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MANAGEMENT ACCOUNTING SYSTEM APPLICATION IN BANKS IN THE STATE OF QATAR

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ABSTRACT

The importance of management accounting systems (MAS) in measuring the non-financial performance is increasing, especially in the service sector. Therefore, the objective of this paper is to investigate the nature of management accounting systems in service sector, mainly in banks as this sector is critical for future economy of the state of Qatar.

This study surveyed the top management team in finance and accounting departments in banks about their prospective of MAS usefulness, the critical driving or resisting factors, and the financial and non-financial indicators that are affecting the implementation of the management accounting system in their banks. Surveys were distributed to 16 banks operating in Qatar. Additionally interviews were conducted with individual senior management and executive managers.

The results of this study demonstrate that the highest demographic factor affecting the critical driver factors in implementing MAS is the experience of the employee in the organization, because each experience category had different view in the importance of these factors which would eventually affect the design & the implementation of MAS in their banks. Additionally interviews conducted found that most of the participating banks were paying more attention to improvement and measurement financial performance rather than non-financial performance.

CHARACTERISTICS AND QUALIFICATIONS OF ACCOUNTANTS: THEN AND NOW

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ABSTRACT

Providing information for businesses and businessmen has always fallen to the recordkeeper or in modern times the accountant. As business changed and became more complex, the characteristics and/or qualifications of the accountant had to change with them. This paper will attempt to trace these changes through history.

The earliest known records were physical representations of the items owned by individuals. As people moved from hunter/gatherers to agriculture, a record was kept of what was grown or the domesticated animals in the form of clay balls. These balls were in different sizes an shapes to represent cattle and grain, etc. The recordkeeper of those times may be someone who constructed the clay balls.

The invention of writing provided a way to keep records without the physical representation. The earliest writing was in the form of abstract and complex symbols on clay tablets. The first qualification of an accountant would be the ability to write. This qualification later became penmanship, which changed with the invention of the typewriter and later the computer.

The invention of the abacus in China, which was later found in Europe, led to another qualification of accounting called "reconying" or summing of the accounts. During this time another invention changed the way records were kept: coins. No longer were records kept in terms of "bushels of wheat", etc., but in terms of the monetary unit for the particular country in which the business operated. The abacus led to the mechanical adding machine, to the electric adding machine to the modern computer. Thus the accountant had to be familiar with the means of calculating the value of the business assets.

In the fifteenth and eighteenth centuries, new requirements were placed on the accountant. These were integrity and ethics. Although it is implicit in earlier periods, the characteristics were explicit in the accounting writings of the time. These two characteristics are even more important today as evidenced by the many business failures.

In modern times the accountant must have many traits. These include: integrity, ethical behavior, the ability to communicate both orally and written, technical knowledge, computer skills, critical thinking and other characteristics and qualifications to become a good accountant.

Each business or accounting firm has their own requirements for hiring new accountants. Many of these requirements may not be evident in the job applicants until years later. Ethics and integrity may not immediately be seen until confronted with a situation that promises to reward the accountant for doing something that s/he knows is not ethical.

JOINT VENTURE STABILITY AND THE EFFECT OF PARTNER BUYOUTS

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ABSTRACT

In this research, I investigate the question of why firms choose to create cooperative ventures with other (often competing) firms. Specifically, do firms engage in joint ventures in place of acquisitions, or in preparation for them? There exist at least two competing theories of organization that can lead to opposite answers. In an attempt to answer this question, I categorize a sample of joint ventures according to their underlying theoretical motivation, and examine the relative frequency of eventual merger between partner firms in each category. Financial performance surrounding the mergers is assessed using both market- and accounting-based measures. Characteristics of cooperating firms that are useful in predicting the outcome of the venture are identified, and implications for managers and regulators will be addressed.

DOES AN AUDIENCE RESPONSE SYSTEM CALLED CLICKER HELP STUDENT LEARNING IN ACCOUNTING

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ABSTRACT

In this paper, we examined the learning effect of a computer assisted audience response system called Clicker in accounting classes. Because of easy-anonymous student responses to questions and immediate feedback of the responses to students and instructors in a classroom using Clicker, Clicker may raise interactions among students and/or between students and instructors. Since Clicker enables instructors to assess student comprehension instantaneously, instructors can conduct lectures more effectively. Thus, it is hypothesized that Clicker users learn better than non-Clicker users in this study.

But we can find neither supporting nor denying evidence on this issue. It may be because some important determinants of learning performances like GPA and class standing are not properly controlled in this study, yet. Thus, it may be premature to draw any solid conclusions on this learning effect of Clicker in accounting classes.

