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National influence on the application of IFRS: Interpretations and accounting estimates by German and British accountants

Martin Wehrfritz, Axel Haller *

University of Regensburg, Universitaetsstrasse 31, 93053 Regensburg, Germany

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ABSTRACT

International comparability of financial statements under IFRS can only be achieved if standards are interpreted and applied consistently across countries. However, the different institutional and cultural environments of various countries in which companies operate and in which individuals make accounting decisions suggest that application of IFRS may differ. Building on previous studies that found evidence for this in the area of explicit options under IFRS, we examine the use of discretion in interpretations and accounting estimates by surveying German and British accountants, asking them to account for identical cases under IFRS. The results of this test provide only some evidence for international differences in accountants' judgments. This suggests that the national environment might be less relevant in those fields of room for maneuver in the application of IFRS. However, we find considerable variability of responses within jurisdictions and therefore further conclude that differences in personal characteristics might be more important than cultural factors.

1. Introduction

The adoption of IFRS in the European Union in 2005 following Regulation No. 1606/2002 (European Parliament & Council, 2002), the so-called IAS-Regulation, aimed to increase the comparability of publicly traded companies' consolidated accounts. However, IFRS provide financial statement preparers with flexibility in the application of the standards due to explicit options, discretion in interpretation and the need for estimates that is inherent in financial reporting. Hence, the application of IFRS may vary from one firm to another or from one country to another. This raises the question of whether IFRS are applied consistently, i.e. whether the de jure standardization of accounting rules of group accounts of publicly-traded companies in the EU has also led to de facto harmony. Amongst others, Nobes (2006) suggests that country-specific factors identified in the past may still be relevant for IFRS consolidated reporting. More specifically, the legal system, the national financing system, the national accounting regime and the national culture may have an influence on accountants and may result in different judgments being made even though the same set of rules is applied.

This paper addresses this question by testing via a survey whether German and British accountants, confronted with identical accounting cases, make interpretations and accounting estimates differently from each other under IFRS.[1] Our findings suggest the existence of only some international differences in the use of discretion under IFRS. For one out of three cases tested, we find significant evidence that German accountants are more conservative in their judgments than their British counterparts. For the remaining two cases, accountants' judgments from Germany and the UK do not exhibit significant differences. This is mainly in contrast to prior studies that examined the use of explicit options as another type of flexibility under IFRS and that found clear differences between different countries, especially between Germany and the UK (Haller & Wehrfritz, 2013; Kvaal & Nobes, 2010; Kvaal & Nobes, 2012). We therefore conclude that national accounting traditions seem to be less relevant in the case of interpretations and accounting estimates in contrast to the choice of explicit options that seem to be still influenced by the national practices.

The data further show that there is a considerable variability in the responses within jurisdictions which strengthens the perception that common cultural influences might have lost a considerable degree of significance, that was (partly) detected in the past (Doupnik & Riccio, 2006; Doupnik & Richter, 2003; Doupnik & Richter, 2004; Schultz & Lopez, 2001; Tsakumis, 2007), whereas other personal characteristics might be more important to explain individuals' judgments in accounting.

Our paper contributes to findings of prior studies by providing the first comparative results for Germany and the UK in the field of surveying professional judgments under IFRS. Furthermore, we deliver the first survey results of accountants' judgments under IFRS in countries where the application of IFRS has been required for a multi-year period. Moreover, instead of focusing only on culture as do most of the prior studies on interpretations or accounting estimates under IFRS

* Corresponding author. Tel.: +49 941 9432692; fax: +49 941 9434497.
E-mail addresses: martin.wehrfritz@gmx.de (M. Wehrfritz), axel.haller@wiwi.uni-regensburg.de (A. Haller).

[1] This paper is based on Wehrfritz (2012)

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(Doupnik & Riccio, 2006; Doupnik & Richter, 2003; Doupnik & Richter, 2004; Tsakumis, 2007), our research design focuses on the whole national environment of accountants which may include other institutional factors (such as national accounting rules and practices or the national financial system). Finally, we provide evidence for the question whether judgments are influenced by certain personal and professional characteristics of accountants like the main area of specialization, professional experience or IFRS knowledge.

2. Background

2.1. Differences in national accounting systems

In the past, numerous and manifold environmental factors that might have an influence on accounting have been proposed, ranging from the national financing system, the legal system, taxation, and culture to one-time events such as inflation or economic recessions (Gray, 1988; Roberts, Weetman, & Gordon, 2008; Saudagaran, 2004). In order to facilitate the comparison of accounting systems established in different countries, classifications were developed by putting accounting systems with similar characteristics of rules or practices into groups (e.g. AAA, 1977; Nair & Frank, 1980; Nobes, 1998). In the most general way, a distinction can be made between the Continental-European type of accounting system, which can be found in such countries like Germany, France, and Italy, and the Anglo-Saxon type of accounting system, appearing for example in countries like the UK, USA, and Australia (Nobes, 1998). Whereas the first group typically exhibits predominantly corporate credit-based financing, a close connection between financial and tax accounting, codified accounting rules and a high degree of uncertainty avoidance as a societal value, the second group is distinguished by the major importance of capital market financing with companies, separation of financial and tax accounting, accounting rules developed by private standard setting bodies and a low degree of uncertainty avoidance (Flower, 2002; Roberts et al., 2008). Germany and the UK were selected for the empirical study of this paper as they are EU-member states that are regarded as typical representatives of the two classes and allow the development of clear hypotheses as a basis for our study.

When analyzing the scope of harmonization of accounting systems, it is important to distinguish between accounting rules (de jure harmonization) and the application of those rules, i.e. accounting practice (de facto harmonization) (Nobes & Parker, 2010; Roberts et al., 2008; van der Tas, 1992). The latter includes questions such as the predominant exercise of explicit options, how rules are interpreted and how estimates are made. Before the dispersion of international standards, research (e.g. Price Waterhouse, 1973; Simmonds & Azières, 1989) has identified large cross-country differences in national accounting rules and their applications.

2.2. Reasons for survival of country-specific differences in application of IFRS in consolidated accounts

Why should country-specific factors influence the application of IFRS in consolidated accounts? Several reasons may explain why this might occur.

First, parts of the national accounting regime may continue to have an influence even in the context of the preparation of consolidated statements under IFRS. On the one hand, accounting results under national GAAP may flow through to the IFRS consolidated accounts for the following reasons. The consolidated accounts are not based on a self-contained bookkeeping system but are derived from the individual accounts of the companies that are included in a group (Küting, 2010; Pelka, 1994). If these separate financial statements still have to be compiled (as in Germany for distribution and tax purposes) or are still prepared by choice (as possible in the UK) under national accounting rules (German GAAP and UK GAAP respectively), accounting results based on those national standards may well be retained in the consolidated accounts as long as they comply with IFRS.[2] The main reason for this behavior is the avoidance of "accounting costs" that would be incurred by additional data collection and preparation (Gee, Haller, & Nobes, 2010; Kvaal & Nobes, 2010). Another reason for retaining accounting outcomes under national GAAP in IFRS consolidated reporting could be to reduce differences between group and tax accounts as long as measurement issues (and not simply presentation issues) are concerned that could affect pre-tax profit (Gee et al., 2010; Rammert, 2009). This behavior may be motivated by the aim of avoiding difficulties in explaining to tax officials that identical transactions were treated differently in both sets of accounts (Gee et al., 2010). Another reason for the congruence of individual and group accounts may be that different practices between both sets of accounts could hardly be justified because both are subject to the requirement to give a true and fair view (fair presentation) of the company's affairs.[3] On the other hand, national GAAP requirements or common practices may drive the application of IFRS because of inertia, because of the aim to minimize changes in financial reporting for personnel or external stakeholders when switching from one set of accounting rules to another or in order to ensure accounting consistency over time (Nobes, 2006). This means that national accounting traditions, i.e. predominant accounting choices or patterns in the use of discretion, under national GAAP in the concerned country, may be kept under IFRS consolidated reporting even if a company has switched to IFRS in its individual accounts as well.[4]

Secondly, accountants' application of IFRS may be affected directly by cultural factors. According to Hofstede (1980), culture can be defined as the collective programming of the mind which distinguishes the members of one human group from another. Connecting culture to accounting, Gray (1988) identifies four accounting values (professionalism, uniformity, conservatism and secrecy), that can be linked to Hofstede's societal values (individualism, power distance, uncertainty avoidance, masculinity) and that shape a country's financial reporting system. Prior literature suggests that Gray's theoretical framework may also be applicable to accountants' decisions at an individual level (Doupnik & Tsakumis, 2004). This means that the way accountants apply IFRS (in consolidated accounts) may be determined by the accounting values and therefore by the societal values of their environment. Although in the past, other work was done in order to capture dimensions of culture, we build our study on the cultural dimensions of Hofstede since the model on interrelations between accounting systems and the national culture developed by Gray (1988) that was predominantly used in international accounting research and which we also use in this paper, connects its values to the dimensions of Hofstede.

