remain silent about environmental issues as profitability increases (under a non-confirmatory orientation).

The market model results suggest there is a differential effect of environmental GAAP disclosure on stock returns for a given disclosure framework, but only to the extent that it mitigates negative valuation effects. Under a non-confirmatory framework, investors penalize stock price for lower levels of environmental GAAP disclosures; under a confirmatory framework, investors penalize the stock price to a lesser extent. The confirmatory disclosure framework minimizes the magnitude of the negative effect of environmental GAAP disclosures on stock price.

CONCLUSION

Our study contributes to the understanding of environmental disclosure practices of publicly traded U.S. firms by examining the factors associated with the extent of environmental GAAP disclosures, as well as the valuation effects of the environmental GAAP disclosures in 10K filings. Identifying factors that are systematically related to environmental disclosure helps regulators, investors, and other users of 10k information to be on guard in reading the financial information where the model predicts a potential lack of disclosure. Consistent with previous research, our findings indicate that profitability is significantly associated with environmental GAAP disclosures, and these same disclosures are value-relevant to investors. We also find that the effect of profitability on the level of environmental GAAP disclosed is contingent on how the disclosures are framed. A confirmatory disclosure framework indicates the manager's credible intent to simultaneously achieve financial success and environmental responsibility, as suggested by Porter and van der Linde (1995). In this scenario, the manager discloses more information about the added benefits of pursuing a joint strategy of higher financial performance and increasing environmental responsibility in the future. Under a non-confirmatory disclosure framework, the manager cannot or will not credibly indicate that simultaneous pursuit of profits and environmental responsibility

is possible, and so he reduces his disclosures about environmental activities. Investors perceive differences in confirmatory versus non-confirmatory disclosures, mitigating the negative valuation impact of environmental GAAP disclosures under the confirmatory framework.

We also provide some striking descriptive evidence about a sample of firms that have been specifically identified as potentially responsible parties by the EPA. We find that the percentage of environmental GAAP disclosures actually made by these firms decreases from 51 percent to 29 percent at a time when the required disclosures for environmental liabilities virtually triples. Although the level of environmental disclosures may be appropriate, the drop in the rate of reporting environmental GAAP disclosures raises questions about the usefulness of the additional GAAP or the compliance rate by PRPs, both of which question the completeness of environmental disclosures.

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KIDDIE TAX CHANGES AND TAX PLANNING FOR FAMILIES

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ABSTRACT

Parents used to shift income- producing assets to their children to be taxed at the kid's lower tax rates. The kiddie tax was enacted to reduce the benefits of this technique by requiring the unearned income of children under the age of 14 to be taxed at the parent's marginal tax bracket if that income exceeded a certain threshold. Congress recently expanded these tax provisions to apply to unearned income of children under the age of 18 for tax year 2007 and to potentially extend the tax to kids up through the age of 23 in 2008. Many taxpayers who structured gifts and investments to shift income to younger family members may need to reassess their tax situations and adjust their strategies to reflect the new tax reality. This paper discusses the law changes and some approaches to minimize their impact.

SHOULD PROVISIONS OF THE SARBANES-OXLEY ACT OF 2002 APPLY TO LOCAL GOVERNMENTS IN ORDER TO IMPROVE ACCOUNTABILITY AND TRANSPARENCY?

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ABSTRACT

Poor oversight of financial transactions and lack of transparency and accountability by elected officials and appointed management personnel has resulted in corruption and scandals in local government. Often elected officials are asked to approve complex and sophisticated financial transactions as part of the annual budget and financial reporting. However, they may not have the appropriate skill sets and must rely on management personnel for advice on such transactions. However, this creates a potential conflict of interest because the elected officials are obtaining advice from the same managers they are expected to oversee. The bankruptcy filing by Orange County, California in the late 1990s, highlights how things can go wrong when local governments engage in complex financial transactions with little oversight or accountability.

In addition, local governments usually operate with a small staff in order to reduce overall expenses and ultimately the tax burden to the citizenry. As a result, incompatible functions may not be adequately safeguarded, providing an opportunity for managers and other government personnel to misappropriate assets. The daily newspapers identify a number of instances where funds were taken from government coffers because of inadequate internal controls.

The Government Accounting Office recently issued revised guidelines to auditors on how to define and report on internal control weaknesses in government audits. However, we believe that the internal control responsibility is being placed on the auditors, and not local government personnel. Perhaps the solution to improve oversight and accountability already exists - The Sarbanes Oxley Act of 2002 (SOX). In this paper, we propose ways in which certain SOX provisions (e.g., certifications, audit committees) could be implemented by local governments in a cost effective manner to improve oversight, accountability and transparency without significant additional burden to taxpayers.

THE CALL FOR INCREASING THE INTERNATIONAL COMPONENT OF ACCOUNTING EDUCATION

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ABSTRACT

This paper examines the call for accounting curricula to increase its coverage of international issues as a result of the globalization of business. There are indications that the U.S. accounting profession is experiencing a shortage of accounting graduates who possess the skills needed to succeed in today's global business environment. This situation has led to a call for increasing the international component of the curricula as a means both to prepare students for their future careers and to attract a larger, more diversified pool of students. Incorporating more international coursework into current accounting curriculums would increase the utility of a U.S. accounting degree for resident and non-resident students alike. A broader accounting education, focusing on both domestic and international issues, would also improve the quality of new graduates.

MANAGERIAL AND FUNCTIONAL INFLUENCES ON PERCEIVED ENVIRONMENTAL UNCERTAINTY

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ABSTRACT

Perceived environmental uncertainty (PEU) is an important construct in behavioral research that has been widely studied. Critics argue that management should be used in the measurement of PEU, though many studies continue to ignore the distinction between management and non-management in the measurement of PEU. The distinctness of constructs and scales has important implications for the integrity of prior research. This paper examines the differences in PEU based on management versus non-management personnel, firm size, and functional areas. The research is based on a sample of 504 professionals in public accounting. The results indicate that management and non-management personnel have a significantly different level of PEU, thus confirming the criticism of studies that ignore the distinction between management and non-management measurement of PEU. Results also confirm the effects of firm size and functional areas on PEU. Future research using PEU in behavioral accounting research should consider the effect of management versus non-management, firm size, and functional areas in their research design.

Acknowledgments: The authors are thankful to the American Institute of Certified Public Accountants for making the collection of data possible.

AN ANALYSIS AND COMPARISON OF BANKERS' PERCEPTIONS OF STOCK OPTIONS IN 1999 AND 2005

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ABSTRACT

This paper reports the results of a two surveys of bankers' perceptions regarding the accounting treatment for stock options, the impact of stock options on financial statements, firm valuation, and the loan decision. We first surveyed bankers in 1999, well after the debate surrounding SFAS 123 (FASB, 1995), but before the resurgence of the debate leading up to SFAS 123(R) (FASB, 2004). We surveyed again in 2005, as companies were implementing SFAS 123(R). This allows us to comment on the impact of public debate preceding the rule revision on the perceptions of a group of well-informed financial statement users.

We find bankers in both periods view stock options as compensation. The method of accounting does not matter if relevant information is disclosed. More experienced loan officers from 1999, and those who deal with stock options frequently from 2005, are less negative than others about the impact of stock options on shareholder interest in company assets.

INTRODUCTION

Most research to date on accounting for stock options has been capital markets-based. There are no research results focusing on other stakeholders' perceptions of the information content of GAAP disclosures. The objective of this paper is to report the results of a survey designed to elicit responses from commercial bankers regarding the accounting treatment for stock options and the perceived impact of stock options on the financial statements and firm valuation.

A unique aspect of our study is that we conducted the survey during two distinct time periods. The first survey was conducted in 1999, well after the debate surrounding SFAS 123 (FASB, 1995), but before the resurgence of the debate leading up to SFAS 123(R) (FASB, 2004). Our second survey was conducted in 2005, as companies were implementing SFAS 123(R). Survey participants in both groups are remarkably similar as to their years of lending experience, familiarity with employee stock options and the frequency in which they review financial statements of companies that issue stock options. This allows us to comment on the potential impact of the public debate leading to the rule revision on the perceptions of a group of reasonably well-informed financial statement users.

ACCOUNTING RULES FOR STOCK OPTIONS

Before the issuance of SFAS No. 123, APB Opinion No. 25 dictated that companies accounting for stock options use the intrinsic-value method. Under this method, value is measured as the difference between the stock price and the exercise price on the date of the grant. Hence, compensation expense is the excess of the market price of the stock over the option price on the measurement date, normally the grant date (these types of plans are known as fixed stock options). If the option price equals or exceeds the market price on the measurement date, no compensation expense results. Frequently, the option's exercise price is set equal to the current stock price, so the options are deemed to have a zero value, and no compensation expense is recorded (Williams, 1995).

In 1993, the FASB issued an Exposure Draft, "Accounting for Stock-Based Compensation." The exposure draft proposed new requirements for measuring and reporting expenses related to employee stock option plans. The exposure draft required firms to determine compensation expense based on the fair value of the stock option plan at the date of grant. The FASB experienced tremendous opposition from politicians, businesses and CPAs to the exposure draft. Ultimately, the FASB could not convince opponents to support the notion of requiring expense recognition and on October 23, 1995, issued SFAS No.123, Accounting for Stock-Based Compensation. The standard allowed firms to disclose the estimated cost of stock-based compensation in the footnotes and leave the expense off the income statement.

In 2002, following several major accounting scandals, many companies began to voluntarily switch from the intrinsic value method to the fair value method. While Congress debated the Stock Option Accounting Reform Act, the FASB issued Statement no. 123(R) in December, 2004. SFAS 123(R) eliminated the intrinsic value method with pro-forma data in a footnote as an acceptable disclosure method. The standard required all companies to follow the fair value method and accrue compensation expense at the issue date of the options (Eaton and Prusyk, 2005).

PRIOR RESEARCH

Dechow, et al., (1996) evaluated the nature and extent of the predicted economic consequences of accounting for stock-based compensation. First, they examined the attributes of firms lobbying against the 1993 exposure draft. Second, they examined the attributes of firms using employee stock options under the original financial reporting rules. Third, they examined stock price reactions to announcements concerning SFAS No. 123. They found that, controlling for size and industry, top executives of firms submitting comment letters opposing mandatory expensing receive a greater proportion of their compensation from options, receive higher levels of total compensation, and are at firms that use options relatively more intensively for top-executive compensation than for other employees. Further, they found no systematic support for the assertions that expensing stock options would increase firms' costs of capital, and no evidence was found that investors reacted to news concerning expensing of stock options. That is, the stock market did not act as if expensing stock options would have negative economic consequences for high-growth firms making extensive use of employee stock options.