INTRODUCTION

Clicker is a computerized audience response system that enables students to make anonymous responses to questions and the questions are instantly tallied and displayed on the screen. Thus, primary benefits of using Clicker in classroom may be such as follows. First, Clicker ensures higher student participations and hence increases interactions among students and/or between students and instructors. Second, instructors can assess student comprehensions immediately using Clicker and hence conduct highly effective lectures. Third, instructors can save time administrative tasks like taking rolls, tracking class participation, and grading so that instructors may have more class time for lectures. Because of these above-mentioned benefits of using Clicker, Clicker may be a useful instructional technology that improves student learning, which is valid empirical question to examine. The purpose of this paper is to empirically examine the effect of Clicker on student learning in accounting classes. In other words, see if Clicker helps students learn more or better in accounting classes.

SAMPLE & EMPIRICAL TESTS

Subjects for this study are students taking accounting courses at a state university in southern California. Subjects are divided into control group (or class) and experimental group. The control group is a group of students taking classes that do not use Clicker (non-Clicker user group hereafter), while the experimental group is a group of students taking classes that use Clicker in the class (Clicker user group hereafter). To investigate the learning effect of Clicker in accounting classes, Clicker user group and non-Clicker user group are compared in two different dimensions: i.e., student performance in the final exam and improvement of student performance between the first test and the final exam.

COMPARISON OF STUDENT PERFORMANCES BETWEEN CLICKER USER GROUP AND NON-CLICKER USER GROUP

We compare learning performances of the non-Clicker user group with that of the Clicker user group on the same accounting course in the same program. The learning performances are measured by final exam scores of the students. The mean score of Clicker user group is compared with that of non-Clicker user group before and after controlling for the effect of such demographic variables as GPA, gender, and class standing. Results from comparison of student performances in the final exam before controlling for the demographic variables are presented in Table 1.

Table 1
Comparison of Student Performances in the Final Exam
Before Controlling for the Demographic Variables

Clicker Users: N= 40			Non-Clicker Users: N=54			Mean Difference	t-statistics
	Mean	Standard Deviation		Mean	Standard Deviation		
Undergraduate: N=18	79.1	9.3	Undergraduate: N=25	76.1	10.7	2.94	0.93
Graduate: N=22	82.1	8.5	Graduate: N= 29	83.2	6.1	-1.11	0.54
Overall: N=40	80.7	8.9	Overall: N=54	79.9	9.2	0.8	0.42

As shown in Table 1, Mean performance of Clicker user group is higher than that of non-Clicker user group by 0.80 point, which is consistent with our expectation. But the difference

of 0.80 point is not statistically significant and hence can not lead to any meaningful conclusion on the effect of Clicker use on student learning.

An alternative way used to examine the difference in student performances between Clicker user group and non-Clicker user group is to run a two stage ANOVA model like the following,

$$\text{Scores} = \alpha_0 + \alpha_1 \text{ Gender} + \alpha_2 \text{ Class} + \alpha_3 \text{ GPA} + \text{Residual} \quad (1)$$

Where Scores = test scores,
Class = 0 if undergraduate, or = 1 if graduate,
α_i = the partial regression coefficients of variable 'i',
Residual = Scores without the effects of Gender, Class, & GPA.

$$\text{Residual} = \alpha_0 + \alpha_1 \text{ Clicker} + \varepsilon \quad (2)$$

Where ε = the error term,
Clicker = a dummy variable for the use of Clicker,
= 1 for Clicker user group, =0 for non-Clicker user group.

Model (1) is run to control the compounding of gender, class standing, and GPA on final exam scores, while model (2) is estimated to measure the learning effect of Clicker.

COMPARISON OF IMPROVEMENT IN STUDENT PERFORMANCES BETWEEN CLICKER USER GROUP AND NON-CLICKER USER GROUP

Here, we compare the improvement in student performances from the first test to the final exam of the two groups on the same accounting course in the same program. To make this comparison of learning improvement between the two groups, Clicker was used only after the first test conducted in Clicker user group. Results from this comparison are presented in Table 2.

Table 2
Comparison of Improvement in Student Performances
Between Test 1 and Final Exam

Clicker Users: N= 40			Non-Clicker Users: N=54			Mean Difference	t-statistics
	Mean	Standard Deviation		Mean	Standard Deviation		
Test 1	75.8	12.5	Test 1	71.6	13.9	4.22	1.51
Final Exam	80.7	8.9	Final Exam	79.9	9.2	0.8	0.42
Change	4.9	8.09	Change	8.3	9.13	3.42	2.03**
** Significant at 5% significant level.							

As shown in Table 2, Mean improvement in student performances of Clicker user group is lower than that of non-Clicker user group by 3.42 point, which is not consistent with our expectation. Although the difference of 3.42 point is statistically significant at 5% significance level, these results could be contaminated by some demographic variables like GPA. Thus, it may be premature to draw any meaningful conclusion on the effect of Clicker use on student learning based on these results.