Thirdly, other institutional factors may influence the application of IFRS directly. Out of the three main institutional factors, the legal system, the financing system and the tax system, identified in the past (e.g. Pellens, Fülbier, Gassen, & Sellhorn, 2011; Roberts et al., 2008) as having an influence on a national accounting system, the financing system seems to be the only relevant factor to remain influential in the context of the application of IFRS in consolidated accounts. Although

[2] Haller and Wehrfritz (2013) find that in 2005 (2009), 73.16% (68.75%) of the separate parent company accounts of the groups included in their samples in the UK were still compiled according to UK GAAP and not as allowed under IFRS.

[3] In the course of mandatory IFRS adoption in consolidated accounts, companies may have changed their bookkeeping systems to IFRS, in particular those with a lot of foreign subsidiaries that possibly also compile their accounts under IFRS. However, if the individual accounts have to be or are still voluntarily prepared under national accounting rules, the above mentioned motives are still relevant since companies may anticipate adjustments to arrive at the national accounts and therefore pursue IFRS accounting policies that comply with national GAAP or that are most common or most favorable under national GAAP.

[4] Further, literature suggests that the enforcement system may impact on IFRS consolidated reporting (Nobes, 2006). Also, IFRS practice in the consolidated accounts, in turn, may influence accounting decisions in individual accounts under national GAAP. However, these two possible mechanisms represent other fields of study that are not pursued in the following.

there is some evidence that the legal system of a country has an impact on accounting practice, e.g. on the level of disclosures (Jaggi & Low, 2000), it is widely believed that the only direct influence of the nature of a nation's legal system exists on the type of regulation (codified accounting rules vs. accounting standards) and not on the content of accounting rules, let alone their application (Nobes & Parker, 2010; Roberts et al., 2008). Furthermore, the taxation system does not seem to have a direct impact on IFRS consolidated reporting, since, generally, tax is levied on individual companies rather than on groups of companies (Flower, 2002; Nobes & Parker, 2010; Roberts et al., 2008). As mentioned above, there might be some scope for tax influence driven by the objective of the congruence of individual and group accounts, however, this influence is rather an indirect influence. A direct influence is more likely to occur through a country's financing system. In the past, a two-group classification of countries, one with an outsider-based or arm's-length financial system and the other with a relationship-based or insider-based system has been proposed (Nobes, 1998). Because of different pressures from capital markets for information and different possibilities of obtaining essential information directly from the company, the level of disclosures in equity-outsider countries has been typically higher than that of credit-insider countries (Flower, 2002; Nobes, 1998; Roberts et al., 2008). Since the surrounding conditions of the financing systems have remained generally unchanged in the past, the ownership structure may continue to influence accountants' decisions even in consolidated reporting under IFRS.

2.3. Prior research

Prior to the emergence of globally dispersed standards, a lot of research was dedicated to differences in national accounting rules and practice from one jurisdiction to another. Simmonds and Azières (1989), Walton (1992) and Schultz and Lopez (2001) find diverse accounting traditions and practices based on national accounting rules across countries. Walton (1992) additionally finds that rules within jurisdictions were not applied uniformly either.

The hypothesis that country-specific factors identified in the past may still be relevant for IFRS consolidated reporting and that opportunities for the survival of international differences under IFRS exist has been suggested by Ball (2006), Nobes (2006) and Zeff (2007). An update of research on the continued survival of international differences under IFRS was given by Nobes (2013). Since the dispersion of IFRS, numerous studies have been conducted on the cross-country comparability of the application of IFRS. Measures of comparability are either input- or output-oriented (De Franco, Kothari, & Verdi, 2011). Input-based studies which examine accounting methods used have shown, as mentioned above, that international differences remain under IFRS since firms tend to continue with a policy that is required by national rules or predominantly chosen under national GAAP (Haller & Wehrfritz, 2013; Kvaal & Nobes, 2010, 2012; Nobes, 2011). Output-based methods on the one hand focus on actual financial statement data, like earnings or balance sheet items. In a descriptive study, von Keitz (2007) analyzes recognition, measurement and disclosure of intangible assets across five countries and finds some indications for international differences. Jödicke (2009) finds support that, under IFRS, the average rate of releasing provisions by companies from France, Germany and the UK depends on national culture. In contrast, Reisloh (2011) finds almost no influence of culture on IFRS measurement practice across a sample of companies from France, Germany and the UK and only limited evidence that the quantity of disclosures under IFRS depends on cultural values. On the other hand, output-based methods gather judgments of accountants by the means of a survey. Of the latter type, past surveys of professional accountants' judgments particularly focused on the influence of culture on the interpretation of verbal probability expressions contained in IFRS (Doupnik & Riccio, 2006; Doupnik & Richter, 2003; Doupnik & Richter, 2004). All three studies find international differences in the interpretation of IFRS, particularly confirming a predicted influence of conservatism and secrecy in most cases. Unlike these studies that only compare quantitative amounts for probability expressions, Tsakumis (2007) investigates the application of the accounting rules by asking individuals from the US and Greece to account for hypothetical cases. However, in line with the other studies cited, this one focuses on culture and controls for other factors such as the tax system. The results show support for the influence of secrecy on accounting decisions under IFRS, however not for conservatism. In a concurrent working paper, Heidhues, Patel, Haller, and Scagnelli (2011) investigate the influence of culture on materiality judgments and find, amongst others, a more conservative behavior of German accountants compared to their Italian counterparts.

Our study contributes to prior research of professional accountants' judgments under IFRS by delivering first comparative results for the two countries Germany and the UK by means of a survey. Furthermore, it constitutes the first survey of accountants' judgments under IFRS in countries where IFRS have been required for a multi-year period. Moreover, in contrast to most prior studies that focused on culture as the influencing factor on interpretations or accounting decisions, we use a more holistic approach by not excluding other possible influencing factors. This means that we do not try to keep other factors like the national accounting rules, the tax system etc., i.e. the institutional environment constant but try to construct an imitation of the application of IFRS under all relevant country-specific conditions. Finally, controlling for certain personal and professional characteristics of survey participants (like e.g. the main area of specialization of the participant, the participant's professional experience and the participant's IFRS knowledge) enables us to answer the question whether judgments are influenced by these factors.

3. Hypotheses development

There are several sources of opportunity for national versions of IFRS practice (Nobes, 2006):

1. different versions of IFRS due to different endorsements,
2. different translations of IFRS,
3. gaps in IFRS,
4. explicit options in IFRS,
5. covert options, vague criteria and interpretations in IFRS,
6. estimations in IFRS,
7. transitional or first-time adoption issues, and
8. imperfect enforcement of IFRS.

Whilst (1) and (7) concern disruptions in standard setting, (2) is due to inevitable barriers in communicating meaning between languages and (8) pertains to possible differences due to non-compliance, aspects (3) to (6) constitute the core possibilities for companies discretion when applying IFRS. As regards the use of explicit options, prior research has shown that companies tend to continue with a policy that is required by national rules or predominantly chosen under national GAAP (Haller & Wehrfritz, 2013; Kvaal & Nobes, 2010, 2012; Nobes, 2011). Taking into account that national accounting regimes of various countries differ remarkably in accounting rules and practices, this means that international differences in accounting practice are likely to continue under IFRS. However, given that flexibility in IFRS lies even more in discretions in interpretations and estimates, we aim to test whether differences of accountants' judgments can also be observed in these areas of room for maneuver under IFRS. Amongst the IFRS-rules that need to be interpreted or that imply the use of estimates, we investigate the use of IAS 37, more specifically accounting for provisions and contingent assets, since these rules require considerable judgment in their application not the least because of the uncertain character of the respective items (Pellens et al., 2011; Rammert, 2009; Wagenhofer, 2009). For Germany and UK (the countries we have chosen to study) the following accounting specific environmental

factors in each country may drive the nature of the use of discretion in accounting for provisions and contingent assets.