Aboody (1996) also reported that the FASB's method for recognizing compensation expense would not increase (and may even reduce) the informativeness of reported earnings. On the other hand, Fraser et al (1998) reported results inconsistent with Dechow, et al. (1996) when they found that the shareholder returns for large, well-established firms fell when the FASB stock option proposal was announced and recovered when the proposal was withdrawn. However, returns of small start-up firms and firms that offer employer options to non-executives were unaffected by the announcements. Botosan and Plumlee (2001) found that the compensation expense, if reported under the fair value method, would have a material impact on manager performance measures. They also predicted that stock option expense would increase over the next several years. Balsam, O'Keefe and Weidemer (2007) found that corporations were reducing their use of stock options in favor of alternative forms of compensation because of manager's concerns that the reporting requirements under SFAS 123(R) would adversely affect stock price and hinder raising capital.

To date, the impact of stock option accounting and the associated public debate has focused on implications to investors. Accounting research studies on bankers' perceptions have been limited, and there have been no studies concerning their perception of the impact of stock option distribution of the various methods of stock option accounting.

RESEARCH METHODOLOGY

We study how bankers perceive borrowers who issue stock options. Specifically, we are concerned with how bankers interpret the impact of stock options on the client and on their loan decision. We are also concerned with bankers' views of the importance of the disclosure method, as that has been a major part of the public debate on the accounting for stock options. Executive level loan officers make an excellent subject pool as they are reasonably sophisticated financial statement users.

Data were collected from executive level loan officers using two scenarios involving a company issuing a series of options where the exercise price is equal to the market value of the stock on the date of grant. The scenarios were identical except that subjects were asked to assume that the company in the first scenario was publicly traded and the company in the second scenario was privately held. Subjects were told of the acceptable disclosure methods in effect at the time of the survey. For the 1999 survey, this was based SFAS 123; for the 2005 survey, this was based on SFAS 123(R). They were also told the major differences between the fair value method and the intrinsic method of reporting. We explained that under the intrinsic value method, the company must still include a footnote disclosure of pro-forma net income and earnings per share data as if the fair value had been used.

The participants are loan officers from randomly selected US chartered commercial banks. We had a net sample after discarding bad addresses of 379 bankers in 1999 and 391 bankers in 2005. We gave the bankers the option of not participating in the survey, but requested information from them as to why. The survey response rate (total responses/the net sample) is 31 percent for the 1999 survey and 35 percent for the 2005 survey. Out of these responses, participation rate (participant responses/total responses) is 36 percent in 1999 and 39 percent in 2005.

The survey participants consist of experienced loan officers and are remarkably consistent across the two sample periods, in regard to familiarity with stock options and the frequency in which

they review financial statements with stock options. Participants in 2005 report more years of lending experience (median value of 20 years experience, compared to 15 in 1999). While many of the subjects did not view themselves as being highly familiar with stock options (median value of 3 for both samples on a scale of 0 = no familiarity and 10 = highly familiar), as bankers they clearly meet the description of reasonably sophisticated financial statement users. Consequently, their perceptions of the impact and reporting of stock options are of value to standard-setters.

RESULTS

On average, commercial loan officers from both samples believe that compensation is being provided through the distribution of stock options and that stock option distribution has caused shareholders' interest in the assets of the company to decrease. On the other hand, respondents indicate that the distribution of the stock options has no impact on company value, on average, but there appears to be a more diverse range of opinion regarding the impact of stock options on company value among the 2005 sample than in 1999.

The loan officers from both samples in both scenarios report that stock option distributions are of some importance in making bank lending decisions or in the evaluation of loan covenants compliance. Finally, they are of the opinion that the method of accounting for stock options does not matter if all relevant information is disclosed.

We measure the correlation between the demographic variables and the bankers' responses to the questions on stock option distribution. The more experienced loan officers in the 1999 sample tend to find that the impact of stock options on shareholders' interest in net assets and on company value is negative to a greater extent than do less experienced loan officers. This result is not repeated in 2005. We speculate that greater awareness of the impact of stock option distributions on financial statements as a result of publicity in the years prior to 2005 resulted in greater understanding on the part of less experience loan officers.

In the 1999 sample, there is also a significant negative relationship between the frequency with which bankers review the financial statements of companies with employee stock options and the importance they place on stock option distributions in making bank lending decisions or evaluating compliance with loan covenants under the privately held company scenario in panel B1. This indicates that the more frequently a banker reviews the financial statements of companies with employee stock options, the less importance is attached to them in terms of making a loan decision or evaluating loan compliance.

We find that in 2005, those loan officers who deal more frequently with companies that issue stock options tend to be less negative than others in their assessment of the impact of the options on the shareholders' interest in the assets of the publicly traded company. Also in the 2005 sample, we find that experienced load officers place less importance than others on stock option distributions of privately-held companies when making loan decisions.

We compare mean responses to the questions for public versus private companies. The results of the 1999 sample of bankers indicate that there is no significant difference between the mean responses for a publicly traded company and a privately held company except for two cases. The loan officers respond more positively to the question of whether stock options represent compensation for publicly traded companies than for privately held companies. Also, although

overall they respond negatively to the question of whether the method of accounting matters, they are less negative for publicly traded companies. In other words, the method of accounting matters more for publicly traded companies. The 2005 participants were also more positive that compensation has been provided by a stock option distribution in the public scenario. There was no difference between the public and private scenarios for the other questions.

Finally, we compare the results from the 1999 survey to those from the 2005 survey, and find that despite the substantial controversy surrounding stock options in both the public media and within accounting regulatory bodies during the years from 1999 to 2005, and the major revisions of accounting standards during that time, one group of financial statement users, bankers, experienced very little change of opinion regarding the impact of stock options on the companies they evaluate.

CONCLUSIONS

To date, the impact of stock option accounting and the associated public debate has focused on implications to investors. A fundamental objective of accounting information, however, is to provide information useful to investors *and* creditors (SFAC No. 1, 1978). The group of bankers we surveyed generally believes that stock options represent compensation which is paid by the shareholders in the form of a reduced interest in company assets; that the effect of stock distributions on company value is fairly neutral; that stock option distributions are somewhat important in making lending decisions or evaluating compliance with loan covenants, but the method of accounting does not matter when all relevant information is disclosed in footnotes. Further, these perceptions were found both well before the issuance of SFAS 123 and after the issuance of SFAS 123R, a period of intense media scrutiny and industry discussion of the role of stock option distributions in affecting company value and providing compensation to employees.

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INFLUENCES OF SELECTED MACROECONOMIC VARIABLES ON U.S. STOCK MARKET RETURNS AND THEIR PREDICTABILITY OVER VARYING TIME HORIZONS

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ABSTRACT

This paper investigates the changing explanatory power of selected macroeconomic variables over aggregate stock returns as the timeframe changes from over-the-month to over-the -year. Using the same set of monthly observations from January 1970 to December 2004, we found that the explanatory power changes dramatically from less than 1 percent of variance in stock returns calculated on monthly basis to more than 84 percent of variance when point-to-point change is measured over one-year period. This finding is consistent with previous research [Fama (1981, 1990); Kaul (1957);Shah (1989);and Barro(1990)]. Further, the results from our study also provide an alternative to using high frequency data as in Flannery and Protopapadakis (2002) in order to improve explanatory power. Quite interestingly, it is also observed that lagged growth rate in industrial production (a proxy of overall economic activity) and rate of inflation contribute significantly to the explanatory power apart from own lagged value of stock returns, while the contributions of change in broad monetary aggregate and federal funds rate are negligible. An investigation of possible structural breaks or shifts during different time periods confirms that a significant shift in the slope seems to have occurred in 1992. Surprisingly, the oil shock period of 1979/80 and the tragedy of September 11, 2001 do not seem to have induced any significant structural changes in the relationships among the macroeconomic variables studied in this paper. Finally, the forecasting power of the model using only the lagged values of the regressors and the sample period of January 1970 to December 2003 to make unconditional out-of-sample forecast for the twelve months of 2004 has been tested. All tests show quite significant out-of-sample forecasting power of the model used.

STRATEGIC OBJECTIVES AND FINANCIAL PERFORMANCE OF COOPERATIVE VENTURES

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ABSTRACT

Prior studies of mergers and acquisitions have found that there can be a relationship between the motivation for the merger and the subsequent performance of the merged firm. In this paper I investigate whether such a relationship exists for other less-permanent cooperative ventures (joint ventures and strategic alliances). Based on a reading of news releases surrounding each venture's formation, the sample is partitioned into six categories based on the strategic objective that the venture is intended to accomplish: geographic expansion, product line expansion, increasing market share, vertical integration, diversification, and sharing of costs and risks. I then examine the shareholder wealth effects surrounding the announcement of joint venture formation in each category. The results of the experiment are somewhat mixed; in the sample at hand, there are no statistically significant differences in announcement-day returns across the six partitions. However, unlike mergers, the average announcement-day abnormal return is positive for all six partitions. This suggests that: although joint venturing can in some ways be considered an alternative to merger, different factors motivate the two different types of transaction.

INTRODUCTION

According to Kogut (1988), articles analyzing joint venture formation can be divided into two broad categories: those based on Williamson's (1977) theory of transactions costs, and those based on strategic considerations. The theory of transactions costs posits that firms enter into cooperative agreements (instead of acquisitions or market-based transactions) when that is the most cost-effective means of obtaining needed inputs. Viewed from this perspective, the desirability of the cooperative strategy largely depends on factors relating to informational asymmetries, the nature of the industry, and the relationship between the parties involved.

The strategic-considerations perspective, on the other hand, claims that firms are motivated to cooperate by strategic factors, such as increasing market power or geographic expansion. The joint venture is perceived as a means of accomplishing a desired strategic goal. In Kogut's (1988) words, "strategic motivations are driven by competitive positioning and the impact of such positioning on profitability."

When examining the text of joint venture formation announcements, it becomes clear that strategic considerations are cited as the motive for the arrangement at least as often as other factors. However, most of the empirical articles examining firm performance surrounding the formation of joint ventures draw on transactions cost theory to explain their results (McConnell and Nantell 1985, Balakrishnan and Koza 1993). Less commonplace in the joint venture literature are studies relating the financial performance of cooperative ventures to the strategic objectives being pursued. Do

differences in motivation dictate differences in performance? In this paper, I examine the relationship between the strategic motive behind joint venture formations and the shareholder wealth effects surrounding their announcements.

RELATED RESEARCH AND HYPOTHESES

Walker (2000) analyzes differences in the shareholder wealth effect surrounding acquisition announcements with respect to the underlying strategic motive. His analysis indicates that important differences exist in how markets view different types of acquisitions. Specifically, acquisitions aimed at geographic expansion and increasing market power are viewed favorably, while acquisitions intended to broaden the product line, integrate vertically, or diversify are viewed negatively. Because joint venturing can be viewed as a substitute for acquisition, I adopt a similar methodology for characterizing the underlying motive, and test the hypothesis that strategy-based differences in performance exist.

