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Interpretation of uncertainty expressions

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Potsdam, 2000

Introduction

urn:nbn:de:kobv:517-vlib-4850

INTERPRETATION OF UNCERTAINTY EXPRESSIONS: A CROSS-NATIONAL STUDY

INTRODUCTION

Uncertainty and judgment are inherent in both the financial reporting and auditing domains. Auditing standards use verbal probability (uncertainty) expressions to establish thresholds for when sufficient evidence has been gathered and auditors frequently use and interpret such expressions (Amer, Hackenbrack, and Nelson, 1994). Financial reporting standards also use uncertainty expressions in establishing criteria for the recognition, measurement, or disclosure of items, and both accountants and auditors are required to attach meaning to those expressions. The expressions “remote”, “Areasonably possible”, and “probable” in the FASB's Statement of Financial Accounting Standards No. 5 are examples. Davidson and Chrisman (1994) identified some 33 different uncertainty expressions used in Canadian accounting and auditing standards. Even the basic elements of financial statements are defined in terms of probability as exemplified by the FASB's SFAC 6 definition of an asset as "probable future economic benefits obtained or controlled by a particular entity..." [SFAC 6, par. 25, emphasis added].

International Accounting Standards (IAS), developed for worldwide usage to enhance the comparability of financial reports across countries, also include a number of uncertainty expressions. Necessary conditions for cross-national comparability include the use of a single set of standards and consistent interpretation of those standards across countries. To the extent that uncertainty expressions used in IAS are interpreted differently by accountants and auditors in different countries, the cross-national comparability of financial reports will suffer. This study addresses the research question of whether interpretations of IAS uncertainty expressions by

professional accountants in the United States and in German-speaking countries have similar meaning. To our knowledge, this is the first study of uncertainty expressions to use professional accountants in more than one country.

Hypotheses based on cultural relativism and translation effects are tested using data gathered through a field experiment. The answer to the research question is important to the viability of using a single set of accounting standards worldwide. The selection of the United States and Germany as countries to study is relevant because these two countries are important for the process of worldwide harmonization. The study is also timely from a U.S. perspective as the Securities and Exchange Commission (SEC) debates whether foreign registrants should be allowed to use IAS in preparing financial statements without reconciliation to U.S. GAAP.

The remainder of this paper is organized into six sections. The first section provides a review of related studies in the psychology and accounting literatures, and includes a discussion of culture and linguistic relativism. The second section describes the uncertainty expressions examined in the study. The third section presents the specific research questions and hypotheses tested. The fourth section describes the research methodology, and the fifth section presents the analysis and results. The final section provides a summary and offers conclusions.

RELATED LITERATURE

Psychology Research

A considerable amount of research has been conducted and reported in the psychology literature investigating the quantitative meanings of verbal probability expressions (e.g., Simpson, 1963; Lichtenstein and Newman, 1967; Beyth-Marom, 1982; Budescu and Wallsten, 1985; Reagan, Mosteller, and Youtz, 1989). More than 280 different probability expressions