First, there is a clear distinction between the two countries concerning the dominant maxim in their national accounting systems. Whereas in Germany, the principle of prudence (Art. 252, para. 1, s. 4 German Commercial Code) has an outstanding role, not least because of the importance of bank financing of companies (and therefore creditors' protection; Working Group on External Financial Reporting of the Schmalenbach-Gesellschaft für Betriebswirtschaft (1995)), the concept of a "true and fair view" is overwhelming in the UK. Although IFRS are applied, accountants may still be influenced by these principles that would result in more conservative interpretations and estimates by German accountants compared to the British, e.g. in the field of accounting for provisions and contingent assets. Second, the respective national accounting rules may still be influential either directly or indirectly as explained previously, even if IFRS are applied. Whereas under UK GAAP the relevant Standard, FRS 12, is almost identical to IAS 37, German GAAP require the recognition of provisions at a lower probability (Mayer-Wegelin, 1995; Pellens et al., 2011) and by trend a higher measurement of provisions compared to IFRS (Kozikowski & Schubert, 2010; Pellens et al., 2011). Third, whilst in Germany there has been a long tradition of a connection between financial and tax accounting through the so-called "principle of congruency" ("*Maßgeblichkeitsprinzip*"; Haller, 1992; Haller & Ferstl, 2012), tax accounts in the UK are independent from financial accounts and are therefore said to be mostly free from tax influences (Roberts et al., 2008). Although, the calculation of income tax is not connected to (IFRS) consolidated accounts, an indirect mechanism of congruence between both sets of accounts identified previously may result in tax-reducing judgments made especially by German accountants flowing through to IFRS consolidated reporting, thereby strengthening their conservative behavior. Fourth, Germany and the UK exhibit differences in societal values, most importantly in the degree of uncertainty avoidance (Hofstede, 1980). According to Hofstede, uncertainty avoidance is the degree to which the members of a society feel uncomfortable with uncertainty and thus support beliefs and behaviors that promise certainty. Whilst Germany's high ranking in this societal value suggests a high importance of conservatism and secrecy in its accounting system, it is the other way round in the UK, i.e. a low degree of uncertainty avoidance leads to a high degree of optimism and transparency instead of conservatism and secrecy (Gray, 1988). As mentioned above, these accounting values may influence accountants at an individual level and therefore may also be relevant in their judgments in the field of provisions and contingent assets. Fifth, the outsider-based financial system in the UK compared to an insider-based system in Germany, and as a consequence the higher degree of relevance of information given to the capital markets, may drive UK accountants more than accountants in Germany to disclose information, e.g. on the existence of contingent assets in the notes.

Building on these differences in accounting specific environmental factors between Germany and the UK, we predict that the use of discretion under IFRS (as commonly required standards for consolidated reporting) differs between individuals in these countries. Specifically, we propose the following hypotheses:

H1. Under IFRS, German accountants are more likely to recognize provisions than UK accountants.

H2. Under IFRS, German accountants recognize provisions on average at a relatively higher amount than UK accountants.

H3. Under IFRS, German accountants are less likely to disclose contingent assets in the notes than UK accountants.

It is important to note that our research design is not able to test the existence of each of the possible influences. Rather, the characteristics of these possible influences in the respective country lead to the direction of our hypotheses above, i.e. the suggested differences in the use of discretion between German and UK accountants.

4. Research design

4.1. Research methodology

The use of discretion through interpretations and accounting estimates can hardly be detected in publicly available material, such as in annual reports, because there is scarce disclosure of the underlying reasons for making such judgments (Detert & Sellhorn, 2007; Kvaal & Nobes, 2010). Therefore, to make a comparison of such judgments between countries, we conducted a survey that used identical accounting case studies for all participants (see Appendix A1). Specifically, we presented German and British accountants with three short hypothetical cases and asked them to evaluate those on the basis of the information given and in accordance with their understanding of IFRS. In a second section of the questionnaire we collected personal and professional data for a better analysis and control of the answers to the cases.

The three cases formed independent, stand-alone situations that required an accountant's decision. In each case a different company was involved, however, all three companies that were referred to should be assumed to be located in Germany or the UK respectively, publicly traded and obliged to prepare consolidated accounts according to IFRS. Participants were asked to assume that they were the finance director of the respective company and therefore responsible for the preparation of the company's financial statements. The questionnaire was designed to cover each one of the three accounting areas: recognition, measurement and disclosure. The scenarios included, as discussed above, accounting for provisions and for contingent assets because these fields are widely seen to imply extensive judgment (Pellens et al., 2011; Rammert, 2009; Wagenhofer, 2009). Specifically, litigation and warranty issues were included which represent typical problem areas in the field of contingencies in accounting practice and are often discussed as demonstrative examples in commentaries and literature (Ernst & Young, 2010; Pellens et al., 2011; Rammert, 2009; for comparable scenarios see Schultz and Lopez (2001), Tsakumis (2007) and Wagenhofer (2009)).

In the first case (the recognition case), the scenario concerned a company involved in litigation in which the company's law firm was not able to predict the outcome. Here, the crucial issue was, how participants interpreted and applied the IAS 37-term "probable" in making the accounting decision. As possible answers, a 6-point rating scale, ranging from "definitely not recognizing the item" to "definitely recognizing the item" instead of a yes/no-decision, was provided to allow for a more differentiated analysis of responses (Tsakumis, 2007). In the second case (the measurement case), a warranty case was given in which for a company future costs in the range of 250,000 EUR/GBP to 320,000 EUR/GBP were very probable. In addition, costs outside this range (700,000 EUR/GBP) were conceivable but less probable. Participants were first asked which amount they would recognize as a warranty expense in the IFRS consolidated accounts. Making an accounting estimate implied an interpretation of the IAS 37-term "the most likely outcome" and the application of the further requirement to consider "other possible outcomes", i.e. weighting of the costs that were outside the range. Additionally, follow-up questions were added in which participants had to indicate the minimum and maximum amount they would consider as just acceptable as warranty expense. In case three (the disclosure case), the scenario comprised a lawsuit in which it was questionable whether the company involved would be compensated or reach a settlement with the defendant. Participants were asked, again on a 6-point rating scale, whether they would tend to disclose a contingent asset or not. Again, this implied the interpretation and application of the IAS 37-term "probable", however, in this case with respect to the inflow of economic benefits.

Before each scenario, the cases included the relevant paragraphs from the standard in order to facilitate the response process and to call the participants' attention on the decisive parts of the IFRS. The questionnaire for German participants was written in German, apart from the IAS excerpts which were left in English, in order to avoid potential influences through the translated wording, and because the use of the original English-language version of IFRS is common in German practice. Moreover, as explained later, the majority of German participants were affiliated with a Big Four firm, in which English has become the professional language next to German. Therefore, the parts of the questionnaire that had to be interpreted were in the same language for both samples. The scenario facts of the cases were provided in the respective language (German and English) since we expected that the response rate in Germany would have been considerably affected by an English questionnaire. In order to minimize a possible translation effect, the questionnaire was checked in a double-back translation process. Furthermore, to make the cases more recognizable for participants of each country, the appropriate currency (EUR and GBP) was used. For reasons of simplicity the amounts were provided in exactly the same way (on the basis that 1 EUR = 1 GBP) to both German and British participants without the need for a conversion to a uniform currency for analysis purposes.

Before being administered, the questionnaire was pre-tested by three academics and five public auditors in Germany and by four academics, some of whom also had professional qualifications, and one public auditor in the UK.

4.2. Sample

The survey was conducted from September until November 2011. In Germany, professional accountants were approached via email with a request for completion of the questionnaire that was to be accessed online. Email addresses were hand-collected from the online directory of auditors of the Chamber of Certified Auditors ("*Wirtschaftsprüferkammer*" (WPK)).[5] We included all members in the sample that were not self-employed and for which the email address was available or could be generated. The reason for excluding self-employed auditors was that it was assumed that those were not or only to a limited extent dealing with IFRS topics due to their clients' structure. In the UK, since email addresses were not available, Chartered Accountants were contacted by physical letters that included a link to the online survey instrument. The mailing list was obtained from the Institute of Chartered Accountants in England and Wales (ICAEW) and included all members that were UK based, that indicated "statutory audit" as their main area of responsibility in the member file and that had generally given the ICAEW their approval to be contacted by third parties. All of these persons were included in the sample. The focus on auditors instead of preparers was necessary in order to get a sufficient sample size especially in Germany, since there is no directory or database that contains names and contact information of people working as accountants other than the member list of the WPK. Generally, all members of the WPK are "accountants in public practice" (auditors).[6] However, the UK sample also included individuals that indicated "statutory audit" as their main area of responsibility in the membership directory, however stated in the questionnaire that they were not working in public practice (see below).

Table 1 displays sample sizes, response rates.

Table 2 displays the characteristics of the respective samples in Germany and the UK.