I also classify the joint venture participants according to the form of their primary contribution (cash or noncash). Most joint venture research has drawn on the theory of transactions costs to explain venture performance. However, a competing theory known as the resource-based view of the firm (Wernerfelt 1984) offers some useful insights. Combs and Ketchen (1999) point out that firms with abundant resources may choose cooperative modes of entry when, due to exchange conditions and firm characteristics, that represents the least costly way to obtain the needed input (consistent with the theory of transactions costs). However, resource constrained firms may not enjoy the luxury of choosing. Such firms may be forced to enter cooperative agreements even when the least costly way to obtain the needed resource is through acquisition. Specifically, a reasonable conjecture might be that resource constrained firms are more likely to contribute resources other than cash to a joint venture. Therefore, we might expect to find poorer performance among joint venture partners contributing noncash resources, since they may be entering a costly transaction as a "last resort".

DATA AND METHODOLOGY

I obtain joint venture formation announcements from Securities Data Corporation's database of joint ventures and strategic alliances. To be included, ventures must have at least one publicly traded U.S.-based partner. I also require that included agreements be structured as equity joint ventures in which equity in a new entity is equally shared by partners. For 1995-1996, this results in an initial sample size of 277 eligible-firm announcements participating in 216 ventures.

For each venture, I obtain from Lexis/Nexis the earliest news releases reporting the formation of the alliance. Because SDC records only the fact that an announcement was made relating to a joint venture (and not the nature of the announcement), I eliminate from the sample any firms not specifically announcing the formation of a new venture during the sample period, as well as firms for which no relevant news could be found. This resulted in a remaining sample of 212 firm announcements. Of these, 199 had CRSP returns data available for the period –106 to +5 relative to the announcement. An additional 13 firms were eliminated due to unavailability of financial statement data on COMPUSTAT, leaving a final sample of 186 firms.

In analyzing the news releases, I sought to identify three characteristics of each venture: industry relatedness among the partners, the form of each partner's primary contribution (cash, technology, operating assets, etc.), and the partner's strategic motive for forming the alliance.

The notion of relatedness between joint venture partners is almost redundant; since the partners are voluntarily forming a venture to achieve some common goal, in almost every case it's clear that they are in some way related (either vertically or horizontally). For the present purpose, I adopt Flanagan's (1996) notion of "pure" relatedness. In reading the venture announcements, I assign a value of 1 to the relatedness variable if the two partners are competitors in their primary line of business (or would be if they operated in the same geographic area), and 0 otherwise.

While acquisitions are almost always funded with cash or stock, equity stakes in joint ventures are often "purchased" with a variety of other assets, such as technology, trademarks, or existing operations. Based on the text of the formation announcement, I characterize each partner's primary contribution to the venture as either "cash" or "noncash." While there is little existing research that examines joint venture performance as a consequence of the form of contribution, a significant difference between the cash and noncash partitions could have important implications in the ongoing debate between transactions-cost based and resource-based theories of JV formation.

Because joint venturing can be seen as an alternative to acquisition as a means for obtaining complementary inputs, the strategic objectives behind them can be similarly characterized. Walker (2000) presents six mutually exclusive categories for classifying the objective of an acquisition. I adopt this taxonomy (in modified form) to describe the strategic motive behind the formation of a joint venture. The categories are: geographic expansion, product line expansion, increasing market share, vertical integration, diversification, and sharing of costs and risks.

Geographic Expansion

A venture is placed in this category if the news release states that the participant firm seeks to introduce its existing product or service to a new region through the joint venture. Typical of this category is the venture between Cellstar Corp. and C-Mart South Africa, of which Cellstar's president said: "By teaming with C-Mart South Africa, we can take advantage of the distribution channels which C-Mart has already established and penetrate the market much more quickly than if we entered the market on our own."

Product Line Expansion

In ventures of this type, the participant firm seeks horizontal growth by developing or acquiring new products that are in some way related to existing businesses. An example is Metreon, a joint venture between W.R. Grace and Engelhard Corporation that planned to "manufacture and sell metallic substrate catalytic converters using proprietary technology contributed by each company."

Increasing Market Share

Participants in ventures in this category seek to increase market power by combining operations with competitors. An example is Bank of Boston's agreement with Boston Financial Data Services to "combine their stock transfer businesses into a single entity," resulting in the "third largest stock transfer agent in the country."

Vertical Integration

Ventures of this type often involve firms with an existing customer/supplier relationship setting up a joint operation. Typical is the agreement between Accuride, a maker of vehicle wheels, and Kaiser Aluminum, a supplier of raw materials, to jointly own and improve facilities supporting Accuride's production.

Diversification

As mentioned before, truly unrelated joint ventures are rare. This category is included to accomodate ventures such as Norwest Venture Capital Management's investment in Peoplesoft, a venture capital investment structured as an equity JV. Because the sample size in this partition is small (n=6), I do not draw any conclusions from its results.

Cost/Risk Sharing

Very large or risky projects are often structured as joint ventures in order to share the risk or development costs among two or more firms. An example is the agreement between General Electric and United Technologies to jointly develop a new engine for the Boeing 747, a project with expected development costs exceeding $1 billion.

Firms may have very different reasons for entering a particular venture; for example, a business hoping to expand into new territory may seek a local partner with a desire to expand its product line. Therefore, I attribute a motive to each partner, rather than a single motive for the venture as a whole. Table 1 describes the sample according to the above categories. Geographic expansion is the most often cited category, motivating 76 of the 186 firms in the final sample (41%). The other categories, in order of incidence, are: product line expansion (19%), cost/risk sharing (17%), vertical integration (12%), market power (8%), and diversification (3%).

Table 1
Joint Ventures by strategic motive and form of contribution

Motive	Cash	Noncash	Total	Purely Related
Geographic Expansion	32	44	76	35
Expand Product Line	15	20	35	13
Enhance Market Power	1	14	15	8
Vertical Integration	11	12	23	8
Diversification	4	2	6	1
Cost/Risk Sharing	12	19	31	23
Total	75	111	186	88

To gauge market participants' perceptions of the ventures, I conduct a standard event study analysis of stock price performance surrounding the announcement dates. Parameters for the market model are estimated over days –106 to –6 relative to the announcement, and abnormal returns (prediction errors) are computed for days –2 to +2. Returns data are obtained from the Center for Research in Security Prices (CRSP). Average cumulative abnormal returns in each partition of the sample are given in Table 2.

Cross-sectional regression analysis is conducted on the 5-day CAR's using ordinary least squares. Independent variables include lmkval (the natural logarithm of total market capitalization plus the book value of long-term debt at the end of the fiscal year), q (an approximation of Tobin's q ratio, defined by Chung and Pruitt (1994) as common equity plus preferred stock plus long-term debt plus current liabilities minus (current assets minus inventory), divided by total assets), and indicator variables representing relatedness, contribution type, and 5 of the 6 strategic categories.

RESULTS

Table 2 reports 5-day average cumulative abnormal returns for the full sample of 186 firms and for each of the partitions. In every case, the announcement effect is positive, and significantly different from zero (p-value >= 5%) for at least one of the five days surrounding the announcement. While significance varies for the average CAR's, I am unable to reject the hypothesis that they are drawn from the same distribution, either with the parametric F-test (F= 0.40, p-value = 0.84) or the nonparametric Kruskal-Wallis test (H = 3.19, p-value = 0.67). The results are qualitatively similar when announcement-day abnormal returns are used.

Table 2
Partitioned event study results

Partition	ACAR(-2,+2)	t-statistic	% positive
Full Sample	0.0210	4.22	58.8
Geographic Expansion	0.0270	2.76	63.3
Expand Product Line	0.0152	1.35	53.8
Enhance Market Power	0.0163	1.37	62.5
Vertical Integration	0.0073	0.91	43.5
Diversification	0.0342	1.72	71.4
Cost/Risk Sharing	0.0227	2.23	60.0
Cash	0.0174	2.40	60.0
Noncash	0.0251	2.80	57.7

I find that, contrary to the implications of the resource-based view as seen by Combs and Ketchen (1999), firms contributing cash to form a joint venture are greeted with less favorable market reactions than firms contributing other resources. While the reactions are significantly different from zero in both partitions, I find that they are not significantly different from each other. This may be because market participants view the venture formation as confirmation that the resource-constrained firm will be able to capitalize on its noncash resources.

The results of the cross-sectional regression are given in Table 3. They offer little guidance in identifying which factors affect joint venture performance. While the coefficients for the intercept and firm size are significantly different from zero, none of the indicator variable coefficients are significant. This is consistent with the earlier finding that CARs do not differ across partitions. Again, the results do not change when announcement-day returns are used as the dependent variable.

Table 3
Results of Cross-sectional regression

Variable	Coefficient	Standard Error	t Stat
Intercept	0.091531	0.029199	3.13
purely_related	-0.00802	0.012276	-0.65
cash_contrib	-0.0061	0.012321	-0.49
geog	-0.00975	0.017557	-0.56
prod	-0.02718	0.020139	-1.35
mktpow	-0.01689	0.025006	-0.68
vert	-0.01903	0.024179	-0.79
div	-0.0035	0.037336	-0.09
lmkcap	-0.00686	0.002767	-2.48
q	0.002099	0.003302	0.64

CONCLUSION

A number of articles have examined firm performance surrounding the formation of joint ventures (McConnell and Nantell (1984), Chan et al (1997), Mohanram and Nanda (1996)). In almost all cases, the shareholder wealth reaction is positive, but far from unanimous (nearly 50% of returns are negative). I began this study as an attempt to explain this variability: do announcement-period returns surrounding joint ventures differ according to the strategic motive? Walker (2000) finds that there are important differences across motives for firms involved in acquisitions. If joint ventures are viewed as acquisition substitutes, it seems likely that the same factors would be important in explaining the shareholder wealth reaction to joint venture formations.

The results of this research, however, lead to a different conclusion. While acquisition announcements are greeted with a negative shareholder wealth reaction on average, the reaction to joint venture formations is significantly positive (consistent with prior results). Moreover, the reaction is positive in every motivation category, with no statistically detectable difference across categories. This stands in stark contrast to Walker's results, in which large differences between categories are observed. The implications of this are twofold. First, we can conclude that strategic motive does a poor job of explaining the variability of joint venture performance. Other factors, yet to be discovered, must be involved.

Second, Walker concludes his article with the suggestion that "strategic objectives might be achieved at a lower cost by forming joint ventures or by seeking other types of strategic alliances." The results of this study provide some support for this assertion. While the acquisitions in his sample have the average effect of reducing shareholder wealth, the joint ventures analyzed here increase it (by a similar amount). There are a number of potential explanations: perhaps the process of negotiation and voluntary agreement is presumed to reduce information asymmetries between partners, and therefore reduce the likelihood of buying a "lemon". Perhaps acquirers, paying competitive market prices for their targets, are perceived to be overpaying. Or, perhaps joint ventures have flexibility that is valuable (implicit options). Further research is necessary in order to understand precisely what goes into a successful (shareholder wealth-maximizing) joint venture agreement.

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COST ACCOUNTING: A HISTORICAL PERSPECTIVE

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ABSTRACT

A review of cost accounting textbooks from 1904 through the 1990's requires an integration of accounting and history. Few textbooks or instructions in cost accounting are available in book form prior to 1920 though there are various texts in digitized format. All historical texts begin with a definition of cost accounting and its importance in the business world. The history of manufacturing helps business owners, accountants and students understand why universities teach cost accounting and its importance. The industrial revolution had a major impact on methods and costs of manufacturing. Because of this enormous development in manufacturing processing, both engineers and accountants began to look at the complete process. Manufacturing takes place in a continuously changing environment, from the industrial revolution through modern times. The evolution of cost accounting appears to be a consequence of changes in the manufacturing process and shadows history. Even terminology used in cost accounting has changed over time. With the understanding of costs, accounts and changes, owners, managers and accountants are able to adjust to changes and improve business.

INTRODUCTION

A review of cost accounting textbooks from 1904 through the present requires an integration of accounting and history. Few textbooks or instructions in cost accounting are available in book form prior to 1920 though there are various texts in digitized format. One of the reasons that cost accounting systems were not disseminated in the late 1800's and early 1900's was that often firms considered their accounting systems to be secrets that were not to be made available to competing firms. Most companies did not even reveal their system to their own laborers. Though in truth, it appeared that the systems were exclusive to specific businesses and therefore it may not have been practical to teach these systems in a general fashion. (Previts and Merino, 1998)

Some of the early texts available from 1904 to 1919 appear to be instructions on forms and recommended processes inside a manufacturing business. Worries about increasing costs of material and time wasted in production are a common theme. (Eddis and Tindall, 1904) Authors often term processes impossible, such as accounting for products that are not uniform. (Church 1917) That may have been the case in 1917, but advances in accounting, mathematics and manufacturing have proven that these processes are actually possible.

Knowing the history of manufacturing facilitates the understanding of why universities teach cost accounting and why it is important for business owners and accountants. Most individuals do not understand the processes of manufacturing. Consumers find that commodities and services are just available to be purchased in stores. With a more detailed understanding of history and progress

in manufacturing, it may be easier for accountants and business owners to understanding the complete manufacturing process.

WHAT IS COST ACCOUNTING?

All historical texts begin with a definition of cost accounting and its importance in the business world. In 2004, the Internal Revenue Service classified 5 percent of all corporations filing tax returns in the manufacturing category. (IRS, 2007) Though in the past, businesses and accountants considered cost accounting appropriate only for manufacturing, as far back as 1940, authors recommended cost accounting systems for other industries that have departmental sections where cost accounting concepts and techniques may apply.

One of the older, simpler definitions is that cost accounting actually should be called manufacturing accounting therefore making it clear to everyone that it concerns the accounting for manufacturing businesses and production of goods. W.B. Lawrence stressed the importance of accountants becoming familiar with cost accounting in his 1930 text because even then, "the modern factory occupies more space and employs many more workers than did the factory of a generation ago".

In 1940, just prior to the U.S. involvement in World War II, John Blocker recommended in his text additional uses for cost accounting in other industries, such as construction, mining, utilities and nonprofit organizations. He believed that all of these businesses needed to consider that the costing in different departments within a company could be controlled through cost accounting.

Even in the 1960's accountants and system designers developed cost accounting to do more than measure performance. Cost accounting was an integral part of planning and control in businesses. Accountants and business owners used cost accounting systems to understand alternate courses of action and then to predict what effect these courses would have on business objectives. (Terrill and Patrick, 1965) The cost accounting process was seen as an important component in shaping the economic welfare of the firm.

Since the 1960's, little change was made in the definition of cost accounting as an aid to businesses in determining the costs of processes, services and other undertakings. However, it was becoming clear that cost accountants aided managers in defending and being accountable for their decisions.

WHAT ARE THE FUNCTIONS OF COST ACCOUNTING?

Eddis and Tindall (1904) viewed a cost accounting structure as important because of the complicated manufacturing processes in their time. Early business owners were able to make decisions about profit margins mainly due to a lack of competition. Manufacturing businesses in the 1800's had owners who were able to oversee all processes because of the limited size of their business, but this was probably not the case after the industrial revolution. The first industrial revolution in Great Britain and Europe changed manufacturing from hand and home production to machine and factory processes. The second industrial revolution in the United States accomplished these changes from heavy labor manufacturing to machine work as well. (About.com, 2007)) This

change from extensive labor to substantial machine manufacturing placed greater emphasis on processes that cost accounting systems helped control.

Shortly after, in 1909, Strachan appealed to readers by reminding them that accounting for goods was as important as accounting for cash. Strachan told readers that cost accounts would give manufacturers the keys to financial prudence by providing information about:

> "Whether the stores purchased have been duly accounted for;
> Whether the buying has been judicious;
> The cost of production subdivided into departments, processes, or individual jobs or contracts, as may be desired;
> Where he is gaining, and where he is working at a loss;
> In what direction his energies can be applied with the greatest advantage."

In 1920, accountants placed emphasis on what manufacturers called the direct function, ascertaining actual costs. The second function of cost accounting, or indirect function, was that of supplying, in its system of reports, information needed to organize the many departments of a factory into working units. In addition to this, it enabled managers and owners to direct the activities of these units in accordance with goals designed to eliminate the inefficiencies in the various departments of the business. (Nicholson 1920)

Dr. John Blocker recognized the important link between accountants and managers. (1940) He told his readers that is was difficult to know where the job of the accountant ended and management's job began. Blocker believed that the cost accountant served the company by using analysis of transactions that then enabled management to evaluate processes and adjust them to meet future changes. Blocker agreed with fellow author Harold Wilmot that cost accountants have the roles of "historian, news agent and prophet." This is because cost accountants must be accurate on past financials transactions and statements, up-to-date on current business operations and still be able to look forward to the future using both knowledge and experience.

Blocker's 1940 text berates the simple use of direct materials, direct labor and prime costs as formulas for overhead allocation and recommends the use of a predetermined overhead expense distribution rate based on budgetary controls. This was one of the first textbook references to standard costing. The predetermined overhead rate allows manufacturing concerns to allocate costs on a daily basis versus only at the end of an accounting period. Many times, the allocation of overhead came only after orders were accepted and management was unable to determine the total cost of jobs until after they were completed. According to Blocker (1940), "Products are finished and sold, and prices are set days, weeks, or months before costs of orders are known."

Terrill and Patrick (1960) explain one of the most important functions of cost accounting. Any business or enterprise, whether nonprofit, commercial or even governmental, must develop ways to control the use of scarce resources to insure that the best return is received on the use of those resources. Resources are not just natural resources; Terrill and Patrick extend their definition to include capital equipment and even the physical and mental resources of the labor force.

Even in 1985, Heitger and Matulich stressed that cost accounting information is used by many parties including managers "to monitor activities, evaluate performance, make decision, and obtain answers to the many problems that managers must solve daily." Manufacturing is a

continuously changing environment, from the Industrial Revolution through modern times. The importance of understanding what is happening in a business has not changed. With the understanding of costs, accounts and changes, owners, managers and accountants are able to adjust to changes and improve business.

HISTORY AND COST ACCOUNTING

Nathan Kranowski (1977) claims that the contemporary cost accounting began around 1885 though it was in use many years or centuries prior in a limited form. Previts and Merino (1998) support Kranowski's assertion that cost accounting came into use after 1800 and expanded during the American industrial revolution in the mid to late 1800's. The industrial revolution had a major impact on methods and costs of manufacturing. Because of this enormous development in manufacturing processing, both engineers and accountants began to look at the complete process. Both groups worked to detail the process for both the production and accounting flow process. As the industrial revolution evolved, trusts, such as the Standard Oil Trust and U.S. Steel, dominated the economy. The Olds Motor Works began in Detroit in 1899 using interchangeable parts that would lead the way to mass manufacturing and the need for more advanced cost accounting. In addition, Ford made the first Model T in 1908. (NY Public Library, 1997)

World War II dominated the 1940s. Many artists and intellectuals fled Europe and the control of Hitler and the consequences of the Holocaust, bringing new ideas and energy to the west. War production pulled the United States out of the Great Depression. Women replaced men who had gone off to war, and so the first great exodus of women from the home to the workplace began. When men returned after the war, having seen the rest of the world, no longer was the family farm an ideal. The World War II GI Bill enacted in June 1944 allowed more veterans than ever before to get a college education. Women had to give up their jobs to the returning men, but they had tasted independence. In 1949, three times as many higher education degrees were conferred as in 1940. College became available to the capable rather than the privileged few. (Kingwood, 1999)

Use of credit cards to purchase commodities became a common practice in the early 1960's. During the mid-60's, the United States was once again at war in Vietnam. Spending on the war stimulated the American economy and helped inflation to accelerate. (Norris and Bockelmann, 2000)

Gold and silver prices plummeted at the beginning of the 1980's. Recessions hit hard in that time, first a small one in 1980 and then a longer one in 1982-83. In 1982, Leonard Silk, the New York Times economic columnist called the time "a chronic state of underemployment and industrial slack that had dogged the economy the greater part of the past decade." Silk blamed the harsh actions of industrial world governments undertaken to deal with problems with inflation, currency and energy.

Finally, on October 19, 1987, the stock market crashed with the Dow Jones industrial average dropping 508 points. Even with all of this uncertainty, the United States was in a technological advancing momentum. IBM and Microsoft combined to create a computer small enough for use at home or in an office setting. (Norris and Bockelmann 2000)

Congress created the Cost Accounting Standards Board (CASB) in 1970 and it lasted for one decade. CASB ended in 1980 but succeeded in creating 19 standards relevant to government

contracts. Specific objectives achieved that are still prevalent today are uniformity, consistency, comparability and neutrality in cost accounting recording and reporting.

CHANGES TO COST ACCOUNTING TERMS AND METHODS OVER TIME

Terminology used in cost accounting has changed over time. Accountants and business owners may find older terms more descriptive and easier to understand. In 1818, accountants and managers called work in progress "manufactory" and in 1887, they used the term "manufacturing". Manufacturers in 1887 used "stock" as the term for finished goods. They even termed job orders simply "shop order cards" in that time. Cost of goods sold was straightforwardly called "trading" in early cost accounting and manufacturing. (Kranowski, 1977) Cost accountants are the communications link between stockholders and management. The terms used in the processes must be useful in communicating and improving the production and management process.

In the early 1940's, cost accounting was still in its infancy compared to financial accounting. Trade, manufacturing and accountancy Associations were endeavoring to standardize the terminology of cost accounting. Inconsistent expressions and meanings made it difficult for accountants and business to communicate, the difficult was mostly because of common usage in a specific factory or accounting office. At this time, overhead was still being referred to as burden, supplementary costs and manufacturing expenses. As late as the 1940's, inventory accounts were called "controlling" accounts. These inventory accounts were the raw material or "stores" inventory, work in process inventory and finished goods inventory. Though no longer called a controlling account, this was an important term and sign of change in manufacturing. The controlling account was one of the first connections between the general ledger and factory ledgers. (Blocker, 1940)

Flexible budgeting first appeared in the early 1940's. (Blocker, 1940) In the 1950's and 1960's it was termed variable budgeting. (Specthrie, 1963) In the 1970's, flexible budgeting is what is familiar today in cost accounting. Flexible budgeting was important to production processing where it was difficult to determine the volume of production for more than few weeks or months in advance of actual scheduling of work.