[5] The WPK is a statutory body that represents the interests of the German accountancy profession and supervises its members. Every *Wirtschaftsprüfer* (certified auditor) who is accredited after having passed the professional examination has to become a member of the WPK.

[6] In Germany, members of the WPK that leave public practice generally lose membership and the title of a certified auditor ("*Wirtschaftsprüfer*") (Art. 16 Para. 1 No. 6 WPO; for exemptions see Art. 46 WPO).

Table 1
Response rates.

	Germany	UK
Sample size	4272	3437
Number of respondents:		
Age (years)	291	80
Professional experience (years)	297	81
Nationality	295	81
Nationality of German/British participants at birth	289	81
More than one year of education or employment abroad	297	81
Currently in public practice	298	81
Main area of specialization	295	59
Size of firm	298	51
IFRS knowledge	298	79
Total respondents	299	82
Total response rate	7.00%	2.39%

In total, 299 accountants from Germany and 82 accountants from the UK completed the questionnaire.[7] The high response rate in Germany (7%) compared to that of the UK (2.39%) can probably be traced back to the fact that clicking on a link in an email is a lower burden to answer than retyping a link from a hard-copy letter. Nevertheless, the final number of responses even in the UK is enough to conduct tests of statistical significance (Siegel, 2012). The sample structures are broadly consistent as regards several variables such as age, professional experience, time spent abroad and IFRS knowledge. A major difference in the samples consists in the fact that about half of the UK participants are not currently in public practice (although being a member of the ICAEW typically requires that one starts ones career as an auditor), whereas in Germany substantially all of them are.[8] Another difference amongst the subset of participants that are currently in public practice is the size of the firm they are working with. Whilst in Germany the majority of accountants are affiliated with a Big Four firm, UK respondents in public practice are more or less evenly distributed over different firm sizes (although some auditors do move in both directions during their careers). The effects of these differences and possible biases are discussed later in the section on correlation analysis.

To investigate whether non-response bias was an issue, we performed tests to examine differences between early and late respondents (Armstrong & Overton, 1977). The respective test results are as follows (Mann–Whitney *U*-test for cases 1 and 3, *t*-test for case 2): *RECOGNITION*: $z = -1.469$, $p = 0.142$ (Germany), $z = -1.713$, $p = 0.087$ (UK), *ESTIMATE*: $t = -0.973$, $p = 0.332$ (Germany), $t = 0.849$, $p = 0.399$ (UK), *MINAMOUNT*: $t = -0.967$, $p = 0.335$ (Germany), $t = 1.373$, $p = 0.173$ (UK), *MAXAMOUNT*: $t = -1.429$, $p = 0.154$ (Germany), $t = 0.322$, $p = 0.749$ (UK), *DISCLOSURE*: $z = -1.040$, $p = 0.298$ (Germany), $z = -0.453$, $p = 0.651$ (UK). These tests did not indicate any significant differences at the 5% level, therefore, we assume that the study is not affected by a significant non-response bias.

4.3. Regression models

In a first step, we perform univariate tests to compare the accounting decisions of German and British respondents. In a second step, we conduct a multivariate analysis to test the predictions in our hypothesis H_1, H_2, and H_3 by controlling for other personal and professional

[7] 21 questionnaires for Germany and 4 questionnaires for the UK were excluded because respondents were either not certified auditors (*Wirtschaftsprüfer*) or Chartered Accountants respectively or the participants simply clicked through the questionnaire without answering the questions.

[8] In general, every member of the WPK must be in public practice since one usually loses membership after leaving public practice. Due to some exemptions, e.g. in case of a temporary time-out in industry or commerce, there might have been members included in the sample that were not currently in public practice. However, since 298 out of 299 German participants indicated the size of their accountancy firm in the questionnaire, this means that substantially all of the respondents actually work in public practice.

Table 2
Profile of respondents.

	Germany	UK
Age (years)		
20–29	1.03%	18.75%
30–39	44.33%	30.00%
40–49	42.96%	15.00%
50–59	10.31%	27.50%
60+	1.37%	8.75%
Professional experience (years)		
1–5	2.69%	9.88%
6–10	30.30%	23.46%
11–15	30.30%	14.81%
16–20	19.53%	6.17%
21+	17.17%	45.68%
Nationality		
German	97.97%	0.00%
British	0.00%	100.00%
Other	2.03%	0.00%
Nationality of German/British participants at birth		
German	98.62%	–
British	–	98.77%
Other	1.38%	1.23%
More than one year of education or employment abroad		
No	68.01%	79.01%
Yes	31.99%	19.75%
Currently in public practice		
Yes	100.00%	56.79%
No	0.00%	43.21%
Main area of specialization		
Audit	82.71%	74.58%
Tax	2.37%	3.39%
Advisory	12.54%	8.47%
Other	2.37%	13.56%
Size of firm		
1–10 Chart. Acc./WPs	7.38%	27.45%
10–100 Chart. Acc./WPs	9.06%	31.37%
>100 Chart. Acc./WPs, but not Big Four	12.08%	27.45%
Big Four	71.48%	13.73%
IFRS knowledge		
None	0.00%	0.00%
Little	5.70%	10.13%
Moderate	32.89%	49.37%
Good	50.34%	35.44%
Very Good	11.07%	5.06%

characteristics of the respondents using the following regression models for the hypotheses indicated:

$$H_1: RECOGNITION = \beta_0 + \beta_1 COUNTRY + \beta_2 PUBLPRACT + \sum_{j=1}^{3}\beta_{3j} FIRMSIZE_j + \sum_{j=1}^{3}\beta_{4j} SPECIALIZATION_j + \sum_{j=1}^{4}\beta_{5j} WORKEXP_j + \sum_{j=1}^{3}\beta_{6j} IFRSKNOWL_j + \varepsilon \quad (1)$$

$$H_2: ESTIMATE = \beta_0 + \beta_1 COUNTRY + \beta_2 PUBLPRACT + \sum_{j=1}^{3}\beta_{3j} FIRMSIZE_j + \sum_{j=1}^{3}\beta_{4j} SPECIALIZATION_j + \sum_{j=1}^{4}\beta_{5j} WORKEXP_j + \sum_{j=1}^{3}\beta_{6j} IFRSKNOWL_j + \varepsilon \quad (2)$$

$$MINAMOUNT = \beta_0 + \beta_1 COUNTRY + \beta_2 PUBLPRACT + \sum_{j=1}^{3}\beta_{3j} FIRMSIZE_j + \sum_{j=1}^{3}\beta_{4j} SPECIALIZATION_j + \sum_{j=1}^{4}\beta_{5j} WORKEXP_j + \sum_{j=1}^{3}\beta_{6j} IFRSKNOWL_j + \varepsilon \quad (3)$$

$$MAXAMOUNT = \beta_0 + \beta_1 COUNTRY + \beta_2 PUBLPRACT + \sum_{j=1}^{3}\beta_{3j} FIRMSIZE_j + \sum_{j=1}^{3}\beta_{4j} SPECIALIZATION_j + \sum_{j=1}^{4}\beta_{5j} WORKEXP_j + \sum_{j=1}^{3}\beta_{6j} IFRSKNOWL_j + \varepsilon \quad (4)$$

$$H_3: DISCLOSURE = \beta_0 + \beta_1 COUNTRY + \beta_2 PUBLPRACT + \sum_{j=1}^{3}\beta_{3j} FIRMSIZE_j + \sum_{j=1}^{3}\beta_{4j} SPECIALIZATION_j + \sum_{j=1}^{4}\beta_{5j} WORKEXP_j + \sum_{j=1}^{3}\beta_{6j} IFRSKNOWL_j + \varepsilon \quad (5)$$

where:

RECOGNITION Recognition decision in case 1 (scale ranges from 1: "definitely not recognize a provision" to 6: "definitely recognize a provision");
ESTIMATE Estimate for warranty provision in case 2;
MINAMOUNT Just acceptable minimum amount in case 2;
MAXAMOUNT Just acceptable maximum amount in case 2;
DISCLOSURE Disclosure decision in case 3 (scale ranges from 1: "definitely not disclose a contingent asset" to 6: "definitely disclose a contingent asset");
COUNTRY dummy variable: 1 if the participant belongs to the British sample, 0 if the participant belongs to the German sample;
PUBLPRACT dummy variable: 1 if the participant is currently in public practice, 0 otherwise;
FIRMSIZE1 dummy variable: 1 if size of accountancy firm in which the participant is working is 1–10 Chart. Acc./WPs, 0 otherwise;
FIRMSIZE2 dummy variable: 1 if size of accountancy firm in which the participant is working is 10–100 Chart. Acc./WPs, 0 otherwise;
FIRMSIZE3 dummy variable: 1 if size of accountancy firm in which the participant is working is >100 Chart. Acc./WPs, but it is not a Big Four firm, 0 otherwise;
FIRMSIZE4 dummy variable: 1 if the accountancy firm in which the participant is working is a Big Four firm, 0 otherwise;
SPECIALIZATION1 dummy variable: 1 if main area of specialization of participant is audit, 0 otherwise;
SPECIALIZATION2 dummy variable: 1 if main area of specialization of participant is tax, 0 otherwise;
SPECIALIZATION3 dummy variable: 1 if main area of specialization of participant is advisory, 0 otherwise;
SPECIALIZATION4 dummy variable: 1 if main area of specialization of participant is other than those mentioned above, 0 otherwise;
WORKEXP1 dummy variable: 1 if professional experience of participant is 1–5 years, 0 otherwise;
WORKEXP2 dummy variable: 1 if professional experience of participant is 6–10 years, 0 otherwise;
WORKEXP3 dummy variable: 1 if professional experience of participant is 11–15 years, 0 otherwise;
WORKEXP4 dummy variable: 1 if professional experience of participant is 16–20 years, 0 otherwise; and
WORKEXP5 dummy variable: 1 if professional experience of participant is >20 years, 0 otherwise.
IFRSKNOWL1 dummy variable: 1 if participant has no IFRS knowledge, 0 otherwise;
IFRSKNOWL2 dummy variable: 1 if participant has little IFRS knowledge, 0 otherwise;
IFRSKNOWL3 dummy variable: 1 if participant has moderate IFRS knowledge, 0 otherwise;
IFRSKNOWL4 dummy variable: 1 if participant has good IFRS knowledge, 0 otherwise;

Table 3
Pearson correlations.

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. *COUNTRY*															
2. *PUBLPRACT*	−0.294[a]														
3. *FIRMSIZE1*	0.235[a]	−0.037													
4. *FIRMSIZE2*	0.229[a]	−0.030													
5. *FIRMSIZE3*	0.156[a]	−0.156[a]													
6. *FIRMSIZE4*	−0.418[a]	0.158[a]													
7. *SPECIALIZATION1*	−0.044	0.007	−0.138[a]	−0.086	0.064	0.099									
8. *SPECIALIZATION2*	−0.009	0.019	0.199[a]	0.181[a]	−0.064	−0.201[a]									
9. *SPECIALIZATION3*	−0.051	0.045	−0.039	0.057	−0.077	0.042									
10. *SPECIALIZATION4*	0.191[a]	−0.109[a]	0.193[a]	−0.071	0.056	−0.116[a]									
11. *WORKEXP1*	0.134[a]	−0.103	−0.019	0.068	0.004	−0.037	0.013	−0.031	0.021	−0.038					
12. *WORKEXP2*	−0.004	−0.078	−0.082	−0.069	−0.041	0.128[a]	0.027	−0.019	0.010	−0.057					
13. *WORKEXP3*	−0.098	0.024	−0.007	0.044	0.030	−0.047	−0.042	0.030	0.024	0.019					
14. *WORKEXP4*	−0.126[a]	0.056	0.017	−0.076	0.026	0.021	0.095	−0.021	−0.100	−0.005					
15. *WORKEXP5*	0.175[a]	0.060	0.097	0.070	−0.014	−0.099	−0.081	0.022	0.047	0.068					
16. *IFRSKNOWL2*	0.101	0.031	0.190[a]	0.093	0.066	−0.232[a]	−0.103	0.121	0.055	0.017	0.101	0.031	0.190[a]	0.093	0.066
17. *IFRSKNOWL3*	0.126[a]	−0.113[a]	0.204[a]	0.084	−0.013	−0.177[a]	−0.086	0.088	0.027	0.058	0.126[a]	−0.113[a]	0.204[a]	0.084	−0.013
18. *IFRSKNOWL4*	−0.145[a]	0.067	−0.231[a]	−0.063	0.054	0.150[a]	0.153[a]	−0.109[a]	−0.099[a]	−0.054	−0.145[a]	0.067	−0.231[a]	−0.063	0.054
19. *IFRSKNOWL5*	−0.038	0.043	−0.089	−0.100	−0.118[a]	0.210[a]	−0.034	−0.054	0.074	−0.015	−0.038	0.043	−0.089	−0.100	−0.118[a]

Correlations amongst dummy variables are not reported because they don't deliver any additional information.
IFRSKNOWL1 is not reported because no participant indicated "no IFRS knowledge" (*IFRSKNOWL1*).
[a] Statistically significant at the 5% level.

IFRSKNOWL5 dummy variable: 1 if participant has very good IFRS knowledge, 0 otherwise.

In these models, *COUNTRY* represents our test variable of interest. The coefficients on this dichotomous variable, therefore, indicate the tendency of answers from British participants relative to German participants in the respective case.

We also include other control variables that might influence the respondents' accounting decisions. These control variables indicate whether the firm is currently not in public practice, the size of the firm in which the participant is working, the main area of specialization of the participant, the participant's professional experience and the participant's IFRS knowledge.[9] Since most of the variables are ordinal, we create them as dummy variables to include them in our regression analyses.

5. Results

5.1. Univariate correlation analysis

In our univariate analysis, we use pairwise deletion to cope with missing values. As indicated previously, the two samples in Germany and the UK exhibit two structural differences as regards the fact of currently not being in public practice and the size of the firm in which the participant is working. Accordingly, there is a moderate correlation between the variables *PUBLPRACT* and *COUNTRY* (r = -0.612, $p < 0.001$) and a weak correlation between the ordinal variables "firm size" (1: 1–10 Chart. Acc./WPs; 2: 10–100 Chart. Acc./WPs; 3: >100 Chart. Acc./WPs, but not Big Four; 4: Big Four) and *COUNTRY* (ρ = -0.429, $p < 0.001$). However, untabulated correlation analyses reveal that there is no significant correlation in any case between the accounting decisions and the fact of being in public practice or the firm size.

The correlation coefficients between the dichotomous variable *PUBLPRACT* and the respective accounting decision variables are as follows: *RECOGNITION*: $r = 0.076$, $p = 0.139$; *ESTIMATE*: $r = -0.032$, $p = 0.539$; *MINAMOUNT*: $r = 0.04$, $p = 0.444$; *MAXAMOUNT*: $r = 0.008$, $p = 0.883$; *DISCLOSURE*: $r = 0.04$, $p = 0.441$. Moreover, the correlation coefficients between the ordinal variable "firm size" and the respective accounting decision variables are as follows: *RECOGNITION*: $\rho = 0.047$, $p = 0.387$; *ESTIMATE*: $\rho = -0.008$, $p = 0.885$; *MINAMOUNT*: $\rho = 0.069$, $p = 0.201$; *MAXAMOUNT*: $\rho = 0.014$, $p = 0.797$; *DISCLOSURE*: $\rho = 0.080$, $p = 0.139$.

We perform additional univariate tests by excluding participants that are not in public practice in both countries. The test results that are explained remain broadly unchanged. Therefore, we conclude that the structural differences between the two samples do not call into question the results of our univariate analysis.

5.2. Multivariate correlation analysis

In our multivariate analysis, we perform listwise deletion. Table 3 presents a correlation matrix for the test variable and the control variables in our study. Values indicated with an "a" are significant at the 5% level using two-tailed tests. Most of the British participants that are not in public practice had to be removed from the sample because they were missing responses to the question of the size of the firm in which they are working. As a consequence, the structural difference between the German and the British sample mentioned above concerning participants being in public practice turns to a weak correlation ($r = -0.294$, $p < 0.001$) (*PUBLPRACT* and *COUNTRY)* in the multivariate analysis. The correlation between the country and the size of the firm in which the participant is working remains weak (r = -0.418, $p < 0.001$ (*FIRMSIZE4* and *COUNTRY*)). Moreover, we do not find any unusual correlations between the independent variables included in our multivariate analysis. This analysis and the fact that the VIF values for the multivariate linear regressions are well below 10.0, indicate that multicollinearity is not a concern (Kennedy, 2008).

[9] The participants' ages are, consistent with expectations, highly correlated with the participants' professional experience (in years) ($\rho = 0.833$, $p < 0.001$). In order to avoid multicollinearity, we therefore do not incorporate the participants' age as a further control variable in our analysis. Furthermore, we do not include variables for the circumstances that a participant has a different nationality or that he/she spent more than one year abroad because we do expect the accounting decisions to be influenced by e.g. the stay abroad as itself but by the type of country of the stay (in particular Anglo-Saxon vs. Continental-European). Since this varies for the German and the British sample, such variables would not be suitable in a regression model incorporating answers from both German and British participants. Untabulated correlation analyses indicate for both countries that there is no significant association in most of the cases between the accounting decision variables and a temporary employment or education abroad on the one hand and the circumstance of a different nationality on the other hand.