Break-Even analysis appears in cost accounting in the 1950's. Accountants developed this analysis into Cost-Volume-Profit Analysis by the mid-60's. (Specthrie, 1963) Terms such as contribution margin should become an everyday used word in the work of managers. Though managers are concerned with specific break-even points, their concern is more often with the rates of increase as volume increases. Sometimes graphic presentations are more informative and useful in analysis for both the accountant and managers.

Costs were split into more than just fixed and variable costs at times. More delineated definitions were used such as semi-variable or semi-fixed. Businesses were beginning to understand that specific definitions do not always work in cost accounting. (Terrill and Patrick, 1965) Though the currently accepted term is semi-variable, both terms are understandable for cost changes in the production process that are not proportional as in fully fixed or variable costs.

Activity based management and costing are used more extensively under those names today. Though authors discussed, and even recommended, theses systems as far back as the 1940's, this

was a substantially new change in texts during the late 1980's. Additionally, interdepartmental cost allocation coverage through the direct, reciprocal or step method began during this time.

CONCLUSION

Cost accountants provide the link between management and profits. They can help management insure that processes utilize resources and capital in a way that will provide a solid base for future profitability. Management and cost accountants must gather information from sources within the production process and use the data to create a united, smooth-functioning organization.

Cost accounting can be a very difficult subject for accountants and business owners unfamiliar with the complicated terminology and processes. Often accountants present management with reports that are confusing and complicated. Looking into the history of cost accounting and its evolution through time may provide a valuable learning experience for both accountants and management. This experience may help accomplish the goals of profit maximization, target achievement in manufacturing and analysis of changes needed to create even better businesses.

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COMPUTER EFFECTIVENESS: 1979 REVISITED

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ABSTRACT

This paper was written from notes and ideas from 1979. Thus, it is a look "back to the future." The computer played an important role for management in late 1970s society and business if it was used effectively. Its uses and applications were applied in an increasing number of areas. Most of this advancement dated from the late 1960s. With new developments for faster computations, expanded storage, and cheaper costs, the computer gained definite consideration from management for purchasing possibilities in the 1980s.

INTRODUCTION

Many times the ills associated with computer processing are not due to the machine, but due to management's misuse of the machine. Management should have expectations of EDP, but in the end, management is responsible for getting output from the computer system. Many expectations can be supposed, but some of the more basic ones are: cost-conscious service of value, intelligent, careful budgeting and spending, and the maximized utilization of people and equipment. All these are possible with various computer applications. On the other hand, expectations of management are also present. There is the need to act like management, define corporate objectives, gain an understanding of the system for efficient use, and insist on profit-oriented performance. Too many times management has blamed mistakes on the computer because they were too confused to understand the reasons or the problem.

APPLICATIONS TO MANAGEMENT

The time has come when we must apply to our EDP operations the same expectations, the same criteria, and the same leadership that we apply to any other part of our companies. Three critical factors determine the course of a corporation's destiny: return on investment, managing by objectives, and exceptional people. The company which fails to contain costs, including computer costs, set goals and use them to evaluate performance, and staff itself with good people is a company headed for trouble (Scotese, 1972).

These three factors have not been applied to corporate data processing operations. This is noteworthy in view of the large expense involved in obtaining, operating, and maintaining EDP equipment. It is almost as if the businessman felt that he needed a new toy that everyone on the block had. It is time for this to change. Corporate management must require of its data processing system the same cost consciousness, planning, evaluation, and personnel development that it requires of any other corporate function.

Information is vital for good decision-making. The more pertinent and timely the information, the better the decision. Business managers continually make decisions regarding purchases, sales prices, products, people, acquisitions, and many other things that involve uncertainties of varying degrees. The nature of the information varies between managers. Many external pressures not under management control have been exerted on every business, due to technological changes, improved communications, and increased competition. High-speed data processing equipment offers a solution to the problem.

The basic functions of management--planning, execution, and control--comprise the essence of information systems. Company objectives and policies usually cover a five to ten year period. They are concerned with items such as total demand, share of the market, new markets, new products, new plant sites, personnel sources and development, and capital requirements. Execution involves carrying out the plan in the present in order to sell the product, manufacture more, build plants, hire people, and pay vendors and employees. Control involves monitoring execution with feedback techniques. Reports tell how well the execution is going in accordance with goals and plans. "The management information system must provide the necessary intelligence on a timely basis to help management plan, execute, and control. Simply stated, M.I.S. is a system of reports specially assigned for this purpose, which means that they are position- or department-oriented to meet specific requirements" (Konvalinka & Trentin, 1972). Examples of some important elements in an M.I.S. are: reports of historical company and environmental data for long- and short-range financial and operating budgets; monthly financial and operating statements on a "responsibility" basis; reports to service the various control systems such as sales forecasting, production control, materials management, and shipping and warehousing; and feedback that shows what should be done to the financial plan in view of actual results to date or of hypothetical situations. The information gained from such a system could do nothing but increase management's efficiency and production. This in turn brings about growth and stability, as well as other goals or plans of the corporation.

IMPACT ON CORPORATE BUSINESS

The past decade has seen random access and data transmission become faster and cheaper. Therefore, much more time-sharing has been used. This is seen in today's computer industries. Complex planning models have become very important and are widely used. Complex plans include a number of variables and alternatives dealing from multi-million dollar undertakings to any plan involving critical variables important enough to take top management's time. These plans do not solve every problem, and it would be impractical to apply them in every situation. Limitations also exist in reliability of results. These results depend on who designs the programs and to what extent management participates in their construction. Management will only use those models and results as far as they have confidence in them. For this reason, management must participate in the design of those models, the theory, and the implications of the program itself. Management is wary of using results that conflict with a manager's judgment, but should consider such results.

The idea of computers solving unstructured problems is hard to forecast in the near future due to the fact that the computer can only solve the problem put into it through directed mathematical computations. The opposite point of view assumes that once the initial breakthrough

is accomplished, the sky is the limit. Computer technology has advanced to the point where reality can partially be simulated, but the closer to reality one gets, the problems appear to increase exponentially. Problems must be anticipated in order for the computer to solve them. For instance, a program to solve inventory problems must first be fed all the information on the various types of inventory the company uses, in addition to all possible situations arising from each system. If the computer could solve problems on its own, all one would have to do is feed the problem into the computer and let it find the solution.

PROBLEMS

It is rare for well-designed computer hardware to make an error. The logic circuits perform exactly the same operation on the data every time they are told to do so. Circuits do, of course, fail occasionally. Strong electrical pulses can change data. Most programs contain error-detection sections, which constantly monitor the program for errors.

Those errors that do occur are not the fault of hardware, but are due to program error, operating error, or the wrong data being fed into the machine. When computers do cause errors, they can be spectacular ones, more so than those created by humans. The computer lacks the sense of the absurd. Safeguards have been and are being devised in a process similar to the system of checks and balances any clerk would use.

A computer does exactly and precisely what its user instructs it to do by means of his programs. If he has made mistakes in his programs, then the computer will likewise do things wrong. Most programmers make some mistakes. They may fail to see all of the intricacies in the complex logic they are creating (Martin & Norman, 1970). They run the program over and over, through all types of situations, until the program runs satisfactorily. The program is aimed to run correctly in all circumstances.

Mistakes also occur on the operating level where information has been incorrectly fed into the machine. The operator has a highly responsible job. Accidental file erasures or financial records mistakenly updated could mean big problems. System guards have been devised, but no foolproof methods have yet to be discovered. Mistakes in data input are another source of system failures, but through the use of verifiers, these mistakes are minimized. In appropriate program design the program has no faults, but its application could be wrong. This is another type of problem. Incomplete inclusion of certain aspects causes the program to produce insufficient or unrelated results. Even though mistakes are frequent and hard to avoid, increasingly complex computer programming has produced improved checks for errors and controls for proper operation. These controls need to be further advanced as programs enlarge in scope, because any mistakes can prove to be more and more harmful.

There are currently in operation many varieties of data banks holding confidential information, either comprehensive or partial. In each case, good reasons have been given for the collection and retention of the data in these banks. Each collects its information with the individual's consent. Few of these data banks guarantee confidentiality or anonymity. It is also very unlikely that any of these banks applies the necessary techniques for preventing someone from obtaining information, even if the managers of the databank thought it was worth the effort. At

present, most of this information is incomplete, but with present advances there is no reason why it should stay that way.

Central credit banks have already been considered. All relative information will be available to credit organizations, which would make transactions more accurate due to constantly updated information. The costs are covered by the revenue generated from mailing lists. "Direct mail promotion material is already inundating the U.S. Post Office. Services that provide lists of names and addresses can select potential buyers for books, boats, or bust-developers on the basis of an individual's buying history, social habits, or financial status" (Martin & Norman, 1970). Businesses also keep numerous information records on customers, employees, and potential employees, as well as aptitude and psychological test results. All this material is not only collected and recorded, but on occasion may be made available to others.

FUTURE APPLICATIONS

The computer has been described as the dominant advancement of the 20th century. Economists have predicted that by the end of the century, more people will be employed in data processing and related industries than in any other single business. The tempo of technology itself has been a major stimulus to this market. The present systems are not sufficiently responsive to change. The most formidable problem of all is the shortage of people qualified to operate the machines. "The computer education gap is a deep chasm. It (education) is considered one of the key rating factors in the overall growth of the computer business" (Bradburn, 1972). Vocational training for those entering the industry is needed, along with informational training for everyone else in order to fully appreciate computer use.

The fourth generation of the computer age is seeing changes in motion, with differences in the degree of use. With this change in design, many improvements will be developed such as better-cost performance, more hardware implementation for control, and better diagnostic capabilities of hardware and software. From a functioning standpoint, there will be broadened use of multiprocessing and multiprogramming. There will be a strong trend toward polarization, with large central computers feeding hundreds of remotely located terminals. There will be also a continuing movement toward multi-function systems.

The past decade has seen a large growth in the use of checks in paying bills; the present growth rate is 7% per year in the ordering of checks. This is due to increased monetization, or at "bankization" of the economy. People who never before had bank accounts have them now. People who used to pay cash, even though they had checking accounts, are now paying more bills by check. All this raises check growth, but it has an upper limit.

"Basically, the number of transactions is likely to grow less rapidly than the GNP even at constant prices, because the size of individual transactions increases per capita as GNP rises. The rise in total transactions consists of a rise in both the number and average size of transaction. Not all transactions depend on the GNP. Nevertheless, it does not appear that the number of checks will continue to grow by 7% a year for long" (Wallach, 1973).