Table 4
Analysis of responses and univariate tests.

Case 1: Recognition of provisions

Variable	n	%	n	%	*z*-Value	*p*-Value
RECOGNITION[a]						
Response = 1	53	17.85%	24	29.27%	−2.955	0.002
Response = 2	64	21.55%	24	29.27%		
Response = 3	33	11.11%	5	6.10%		
Response = 4	47	15.82%	12	14.63%		
Response = 5	59	19.87%	10	12.20%		
Response = 6	42	13.80%	7	8.54%		
Total	297	100.00%	82	100.00%		

Case 2: Measurement of provisions

Variable	n	Mean	Std. Dev.	n	Mean	Std. Dev.	*t*-Stat	*p*-Value
ESTIMATE	298	312,025.17	61,727.71	79	325,316.46	78,688.54	−1.601	0.945
MINAMOUNT	295	267,306.78	53,609.30	81	264,012.35	52,144.15	0.493	0.311
MAXAMOUNT	288	392,898.44	147,468.85	81	396,419.75	148,948.89	−0.189	0.575

Case 3: Disclosure of contingent assets

Variable	n	%	n	%	*z*-Value	*p*-Value
DISCLOSURE[b]						
Response = 1	40	13.47%	7	8.54%	−0.531	0.702
Response = 2	31	10.44%	7	8.54%		
Response = 3	19	6.40%	6	7.32%		
Response = 4	34	11.45%	9	10.98%		
Response = 5	79	26.60%	30	36.59%		
Response = 6	94	31.65%	23	28.05%		
Total	297	100.00%	82	100.00%		

t-Tests are one-tailed.
[a] Scale ranges from 1 = "Definitely not recognize a provision" to 6 = "Definitely recognize a provision".
[b] Scale ranges from 1 = "Definitely not disclose a contingent asset" to 6 = "Definitely disclose a contingent asset".

5.3. Univariate evidence

Table 4 presents our univariate tests, comparing the accounting decisions made by German respondents to those made by British respondents.[10]

H_1 suggests that under IFRS, German accountants are more likely to recognize provisions than UK accountants. Our data support this assumption. The distribution of the German responses tends more to higher values on the 6-point scale than does the distribution of answers of the British participants. The results of a one-tailed Mann–Whitney *U*-test indicate that the null hypothesis of an identical answer pattern by German and British respondents or a more conservative answer pattern by British respondents can be rejected ($p = 0.002$). However, the analysis of the data further reveals that the responses by German participants in particular are widely divergent.

In H_2, we postulate that German accountants recognize provisions on average at a relatively higher amount than UK accountants. For all three judgments in case 2 (warranty estimate/just acceptable minimum amount/just acceptable maximum amount) *t*-test results do not provide significant support for this relation ($p = 0.945/p = 0.311/p = 0.575$). For the first decision on the estimate of the warranty provision, British respondents even have a higher mean than do the German which is against our expectation. Within both respondent groups there are two extreme measurements that might be classified as outliers, however, even if these are removed, the UK mean result (315,584.42) remains slightly higher than the German (309,403.72). In the case of the minimum amount that would be just acceptable from the participants' perspective, the mean value in Germany is slightly higher than in the UK which is in line with our expectation. However, for the just acceptable maximum amount, the result is the opposite. All in all, measurement decisions of German and British respondents are broadly in line and do not suggest any country-specific differences. Aside from these results, the responses in case 2 in both countries show a considerable variability. For instance, as regards the warranty estimate, in both countries there is a clear split between those who choose the mid-point of the given range and those that take the other possible outcome (700,000 EUR/GBP) into account.[11]

Hypothesis 3 suggests that under IFRS, German accountants are less likely to disclose contingent assets in the notes than UK accountants. Looking at the distributions of answers, the response patterns in Germany and the UK are quite similar. This is confirmed by a one-tailed Mann–Whitney *U*-test the results of which indicate no significance in favor of our H_3 ($p = 0.702$).

5.4. Regression results

In the following, we present the results of multivariate regression analyses that test the postulated hypotheses by controlling for other factors that were mentioned earlier.

5.4.1. Regression results for H_1 and H_3

In cases 1 and 3, values for the dependent variables can be ranked but the real distance between categories is unknown. Therefore, these variables can be characterized as ordinal. For these variables, in order to test H_1 and H_3 it is appropriate to undertake ordinal regression analyses. Table 5 presents the estimation results of these regressions. With regard to the dependent variable *RECOGNITION*, the table shows that the coefficient on *COUNTRY* has the predicted sign and is significant

[10] The values 1 to 6 of the accounting decision variables in cases 1 and 3 can be ranked but we do not assume, in contrast to simplifications in some other studies, that the real distances between categories are equal. Thus, and in contrast to case 2, these variables are non-interval but ordinal and therefore no means or standard deviations can be determined (Siegel, 2012).

[11] Out of the German (British) respondents, 42.3% (29.1%) indicate 285,000, whereas 35.9% (55.71%) indicate 320,000 for the warranty estimate. A similar obvious split of common answers within jurisdictions can also be observed for the just acceptable minimum amount (Germany: 250,000: 68.1%, 285,000: 21.7%; UK: 250,000: 77.8%, 285,000: 14.8%) and the just acceptable maximum amount (Germany: 320,000: 64.9%, 700,000: 11.8%; UK: 320,000: 75.3%, 700,000: 18.5%).

Table 5
Ordinal regression results.

	Regression Model					
	RECOGNITION			*DISCLOSURE*		
Variable	Pred.	Parameter Estimate	*p*-Value	Pred.	Parameter Estimate	*p*-Value
Test variable						
COUNTRY	–	−0.831**	0.012	+	0.154	0.648
Control variables						
PUBLPRACT		−0.169	0.845		0.452	0.611
FIRMSIZE1		−0.034	0.927		−0.110	0.773
FIRMSIZE2		−0.105	0.756		−0.035	0.919
FIRMSIZE3		−0.236	0.431		0.355	0.247
SPECIALIZATION1		−0.277	0.609		−1.509**	0.016
SPECIALIZATION2		0.937	0.270		−0.628	0.497
SPECIALIZATION3		−0.434	0.475		−1.196*	0.080
WORKEXP1		1.481***	0.008		0.593	0.297
WORKEXP2		−0.309	0.286		0.142	0.629
WORKEXP3		0.064	0.828		−0.207	0.488
WORKEXP4		−0.169	0.610		−0.207	0.537
IFRSKNOWL2		−0.272	0.604		0.827	0.125
IFRSKNOWL3		−0.134	0.702		0.389	0.270
IFRSKNOWL4		−0.239	0.475		0.359	0.287
Number of observations		339			339	
Chi-square		23.171*			19.355	
Significance		0.081			0.198	
Pseudo R^2		0.066			0.055	

*, **, *** significant at the 0.10, 0.05, and 0.01, respectively.
Pseudo R^2 is Cox and Snell R^2.
IFRSKNOWL1 is not reported because no participant indicated "no IFRS knowledge"

(parameter estimate = -0.831; $p = 0.012$). This is consistent with our prediction in H_1 that under IFRS German accountants are more likely to recognize provisions than UK accountants and reinforces the evidence from the univariate test. Moreover, apart from *WORKEXP1*, the control variables are not significant.[12] As far as the dependent variable *DISCLOSURE* is concerned (case 3), the observed insignificance of the chi-square statistic ($p = 0.198$) indicates that there is no overall fit of the regression model and that therefore, amongst others, the independent variable *COUNTRY* is not suitable to explain the variance of the dependent variable (judgment of a participant whether to disclose a contingent asset in the given case under IFRS). This result, which reinforces the evidence from the univariate test, is against our prediction in H_3 that under IFRS, German accountants are less likely to disclose contingent assets in the notes than UK accountants.

5.4.2. Regression results for H_2

In case 2, the variables used are metric and therefore multivariate linear regressions are run to test H_2.[13] Table 6 presents the estimation results for separate regressions for the three variables *ESTIMATE*, *MINAMOUNT*, and *MAXAMOUNT* in case 2. In case of the warranty estimate, the table shows that the coefficient on *COUNTRY* does not have the predicted sign and is not significant ($\beta_1 = 12{,}157.282$; $p = 0.471$).[14] Apart from that, the control variables are not significant. As regards the variables *MINAMOUNT* and *MAXAMOUNT* as dependent variables, there is even no overall fit of the regression models ($F = 1.370$, $p = 0.160$; $F = 1.147$, $p = 0.314$). These results again reinforce the evidence from our univariate tests that are against our prediction in H_2 that under IFRS, German accountants recognize provisions on average at a relatively higher amount than UK accountants.