FUTURE NEEDS

Patents and copyrights are founded in the provision of the Constitution, which states that Congress shall have the power to grant to authors and inventors for limited times the exclusive rights to their writings and discoveries. There are other protective state laws. California enacted a criminal law making it illegal to take any physical object that holds a trade secret. The first application to register a copyright on a computer program was for punched tape. The Register of Copyrights refused the application until the tape was translated into something eye-readable. The copyright was granted after the translation. Therefore, in order for a copyright to be obtained, a proper form is needed. By the close of 1968, approximately two hundred programs had been individually copyrighted.

There is a real struggle over whether or not computer programs are patented or even should be. Those under question are the programs used in general purpose computers. The computer industry has instilled the idea that the computer owner should be able to use any program he can get his hands on. The manufacturer of new computer programs investing the firm's time and effort should be awarded the rights to distribute it at cost. The President's Commission was assigned to investigate the proposal. It recommended that no computer program should be protected under the patent law, either directly or indirectly. This would please the computer manufacturing industry. The reason behind this is that we are in an information expansion, but we do not also need a legislative expansion. Development of the same program by others would occur. No patents are issued for computer programs, but copyrights in a sense are available (Lawlor, 1973).

CONCLUSIONS

Data processing systems interact with their surroundings, collecting data and dispensing data to them. When a system fails to transform its input into the desired output, it is in error. The system designer's problem is to provide a means for detecting errors and correcting them. They can be as small as wrong input or as large as the failure of a complete system. Some method needs to be developed to regulate these systems. Deviations from stated goals must be detected, signals fed back to the process, and corrective action taken.

A number of controls could be devised, and a few of which are listed here: controls over the accuracy of the circuit operation; controls over the correct functioning of the system--in other words, programs must perform as intended; protection against failure; and protection against external intrusion (Martin & Norman, 1970). Control also needs to be gained over the data collected. Information has to be organized into patterns relevant to its ultimate use. However, the least expensive form does not necessarily sort easily into the files. The information collected will determine the interpretations that result from it. The control mechanism consists of people. The feedback mechanism is essential in the computerized society. Reaction must be taken to complaints in a sensitive manner and action taken accordingly (Martin & Norman, 1970).

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BELIEF ADJUSTMENT IN THE BUDGETING PROCESS: EXAMINING THE CONTEXTUAL VALIDITY OF THE BELIEF-ADJUSTMENT MODEL

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ABSTRACT

We present the results of our examination of the contextual validity of the Hogarth and Einhorn (1992) belief-adjustment model when applied to a managerial accounting concern – the reliability of the sales forecast component of the annual budget. The contrast effect is observed as predicted by the model. However, the recency order effect predicted for a mixed message does not obtain when external factors such as pre-task attitude of the decision maker and source credibility are introduced. We conclude that contextual factors need to be considered when predicting order effects.

RAPID RELEVANT WRITING: A THREE TIER ASSIGNMENT DESIGNED TO HELP ACCOUNTING STUDENTS IMPROVE THEIR WRITING

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ABSTRACT

Employers decry the writing abilities of new business graduates. Accounting students tend to forget their writing class learning when writing in an accounting context. Writing assignments in accounting classes can divert attention away from accounting subject matter. Thus, both accounting faculty and students alike are often uncomfortable with the writing component in accounting classes.

This three tier writing assignment makes efficient use of both student and faculty time. A given student submits a single sentence at each of the first two tiers and then becomes part of a group that submits a single (on topic) page at the third tier. Thus, this assignment is cost-effective; feedback can be provided and good writing can be modeled in less time than traditional writing assignments.

TIER 1 involves motivation, writing review, few criteria, and reading comprehension; it leads to students submitting a single sentence.

TIER 2 involves individual and overall feedback, good writing modeling, and expanded criteria; it leads to students re-writing their original sentence.

TIER 3 involves individual feedback, overall feedback, and further expanded criteria; it leads to student groups submitting a single (on topic) page.

This manuscript should interest accounting and business educators seeking a relevant, manageable writing assignment for their classes.

AUDIT COMMITTEE CHARACTERISTICS AND AUDITOR CHANGES

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ABSTRACT

This study investigates whether audit committee characteristics (independence, financial expertise, diligence, governance expertise, and firm-specific knowledge) recommended by the Blue Ribbon Committee (BRC) are related to external auditor changes. Using a logistic model, we examine firms that changed auditors due to accounting disagreements, auditor resignation, fee disputes, and issuance of a qualified audit opinion. Our results indicate that auditor changes are less likely if audit committee members are more independent, have more financial expertise, and more firm-specific knowledge.

This research extends the audit literature by examining a comprehensive set of auditor change variables and audit committee member characteristics. Furthermore, the significant findings of this study concur with the suggestions made by the BRC and the recently endorsed Sarbanes-Oxley Act of 2002.

DOMESTIC PRODUCTION ACTIVITIES DEDUCTION-A REAL TAX INCENTIVE FOR THE CONSTRUCTION INDUSTRY

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ABSTRACT

Prompted by the phased-out repeal of the extraterritorial income exclusion, a subsidy that was found to be in violation of international law, and coupled with the need to put U. S. businesses on a more competitive global footing for domestic manufacturing and production activities, Congress created the domestic production activities deduction, effective for years beginning on or after January 1, 2005. The deduction, which was codified in Internal Revenue Code, Sec. 199, applies to a wide range of activities performed in the United States including farming, movie production, mineral extraction, real estate construction and related engineering and architectural services. The benefits of the deduction are not limited to large corporations, but are also available to flow-through entities and even proprietorships.

The objective of this paper is to look at some of the elements that should be considered by members of the construction industry before automatically reaching a conclusion about the desirability of this new deduction. As with any decision, a cost versus benefit analysis of current business activities, appropriate modifications, and required additional procedures should be considered.

There are a number of significant business decisions coupled with associated tax implications that must be addressed in the construction industry. The following reflect selected significant Sec. 199 issues:

- *Choice of business entity is essential when starting a new business or converting the form of an existing one. In addition to the legal, management, and other operating aspects, consideration should be given to the focal point of profit reporting and taxation. That choice determines who gets the deduction and may be important in dealing with flow-through entities.*

- *Labor is one of the largest costs encountered in construction. The options are to hire employees with all of the employer payroll taxes and other related fringe benefit costs or use independent contractors for the job. Although improved control may be accomplished with hired employees, it appears to be the most costly way to accomplish the job. Note that the ceiling on the deduction is defined in terms of employer wages. Without employees there will be no deduction. The decision as to employees or subcontractors may need to be reviewed.*

- *Consistent treatment of taxpayer activities for purposes of IRC 263A and IRC 199 is required. Some fear that receiving a code classification as construction under NAICS is creating a red flag for an IRS audit. While there may be substance to that fear, the complexities and consistency requirements of Sec. 199 will be the more likely causes.*

- *The issues surrounding the regulatory definition of "qualified production property" and the installation of purchased products as an integral part of a construction project can be complex and deserving of qualified professional guidance.*

Generally the computation of the deduction and compliance with the regulations, ruling, and notice appear to be reasonably straightforward when construction pertains to qualified property and that activity clearly represents the exclusive source of income. Complexities do, however, arise when the taxpayer is involved in a business with mixed activities. In those circumstances revenues, costs, and expenses must be allocated between the construction and non-construction activities. It might be advisable to create separate entities for each category, depending upon the nature, significance, and complexity of the activity.

CONCLUSION

The domestic production activities deduction was established to benefit a large segment of taxpayers. It is not surprising with the ongoing United States reliance on construction activities to accommodate population growth, business expansion, and natural disasters that the construction industry became a named tax beneficiary of the deduction. Despite the potential complexities and modifications that may be required of existing entity structure and information and reporting systems, those in the construction industry, should certainly consider the significant current and future tax benefit that has been made available to them by IRC 199.

To date, at least 18 states have decided not to allow the deduction believing that the significant revenue lost from permitting the deduction would be better utilized by in-state programs. It was also believed by those states that the deduction would not likely create state jobs because the federally required production activity is not state specific. For those states whose calculation starts with federal taxable income the adjustment from federal to state will require simply adding back the disallowed domestic production activities deduction to the federally determined taxable income. (McNichol and Johnson)

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HEDGE ACCOUNTING UNDER IAS 39

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INTRODUCTION

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item

Hedging relationships are of three types:

a. **Fair value hedge**: a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.
b. **Cash flow hedge**: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and (ii) could affect profit or loss.
c. Hedge of a net investment in a foreign operation

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

a. At the inception of the hedge there is a formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
b. The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
c. For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit and loss.
d. The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured
e. The hedge is assessed on an ongoing basis and determined to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair Value Hedges

If a fair value hedge meets the aforementioned conditions during the period it shall be accounted for as follows:

a. the gain or loss from re-measuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with IAS 21 (for a non-derivative hedging instrument) shall be recognized in profit or loss, and
b. the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset

An entity shall discontinue prospectively the hedge accounting specified earlier if:

a. the hedging instrument expires or is sold, terminated or exercised
b. the hedge no longer meets the criteria for hedge accounting
c. the entity revokes the designation

Cash Flow Hedges

If a cash flow hedge meets the conditions stated earlier then it shall be accounted for as follows:

a. the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized directly in equity through the statement of changes in equity; and
b. the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss.

An entity shall discontinue prospectively the hedge accounting specified earlier if:

a. the hedging instrument expires or is sold, terminated, or exercised.
b. The hedge no longer meets the criteria for hedge accounting.
c. The entity revokes the designation.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment shall be accounted for similarly to cash flow hedges:

a. the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized directly in equity through the changes in statement of equity; and

b. b. the ineffective portion shall be recognized in profit or loss.

The following example illustrates the accounting for hedging interest rate risk.

Example:

a. On 1/1/X1, Company A identifies a portfolio of assets and liabilities whose interest rate risk it wishes to hedge. The liabilities include demand deposits that the depositor may withdraw at any time. For risk management purposes, the entity views all items as fixed rate items.
b. For risk management purposes, the company analyses the assets and liabilities in the portfolio into re-pricing time periods based on expected re-pricing dates. It uses monthly periods for re-pricing purposes.
c. The example uses a monthly time horizon for re-pricing purposes.
d. Company A for risk management purposes decides to hedge U 20 million and accordingly enters into an interest rate swap on 1/1/X1 to pay a fixed rate and receive LIBOR, with a notional principal amount of CU 20 million and a fixed life of three months

The fair value of an equivalent non-prepayable asset of CU 20 million during the month are as follows:

1/1/X1:	Fair value (asset)	$20,000,000
	Fair value (liability)	Nil
12/31/X1:	Fair value (asset)	20,047,408
	Fair value (liability)	(47,408)

Accounting Treatment

a. On 1/1/X1, Company A designates as the hedged item an amount of CU 20 million of assets. The hedged risk is attributable to changes in LIBOR. The hedging instrument is the interest rate swap.
b. On 12/31/X1, the LIBOR has decreased. The amount of assets scheduled for the time period is CU 96 million.
c. The fair value of the designated interest rate swap is CU 47,408
d. Company A computes the changes in the fair value of the hedged item as follows:
    i. The percentage of assets that were hedged. This is 20% (CU 20million/ CU 100 million)
    ii. This percentage is applied to amount of assets during the month. This is 20% of 96 million, namely CU 19.2 million.
    iii. Then it calculates the change in fair value of the revised estimate of the hedged item. This is CU 45,511 (47,408*(19.2million/20 million).