5.5. Discussion of results

The data provide only some support for differences in judgments that require discretion under IFRS between German and UK accountants. The result in our first case (recognition of a provision) where we find significant support for country-specific differences is in line with prior research that found differences in the interpretation of probability expressions under IFRS (Doupnik & Riccio, 2006; Doupnik & Richter, 2003; Doupnik & Richter, 2004). However, the result of the other two cases (measurement of a provision and disclosure of a contingent asset) that do not reveal significant differences between respondents of the two jurisdictions is in contrast to those studies and other prior research on the treatment of specific accounting cases (Tsakumis, 2007). Nevertheless, all these studies date back a few years and might be biased because in each case in one or both sample countries (these are the U.S., Germany, Austria, Switzerland, Brazil, and Greece) there was no obligation or possibility to apply IFRS at the time the respective study was carried out. The results of a more recent study of Reisloh (2011) who finds de facto harmony in IFRS measurements and only some cultural influences on the quantity of disclosures under IFRS in Germany, France and the UK are on the contrary broadly in line with our results in cases 2 and 3. This suggests that the national environment, which may include factors such as the national culture, in particular uncertainty avoidance, or the institutional factors such as the national financial system (insider-based vs. outsider-based systems), may have lost a considerable degree of significance in the context of the application of IFRS. Thus, the globalization of financial reporting might have produced a weakening of those influences on accountants' behavior, especially when the same set of rules is applied. However, some national influence seems to have remained as the differences in the first case (recognition issue) between both countries show, which are in contrast to the results of the second and the third case (measurement and disclosure issue). In case 3, another alternative explanation as to why no significant difference was observed might be that the

[12] As regards *WORKEXP1*, the results imply that participants with only some professional experience are significantly more conservative than the reference group (participants with 20 years or more of professional experience). This more conservative behavior might be explained by the fact that young professionals are less confident about the treatment of accounting cases than professionals with more experience.

[13] We must reject the premise of constant variance of the disturbance terms for all models since White tests prove heteroskedasticity. Therefore, we use heteroskedasticity-consistent (White) standard errors. Additionally, Jarque Bera tests indicate the absence of normal distribution of disturbance terms for all models. However, sample sizes are large enough to assume from the central limit theorem the OLS estimators of the regression coefficients are normally distributed.

[14] The regression results remain stable when the two extreme measurements mentioned in univariate evidence are removed.

Table 6
Multivariate regression results.

Regression model	*ESTIMATE*			*MINAMOUNT*			*MAXAMOUNT*		
variables	Pred.	Coefficient	*p*-Value	Pred.	Coefficient	*p*-Value	Pred.	Coefficient	*p*-Value
Intercept		385,510.909***	0.000		287,242.172***	0.000		468,577.634***	0.000
Test variable									
COUNTRY	–	12,157.282	0.471	–	−7873.79	0.558	–	16,253.486	0.560
Control variables									
PUBLPRACT		−48,370.065	0.531		−4540.576	0.865		−64,171.639	0.376
FIRMSIZE1		−5939.566	0.652		9482.142	0.459		−51,007.663	0.107
FIRMSIZE2		502.007	0.979		9226.906	0.623		−16,123.474	0.574
FIRMSIZE3		−2662.765	0.801		−4869.365	0.466		11,607.83	0.650
SPECIALIZATION1		−40,014.479	0.213		−28,824.123	0.387		2339.289	0.959
SPECIALIZATION2		−16,441.455	0.698		−40,692.3	0.266		23,107.99	0.746
SPECIALIZATION3		−18,803.84	0.562		−14,802.353	0.657		77,093.325	0.138
WORKEXP1		56,923.278	0.273		56,594.759	0.259		15,496.195	0.740
WORKEXP2		4917.942	0.626		2455.561	0.691		−9448.35	0.705
WORKEXP3		−1217.061	0.914		6947.366	0.496		−600.583	0.981
WORKEXP4		1720.842	0.861		−759.605	0.913		−20,712.149	0.466
IFRSKNOWL2		1792.243	0.869		1084.175	0.897		11,078.614	0.805
IFRSKNOWL3		12,825.042	0.224		6356.445	0.439		−831.773	0.978
IFRSKNOWL4		8382.604	0.355		8019.046	0.277		−24,428.578	0.404
Number of observations		338			336			329	
F-statistic		1.636*			1.370			1.147	
p-Value		0.063			0.160			0.314	
R^2		0.071			0.060			0.052	
Adjusted R^2		0.028			0.016			0.007	

*, *** significant at the 0.10 and 0.01 levels, respectively.
Correction for heteroskedasticity with heteroskedasticity consistent standard errors.
IFRSKNOWL1 is not reported because no participant indicated "no IFRS knowledge"

scenario may have not offered enough tension since the chance of success in the scenario was described as being positive, although pretests showed that the scenario could have been evaluated differently by participants. It would be of interest whether and in which way the results would develop after a few more years of ongoing application of IFRS in both countries.

As regards a nation's accounting environment, national accounting rules and traditions deserve special attention in the following. As already mentioned, the results of other studies that investigate the use of explicit options under IFRS by analyzing financial statements (Haller & Wehrfritz, 2013; Kvaal & Nobes, 2010; Kvaal & Nobes, 2012; Nobes, 2011) show a tendency of companies to stick to national practices and further show clear cross-country differences in IFRS policy choice. These findings differ from the results of cases 2 and 3 of our study on the use of discretion through interpretations and accounting estimates under IFRS. This difference in results may be explained by the nature of decisions that have to be made in the different contexts. Explicit options, such as the presentation of expenses in the income statement by function or by nature (IAS 1.99) or the treatment of actuarial gains and losses related to pensions in profit or loss or in other comprehensive income (IAS 19.92 et seq.), are systematic decisions the change of which would induce considerable costs. Therefore, a continuation of national practice in the IFRS accounts is highly probable in order to avoid these costs. In contrast, the use of discretion, i.e. interpretations and making estimates, subject to this study may depart from former practices because decisions in these cases are not systematic and different decisions would not induce remarkably more costs. As a consequence, one could conclude that the continuation of national traditions in IFRS financial statements is more important for explicit options than for interpretations and accounting estimates. However, the results of the studies might not be directly comparable because of the different research methods employed. Whereas the decisions on accounting policy choice detected in financial statements are the result of an institutionalized decision-making process within the respective companies that is based on considerations that pertain to the specific company, judgments on interpretations and accounting estimates subject to our survey are rather personal which are predominantly influenced by an individual's personal characteristics. As a consequence, differences in interpretations and accounting estimates might be observable in an analysis of published financial statements, although such an analysis is difficult to conduct as mentioned above. However, current research mentioned above (Reisloh, 2011) predominantly does not find such differences in IFRS group accounts across countries.

Apart from this finding, the analysis of the data reveals that almost all personal and professional characteristics of accountants controlled for in our study such as professional experience or IFRS knowledge do not influence the accountants' judgments. However, as remarked above, we find considerable variability of responses within jurisdictions. This is especially so in Germany in case 1, where the responses are almost evenly distributed over the possible answers as well as in case 2 in both countries. The latter findings suggest that within countries there is a lack of consensus in the treatment of accounting cases. This result of a heterogeneous application of IFRS is comparable to findings of prior research (Walton, 1992) that found heterogeneous application of national rules by individuals of the same jurisdiction before the dispersion of international standards. This supports the impression that influences of a common culture might be less relevant than specific personal characteristics which were not controlled for in our study and that drive an individual's behavior. These characteristics might be of psychological nature, such as risk perception and the willingness to assume risk, which are different from individual to individual even within a country (Breakwell, 2007).

The results of our study come with the following limitations: First, regarding cultural factors that might affect accountant's application of IFRS, we rely on degrees of uncertainty avoidance determined by Hofstede. Since already a considerable amount of time has passed since his study, changes in national culture might have happened which might mean that cultural differences have declined. However, even if this was the case, in each hypothesis there would still remain other factors explained previously (apart from culture) that would still indicate the respective direction.