The following accounting entries are made to account for the interest rate swap during the month:

a. to recognize interest received on the hedged amount of CU 19.2 million

Cash	172,097	
Interest income		172,097

b. to recognize interest received and paid on the swap

Interest expense	179,268	
Interest income		179,268

c. to recognize the change in the fair value of the swap

Loss	47408	
Derivative liability		47,408

d. to recognize the change in the fair value of the hedged amount

Asset	45,411	
Gain		45,411

e. the net result on profit or loss is to recognize a loss of CU 1,897. This represents the ineffectiveness in the hedging relationship that arises from the change in estimated prepayment dates.

AN EMPIRICAL STUDY OF THE ATTRIBUTES IMPACTING THE DESIRE OF ACCOUNTANTS FOR A FLEXIBLE WORK SCHEDULE

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ABSTRACT

The issue of work loads, employee turnover, and flexible work schedules are very important issues facing the accounting profession. Past research suggests that accountants have high turnover and employers have a difficult time keeping female accountants.

The purpose of this paper is to determine the attributes that explain which employees desire a flexible work schedule (a willingness to take a pay cut for a reduced work schedule). Although the idea of flexible work schedules has been around for some time, little empirical research exists attempting to determine the variables that determine which employees are willing to accept flexible schedules. The paper specifically looks at how gender and certification impact flexible work decisions.

The results of this study suggest that gender and certification status of the accountant impacts his/her desire for a flexible schedule. Female accountants are significantly more likely to desire a flexible schedule than males. Also, certified accountants are more likely to desire pay cuts for reduced work loads than noncertified accountants.

PERCEPTIONS OF AUDITOR INDEPENDENCE: EVIDENCE FROM CPA'S, LOAN OFFICERS, AND THE GENERAL PUBLIC

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ABSTRACT

The Sarbanes-Oxley Act of 2002 (SOX) included many components designed to increase auditor independence. Despite these intentions, research finds that many of the included provisions may not have influenced independence as intended. As recent studies focused primarily on independence in fact, not independence in appearance, we surmise that SOX influences the perception of independence. We also suspect that perceptions of users will vary with respect to various aspects of audit quality.

To test our beliefs, we surveyed CPAs, loan officers, and the general public inquiring whether specific components of SOX would increase auditor independence. Members of all three groups indicated that they thought each provision tested would increase independence, but they differed both in the extent they thought the provisions increase independence and in the relative rankings of the different provisions. We also found evidence that the expectation gap is still in existence, with both sophisticated users and the general public having lower perceptions of audit quality as compared to CPA's.

The results of this paper suggest that SOX may increase confidence in the audit process by increasing perceptions of independence. Evidence supporting the continuance of an expectations gap between CPAs and users of financial statements is also present.

THE EFFECTS OF PUBLIC BORROWING ON CAPITAL MARKETS AND BUSINESSES

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ABSTRACT

One of the most important problems of developing countries is the difficulty in transferring savings to the country's economy. Corporations and people that live in these countries generally invest their savings to instruments like gold and foreign exchange called traditional investment instruments. The reason is policies followed by authorities and the undeveloped capital markets in these countries. The most important of all such public policies is borrowing policy. The public sector entering capital markets to borrow imbalances financial equilibrium bringing new fund sources requirement. Especially public financing requirement in developing countries is intended to be met by Central Bank sources. This situation affects financial structure in a more negative manner encouraging inflation. This study focuses on the effects of public borrowing on capital markets.

Key Words: Capital Markets, Public Borrowing, Crowding Out.

I.FINANCIAL MARKETS

Financial markets are defined as markets including people wanting to get interest through their savings and surplus funds and people who need money for their various needs (Akgün, 1996). Capital markets having an important function in market economy operation meet two significant and essence functions: transferring of existing funds to most productive areas and providing information to economy through prices formed by perfect competition conditions.

Three basic factors are required to operate financial markets (Aydemir, 1995). The first is fund holders having funds ready to transfer these to fund callers against a certain return. Fund suppliers could be institutional investors as well as households saving from their consumption and expenditure for future. The second one is fund callers who want to make new investments but don't have funds to finance these investments being ready to bear a certain charge. These people are entrepreneurs who buy savings in the economy and turn them into real investments.

But funds in the economy are demanded not only by entrepreneurs who tend to real investments but also sometimes by governments moving in to financial markets to demand funds in order to meet their requirements for cash. The third one is financial intermediaries that link fund suppliers and fund callers transferring supplied funds to fund callers.

II. THE EFFECT OF PUBLIC BORROWING INSTRUMENTS ON CAPITAL MARKET

The public tendency in using gathered sources is significantly impressive on the financial system. In case the government uses his borrowings in a way to finance new investments, then national and personal income will increase and welfare level will rise. But if sources are not invested on productive areas and source expenditures don't eventuate with production increase this only will induce consumption. If the existing economy is on a position that can't meet induced consumption, inflationist environment comes into existence. When sources gathered as debt are used in areas other than investment, new purchasing power will be generated by influencing volume of currency in the market (Hicks, 1989).

Buyers of public borrowing securities are private sector corporations. When these corporations buy government securities with sources that are to be used to make investments, there will be a decrease at their cash volume and ratio thus causing a contraction in their financial activities. The reason why these corporations prefer public securities as government bonds and treasury bills is because they get higher returns from public securities compared to return from investments and similarly from private sector securities. In case the selling of government securities to corporations other than the banking sector, quick assets of private sector are transferred to public. In this situation, cash requirement of private sector will place pressure on interest rates making these to increase.

Expansion of public sector in economy and especially entering to financial markets to meet financing shortfalls will cause a crowding out effect. This situation is a much debated question in finance literature (Komendi, 1985).

No matter government see borrowing as an interfering instrument to financial system or as an instrument that meet public financing shortfalls, borrowing influences financial markets and market indicators (like prices and magnitude). These effects in an economic structure where sources and funds are scarce and limited will be more intense as a result of the contraction particularly in the fund opportunities of the private sector.

Public borrowing (especially internal borrowing) by getting in the fund markets to meet his financial needs makes him a rival of the private sector. In such case, crowding out effect shows itself clearly in internal borrowing. The indicators of crowding out are increases in interest rates and fund volumes of public sector compared to private sector as a result of public borrowing.

In a financial system where sources are scarce and limited, the most important indicator of crowding out is one sector's domination on the proportion and amount of existing funds. Under these conditions, government's demand for funds will move up interest rates where this will lead to crowding out as a result of the increases in costs.

III. CROWDING OUT IN THE USE OF CAPITAL MARKET SOURCES

The crowding out effect in literature is much debated within the framework of financial crowding out. Crowding out comes into scene as a result of the possession of surplus funds of households by the government. Public borrowing increases current transfer expenditures of public for interest and principal payments. This provokes the borrowing necessity by the government and

consequently results in growing financial crowding out. In the case of public shortfall, an economic situation requiring external funds is generated.

Expansion of public sector in economy, and especially the financing volume and the pattern of financing to meet financing shortfall, influence private sector units in many ways. But today it seems to be quite clear that the main factor generating financial crowding out effect is direct public borrowing from finance sector .Such borrowing is the use of household surpluses by public through its financial instruments in order to meet his shortfalls. Surpluses could be assumed as a fund pool where a greater portion is used by the public, and remaining few by the private sector.

Public may enter financial markets directly by his own financial instruments as well as using financial intermediaries like banks selling these instruments to finance shortfalls. Generally such operations are conducted through instruments such as government bonds and treasury bills.

IV. CONCLUSION

At the present system, even in unnecessary cases the government is entering the capital markets with investment instruments such as bonds and obligations resulting in a train effect provoking heavy competition and interest rates. Rising interest rates is assumed as an important indicator for financial crowding out.

Rising interest rates leads to a decline in private sector expenditures sensitive to interest rates. Magnitude of crowding out effect in capital markets depends on the size of funds in market and volume of funds being absorbed from the government. Public financing from capital markets causes at least some private sector funds lend to government sector via capital market to be transferred to real economy (namely production). Real sector transfers funds tied to his assets to government sector for preferring to invest on government securities instead of involving with investment, production and employment. Government sector allocates these sources to interest and principal payments beyond current and transfer expenditures. This situation brings on some negative consequences like the vicious circle of debt-interest-debt-more interest, lack of production and employment, unemployment, black economy, low per capita income and GDP and etc. for developing countries.

As long as government borrows from financial markets, it will absorb the private sector funds which have to be used for development. This means a continuing crowding out effect for the private sector. In such markets the banks are the hugest buyers of government securities. Banks prefer to invest in government securities with high interest and no risk, instead of crediting private sector. Rising interest rates by government to absorb funds and limit banks' profit maximization will bring full crowding-out effect for the private sector. Rising public sector deficit have made pressure on not enough dept capital market and caused rising interest. Rising interests have redoubled public borrowing initiative, rising initiative have redoubled rising interest and finally turning to be a vicious circle of more interest-more debt. Accordingly, by such reasons funds of the capital market is misused and the deepness of the capital market is baffled.

A decrease in interest rates and little public borrowing from internal markets is a step leading to significant positive changes in debt burden, capital market operations and banking concept. A decrease in government securities included in bank portfolios means savings to move in to real economy. When sources moving to real sector turn into investments, employment, production and

real sector profits will tend to increase. Increased profits additionally increase the taxes (as the real public revenues), consequently leading to a fall in borrowings as a result of the increased tax revenues. Decreased borrowings cause a fall in interest costs creating funds transferred to development.

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AN EMPIRICAL STUDY OF THE RELATIONSHIP BETWEEN PERFORMANCE EVALUATION AND R&D EXPENDITURES

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ABSTRACT

This study extends prior research on relative performance evaluation (RPE) in executive compensation schemes by including a variable for management project choice as posited by Dye (1992). Dye predicts that firms with a large number of project choices and firms with relatively few project choices will use RPE more frequently than other firms will. Magnitude of firm's R&D expenditures is used as a proxy measure of the number project choices. The results in this study are generally consistent with predictions based on the Dye model. Measures of company stock return to industry or market-wide measures provide evidence of RPE filtering for those companies with relatively few project choices, measured by small R&D expenditures, as well as those with a relatively large number of project choices, measured by large R&D expenditures. For companies with moderate levels of project choices, the industry measures and the market measures of RPE using stock returns are relatively less significant than the other two groups. The results using accounting based measures are inconsistent with the implications of RPE theory and companies do not appear to filter out industry or economy wide shocks when evaluating firm performance.