Second, the two samples in Germany and the UK exhibit two structural differences: whereas almost all participants in Germany work as public auditors, about half the respondents in the UK are not in public practice. Furthermore, most German accountants are affiliated with Big Four firms, whilst amongst UK accountants in public practice all

firm sizes are approximately evenly represented. This could be a limitation for our univariate tests although there is no significant correlation in any case between the accounting decisions and the fact of being in public practice or the firm size that warrants concern.

Third, although we ask in our survey for decisions in the context of preparation of accounts, participants were predominantly auditors. The results may therefore be biased by the fact that auditors may take a different view on accounting decisions than financial statement preparers. However, the Chartered Accountants outside public practice in the British sample did not exhibit significantly different responses than those in public practice, which reduces the probability of such a bias of our results.

Fourth, in the questionnaire, the scenario facts of the cases were provided in the respective language (German and English) which might have led to a translation effect in the accountants' judgments. Nevertheless, we tried to minimize this possible effect by a double-back translation process in order to make the scenarios as equivalent as possible.

Fifth, and most importantly, by using hypothetical case studies, participants are aware that there is no practical outcome from their accounting decisions. Hence, the results might have been different to those that would have been experienced in real-life situations. In particular, a main reason for the continuation of national practices under IFRS, the congruence between individual and consolidated accounts most likely was not relevant for the participants' decisions in the case study setting as this might be the case in actual practice.

6. Conclusion

Harmonized accounting standards do not necessarily lead to harmonized accounting outcomes when standards provide preparers with flexibility in their application. Country-specific factors may be a driver and an explanation for variations in IFRS reporting across different countries. In this study, we test through a survey whether accountants from Germany and the UK exhibit differences in their judgments on IFRS accounting cases. The study reveals only some support for international differences in the use of discretion in making interpretations and accounting estimates under IFRS. Whilst in one case (recognition of a provision) we find, in line with our expectations, significant support that German accountants are more conservative than the British, the other two cases (measurement of a provision and disclosure of a contingent asset) do not reveal significant differences between respondents of the two jurisdictions.

The fact that accountants' judgments in Germany and the UK are broadly in line in the majority of accounting decisions is, indeed, in contrast to some prior findings of predominantly national influences on accountants' judgments under IFRS (Doupnik & Riccio, 2006; Doupnik & Richter, 2003; Doupnik & Richter, 2004; Tsakumis, 2007) but in line with much more recent findings of an ongoing de facto harmonization in accounting areas that require discretion (Reisloh, 2011). Moreover, the results seem to contradict prior findings of clear international differences in the use of explicit options under IFRS in Germany and the UK (Haller & Wehrfritz, 2013; Kvaal & Nobes, 2010; Kvaal & Nobes, 2012; Nobes, 2011).

In our view, the following reason may be an explanation for these findings. We suggest that, in the field of explicit options, where systematic decisions by institutions (accounting departments) have to be made about the choice of methods, national accounting traditions might still influence accounting practice under IFRS because of the costs involved. This cost argument is not relevant in the field of interpretations and accounting estimates where each case has to be judged on its own merits and the decision made is not systematic and institutional but very personal. Moreover, the results of the studies might not be directly comparable because on the one hand financial statements data are examined where decisions on accounting policy choice are the result of an institutionalized decision-making process whereas on the other hand a survey tests personal decisions which are rather dependent on an individual's personal characteristics.

Furthermore, the results show a remarkable variability in the responses amongst survey participants in the same country. This means that common cultural factors might be less influential in the application of common accounting rules, whereas other personal characteristics of the decision maker that were not controlled for in our study (e.g. psychological characteristics) might be more relevant.

To sum up, our findings suggest that international differences in the application of IFRS might be less significant in the field of discretionary decisions than in the use of explicit options, as shown in prior studies. Country-specific factors such as culture or institutional factors (such as the national financial system) might have lost a considerable degree of influence on the international application of IFRS over the last years. However, another fact that has been revealed and that has been relatively unnoticed in the context of the international harmonization debate of financial reporting is the relevance of a heterogenous application of IFRS within jurisdictions. It follows that caution has to be exercised with comparisons between companies of the same country due to the fact that IFRS – like national GAAP – are far from being applied uniformly within national borders. With this respect the findings of our study support the results of prior research (Walton, 1992) that found heterogeneous application of national rules by individuals of the same jurisdiction before the obligatory application of IFRS in the EU.

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Appendix A1. Case study section in the online questionnaire (British sample version)

General Information:

Please evaluate the following cases on the basis of the information given and in accordance with your understanding of IFRS. We should like you to assume that you are the finance director of the respective company and therefore responsible for the preparation of the company's financial statements.

Please evaluate the cases using only the data provided, even though in practice you might make use of more information. All three companies that we refer to should be assumed to be located in the United Kingdom, publicly traded and obliged to prepare consolidated accounts according to IFRS. Their financial performance is sound with stable profits over the last few years and without any going-concern difficulties. You should consider the amounts in the following cases to be material and assume that possible outflows could be estimated reliably.

Please note that there are no "right" or "wrong" answers in the cases below. We are interested in **your evaluation** of the cases.

Case 1 of 3: Recognition of provisions for litigation

IAS 37 contains the following requirements for the recognition of provisions:

A provision is a liability of uncertain timing or amount. A provision shall be recognised when […] it is **probable** that an outflow of resources embodying economic benefits will be required to settle the obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is **more likely than not** to occur, i.e. the probability that the event will occur is greater than the probability that it will not. (IAS 37.10, 14, 23)

Data:

continued on next page

Appendix A1. (*continued*)

Adam plc is sued by another company for 5 million GBP for alleged infringement of trademark rights in October 01. A court decision is expected in the course of the following year. At the end of the year 01, the law firm representing Adam plc says that they are not able to give any specific assessment of the probabilities on the outcome of the court case and refer to similar court cases in the past that ended fifty–fifty in favour of the plaintiff.

Your evaluation:

Assume that you, as finance director of Adam plc, have to decide on the accounting treatment of this case in the IFRS consolidated accounts for the year ended 31 December 01. Please indicate on the following scale whether you would recognise a provision under IFRS.

Definitely not recognise a provision	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	Definitely recognise a provision

Case 2 of 3: Measurement of warranty provisions

IAS 37 contains, amongst other things, the following requirements for the measurement of provisions:

The amount recognised as a provision shall be the **best estimate** of the expenditure required to settle the present obligation at the end of the reporting period. Where a single obligation is being measured, the individual **most likely outcome** may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where **other possible outcomes** are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. (IAS 37.36, 40)

Data:

In December 01, Bart plc has manufactured and delivered a newly developed machine to a customer for the first time. Shortly after, the customer submits a warranty claim against Bart plc because of a defect in the machine. A technical team from Bart plc reports the following after an examination of the machine at the customer's site:

"The warranty claim is justified. The technical failure may be due to various reasons, which can only be finally resolved during the repair. The repair costs will very probably be between 250,000 GBP and 320,000 GBP. We are not able to make a more precise estimation. Costs lying outside this range are only conceivable for one particular serious failure, the occurrence of which is however considered less probable. The repair of such a failure would cause costs of 700,000 GBP. Our evaluation is confirmed by the statements of an outside expert who was consulted for the damage survey."

Your evaluation:

Assume that you, as finance director of Bart plc, have to decide on the accounting treatment of this case in the IFRS consolidated accounts for the year ended 31 December 01 (discounting is not necessary).

What amount would you recognise for warranty expense in the IFRS consolidated accounts?

_____

Please provide a short explanation for your answer:

_____

What minimum amount would you consider as just acceptable?

_____

What maximum amount would you consider as just acceptable?

_____

_____

Case 3 of 3: Disclosure of contingent assets

IAS 37 contains the following requirements for the disclosure of contingent assets:

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent asset is **disclosed** […] where an inflow of economic benefits is **probable**. (IAS 37.10, 34)

Data:

Calvin plc starts suing another company in October 01 for 10 million GBP, alleging infringement of its copyrights. A court decision is expected in the course of the following year. Calvin plc's law firm considers the prospects of success are positive. At the end of the year 01, the lawyer of the other company informs Calvin plc about a request to negotiate and the intention to make a settlement offer. Calvin plc is generally open to a settlement. According to Calvin plc's law firm, a realistic settlement amount is between 4 and 6 million GBP. First negotiations are scheduled for the time after the preparation of the accounts for the financial year 01.

Your evaluation:

Assume that you, as finance director of Calvin plc, have to decide on the accounting treatment of this case in the IFRS consolidated accounts for the year ended 31 December 01. Please indicate on the following scale whether you would disclose a contingent asset in the notes under IFRS.

Definitely not disclose a contingent asset	1	2	3	4	5	6	Definitely disclose a contingent asset

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