INTRODUCTION

Agency theory predicts that CEO compensation is determined taking into consideration not only company performance but also the performance of the company relative to the performance of other companies in the same industry and other companies in general (Lazear & Rosen, 1981; Holmstrom 1979, 1982). The underlying premise for this prediction is that company performance is affected by common shocks experienced by all companies in an industry or in the macro-economy; hence, exclusion of common shocks from performance measures provides a better measure for the evaluation of CEO performance. If so, the efficiency of CEO contracts can be improved by filtering out industry and macro-economic effects.

Empirical tests of the existence of relative performance evaluation (RPE) in executive compensation contracts have added performance outputs of other firms in the industry and economy-wide effects as explanatory variables. However, these studies provide inconclusive results. For example, Antle and Smith (1986) and Janakiraman, Lambert, and Larcker (1992) found limited

evidence that managerial compensation is adjusted for industry effects. Gibbons and Murphy (1990) found some adjustment in CEO compensation for industry performance, and much more adjustment for changes in market-wide rates of return. Conyon and Gregg (1994) observed no relationship between CEO compensation and industry returns. Studies supporting the implicit use of RPE include Murphy (1985), Antle and Smith (1986), Gibbons and Murphy (1990), Janakiraman, Lambert, and Larcker (1992), Conyon and Gregg (1994), and Bannister and Newman (2003). Studies rejecting the implicit use of RPE include Barro and Barro (1990), Jensen and Murphy (1990), Garen (1994), and Aggarwal and Samwick (1999a and 1999b).

Dye (1992) developed an analytical model of RPE which suggests that prior research failed to document RPE filtering of industry effects because they did not take into consideration the potential impact of investment opportunity choice. According to Dye, the number of project choices the CEO has to choose from when making investment decisions has implications for the relative advantages of using RPE versus absolute performance evaluation. The Dye analytical results imply that when project choice is either eliminated or sufficiently large, the problem of moral hazard found in the principal-agent relationship is minimized. This study extends prior empirical studies of CEO compensation and RPE by considering this project choice variable. Specifically, we test for the presence of RPE in the compensation contracts of CEOs when firms have been partitioned based on the project choice available to the CEOs.

RESEARCH METHODOLOGY

This research is designed to investigate empirically whether CEOs are compensated as if their performance is evaluated relative to the performance of competitors. In this study, the test for the presence of RPE is refined by partitioning firms based upon project choice available, measured by magnitude of firm's R&D expenditures, to the CEO.

RPE theory predicts that CEO compensation will vary directly with firm performance, after filtering out industry and macro-economic shocks. CEO compensation typically comprises a portfolio of incentive vehicles, including a bonus plan, executive stock options, as well as other long-term performance incentives. Consistent with previous studies (e.g., Baber, Janakiraman, & Kang, 1996; Antle & Smith, 1986), we examine the CEO's total compensation package. Our dependent variable is the change in log value of total annual compensation, which includes salary, bonus, other annual compensation, total value of restricted stock granted, total value of stock options granted, and long-term payouts.

The companies selected for study were included in Standard & Poor's ExecuComp database. Executive compensation for the period of 1996–2004 was collected for firms meeting sample selection criteria. The sample contains 2,738 observations across 212 4-digit SIC codes and 50 2-digit SIC codes.

According to Dye (1992), companies with relatively few or a significant number of project choices are more likely to use RPE to compensate their CEOs. Following prior research (Barron and Waddell, 2003), Research and Development expenditures deflated by the book value of total assets serves as a proxy for the number of project choices available to a CEO. The definition of research and development expenditure by the Statement of Financial Accounting Standard (SFAS) No. 2

suggests that the magnitude of R&D expenditures may serve as an indicator for executives' new product development activities.

The research question addressed in this study is whether the use of RPE in compensation schemes for CEOs will vary nonmonotonically with the magnitude of R&D expenditures. According to Dye (1992), RPE is more effective in reducing the moral hazard of contracting when the number of choices available to the agent (CEO) is very limited or sufficiently extensive. Therefore, we hypothesize that firms with relatively small or substantially sizable magnitude of R&D expenditures will observe the use of RPE more frequently. Conversely, firms with a moderate magnitude of R&D expenditures will employ RPE less frequently. Specifically, the following hypotheses are tested in this study:

Hypothesis 1. Firms with a small magnitude of R&D expenditures will make more frequent use of RPE than firms with a moderate magnitude of R&D expenditures will.
Hypothesis 2. Firms with a big magnitude of R&D expenditures will make more frequent use of RPE than firms with a moderate magnitude of R&D expenditures will.

According to RPE theory, CEO compensation should reflect the absolute performance measure for the company and an adjustment for industry and/or macro-economic shocks. Absolute performance measures may be based on book values or market values. We utilize two performance measures: return on assets (ROA), and the market return to common stockholders (RET). Both measures were tested in prior research.

ROA and RET were collected for each company in the sample and for all companies for which Compustat reports these returns. Compustat calculates RET and ROA as follows:

$$RET_{it} = 100 \times (((price_{it} + dividends_{it} + cash\ equivalents_{it})/price_{it-1}) - 1)$$
$$ROA_{it} = 100 \times ((Income\ before\ extraordinary\ items_{it})/average\ assets_{it})$$

For this study, the industry return utilized for a given sample company for a given test year is calculated using a weighted average that weights companies' returns that are similar to the sample firm more heavily. We calculate weights utilizing company betas. The weight, w_{it}, assigned to firm *i* in the construction of the industry ROA for all companies in the same two-digit industry SIC code as sample firm s is given as:

$$w_{it} = 1 - |\beta_{st} - \beta_{it}| / \Sigma\beta_{jt}$$

where β_{st} = the beta for sample firm s for year t
β_{it} = the beta for non-sample firm i for year t
j indicates all firms in the industry except for the sample firm

An industry ROA is then constructed for each sample firm as follows:

$$ROA_{It} = \sum w_{jt} \times ROA_{jt}$$

Similarly, an industry market return, RET, is also calculated for each sample firm as:

$$RET_{It} = \sum w_{jt} \times RET_{jt}$$

To provide additional testing, the above calculations were repeated for each sample company using four-digit SIC codes.

If the absolute performance measure is greater relative to the industry or macro-economic performance measure, the CEO would be perceived as performing well relative to others in the industry or the economy as a whole. Alternatively, poor performance relative to others would indicate that the CEO's relative performance is low. We measure relative performance as the ratio of absolute performance to the industry/macro-economic benchmark minus one. That is, the measurement for a sample company's RPE measure for ROA relative to that of the industry for year *t*, $IROARPE_{st}$, and for the company's RPE measure for RET relative to the industry market return, $IRETRPE_{st,}$ are calculated as follows:

$$IROARPE_{st} = ROA_{st} / ROA_{It} - 1 \quad and \quad IRETRPE_{st} = RET_{st} / RET_{It} - 1$$

Good relative performance would be positive. Poor relative performance would be negative. Hence, there should be a positive correlation between CEO compensation and the RPE measure utilized.

We calculate similar RPE measures for company performance relative to the macro-economic ROA, $MROARPE_{st}$, and to the macro-economic RET, $MROARPE_{st}$ as follows:

$$MROARPE_{st} = ROA_{st} / ROA_{It} - 1 \quad and \quad MRETRPE_{st} = RET_{st} / RET_{It} - 1$$

If CEO compensation reflects RPE, the percentage change in compensation from one year to the next should be positively correlated with company performance relative to industry and/market-wide performance. We estimate the following regression equations for our total sample of firms and for sub-samples based on the number of product lines.

$$Log\ (\Delta COMP_{st}) = \alpha_s + \gamma_s IROARPE_{st} + \phi_s IRETRPE_{st} + \lambda_s YearDummy + \varepsilon_{st}$$
$$Log\ (\Delta COMP_{st}) = \alpha_s + \gamma_s MROARPE_{st} + \phi_s MRETRPE_{st} + \lambda_s YearDummy + \varepsilon_{st}$$

RESULTS

Table 1 reports the regression results for the RPE sample partitioned by the level of R&D expenditures. For companies with all three levels of R&D expenditures in Panel A, the coefficients for the industry accounting RPE measure using 4-digit SIC codes are insignificant, while the market return-based relative performance measures are positively correlated with CEO compensation. As hypothesized, the coefficient (0.06006) of IRETRPE4 for the companies with moderate level of R&D expenditures is less than the coefficient (0.07543) for the companies with lowest level of and the coefficient (0.10516) for the companies with highest level of R&D expenditures. As in Panel B and C, results for the regression for the RPE measures using either 2-digit codes or market index are similar to the results in Panel A. Regression coefficients of IRETRPE4 for the companies with

moderate level of R&D expenditures are markedly different from the coefficients for firms with lowest or highest level of R&D expenditures.

TABLE 1
Regression Coefficients for Partitioned RPE Sub-Samples using both Market-Based RPE Measures and Accounting-Based RPE Measures

(Dependent Variable=Change in the log value of CEOs' Total Compensation)

(Panel A) RPE Measures based on 4-digit SIC Codes

Parameters	**R&D Expenditures**		
	Lowest	**Moderate**	**Highest**
Intercept	-0.07001	0.18271	-0.07368
IROARPE4	-0.00000	0.00001	0.00001
t-value	-0.15	1.16	1.27
IRETRPE4	0.07543	0.06006	0.10516
t-value	4.37	3.46	4.36
Adj. R^2	0.0394	0.0461	0.0666
No. of obs.	547	548	547

(Panel B) RPE Measures based on 2-digit SIC Codes

Parameters	**R&D Expenditures**		
	Lowest	**Moderate**	**Highest**
Intercept	-0.12158	0.18665	-0.04633
IROARPE2	-0.00000	-0.00000	0.00000
t-value	-0.14	-0.73	0.19
IRETRPE2	0.28988	0.22874	0.32881
t-value	7.85	5.51	7.50
Adj. R^2	0.1079	0.0763	0.1227
No. of obs.	547	548	547

(Panel C) RPE Measures based on Market Index

Parameters	**R&D Expenditures**		
	Lowest	**Moderate**	**Highest**
Intercept	-0.06448	0.18649	0.23325
MROARPE	0.00013	0.00006	-0.00079
t-value	0.27	0.16	-2.14
MRETRPE	0.43677	0.29256	0.33471
t-value	9.50	6.34	7.49
Adj. R^2	0.1492	0.0906	0.1289
No. of obs.	547	548	547

These regression results are consistent with RPE theory and provide support our hypotheses based on the Dye (1992) model. Companies with relatively few project choices, measured by the bare minimum amount of R&D expenditures, filter out the effects of industry or economy-wide shocks better when compensating CEOs than companies with moderate project choices do. Companies with limited project choices, measured by moderate spending of R&D expenditures, relatively less react to either industry or economy-wide measures of performance when evaluating executive performance compared to companies with relatively many project selections available.

CONCLUSIONS

This study is important because empirical findings that support the predictions of the Dye (1992) analytical model suggest that the costs of implementing and maintaining the RPE-based compensation scheme are not warranted in some cases but are cost-efficient in others. Moreover, significant findings consistent with the predictions of Dye's model help explain the weak and inconsistent findings of prior empirical studies that omitted the number of investment choices as an explanatory variable.

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