CONCLUSIONS

The learning effect of Clicker was examined in this study. But we can any evidence neither for nor against this issue. It may be because some important determinants of learning performances like GPA and class standing are not properly controlled, yet. Thus, it may be premature to draw any solid conclusions on this learning effect of Clicker.

CORPORATE GOVERNANCE AND DEVELOPMENTS IN THE PHILIPPINE ACCOUNTING PROFESSION

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ABSTRACT

Poor corporate governance adversely affects not just individual investors but global economies. National level policy reforms to firm level reforms have been prescribed and implemented. However, corporate governance on the micro level is incomplete without incorporating what actually happens at the financial reporting level and in the legal environment. These grassroots realities affect the condition of corporate governance perhaps even more than the macro level does.

Since 1996, Philippine accounting standards gradually shifted from the Generally Accepted Accounting Principles (GAAP) of the United States to international accounting standards (IASs) and international financial reporting standards (IFRSs) adopted from Europe. Ensuring that corporate stakeholders have access to high quality financial information is not simply a matter of designing a body of accounting standards. Financial statements prepared by business enterprises in many East Asian countries rarely comply fully with the national standards or the international standards they were based upon. The compliance mechanism, or the lack of efficient and effective enforcement, rather than the standards themselves, has been the weak link.

This article shows instructional reforms addressing corporate governance after the East Asian crisis of 1997-1998 particularly on financial disclosures. It also mentioned the regulatory powers of the Philippine Securities and Exchange Commission (SEC)as mandated by the Securities Regulation Code effective in 2000 and the General Banking Law of 2002 which tightened the requirements for preparing financial statement by banks and other financial institutions .

This article does not focus so much on the details of the changes in the accounting standards but on the history and reasons for those changes along with the other significant developments in the accounting profession in the Philippines drawing heavily on the Asian Development Bank and World Bank studies. It reviews the Philippine situation as of 2002 and gives an update of developments in the accounting profession after that year.

It is apparent that the Philippine adheres to the various developments in the accounting profession, however, implementations and compliance are the areas that need constant evaluations.

INTRODUCTION

Poor corporate governance adversely affects not just individual investors but global economies. Broad, far reaching policy recommendations ranging from macro or national level policy

reforms to micro or firm level reforms have been prescribed and implemented to address the issue. However, corporate governance reforms are incomplete without incorporating what actually happens at the financial reporting level and in the legal environment. These grassroots reality affect the condition of corporate governance perhaps even more than the macro level does.

For example, the 1997 financial statements of companies in East Asia hardly reflected the extent of risk exposure despite the seriousness of the financial crisis. The financial statements prepared by the business enterprises in these countries rarely complied fully with their national standards and international standards they were based upon. The lack of an efficient and effective enforcement mechanism allowed widespread non-compliance with their national or international accounting standards. Quality financial reporting not only shapes financial transparency and accountability of the corporate sector and plays a crucial role in ensuring good corporate governance, but also provides an important link in the national and international financial architecture (Rahman 2000).

PHILIPPINE ACCOUNTING AND AUDITING PRACTICES BEFORE 2002

The Philippine accounting profession has a long and proud history whose origins can be traced back to pre-Spanish times as a result of trade with neighboring countries where crude accounting records were needed. Public accountancy practice started after the 1762-1763 British occupation of Manila after overseas accountants contracted by the British stayed on to service foreign firms in Manila. The profession was formally recognized during the American colonial period with the passing in 1923 by an all-Filipino legislature of an accountancy law which established the Certified Public Accountant (CPA) title for those who passed a written licensure examination and the creation of the Board of Accountancy (BOA) to regulate the profession. Six years later, CPA professionals organized in the Philippine Institute of Certified Public Accountants (PICPA), a private non-stock corporation, which contributed immensely to the development of the profession and by 1973 became the accredited national professional organization.

The law was revised in 1967 adding provisions governing the standardization of accounting education and the requirements for the CPA examination and regulating the practice of the profession including limiting local practice to Filipino citizens and to nationals of countries that extended the same privilege to Filipino citizens. During martial law, a 1975 presidential decree (No. 692) revised the law retaining many of the provisions but placed the Board of Accountancy under the Professional Regulation Commission (PRC) created in 1973 to supervise and regulate professions.

Since 1996, in response to increasing trade with European countries, Philippine accounting standards started to shift gradually from the Generally Accepted Accounting Principles (GAAP) of the United States to international accounting standards (IASs) and international financial reporting standards (IFRSs) adopted from Europe. Shortly after the East Asian crisis of 1997-1998, structural reforms addressing globalization and corporate governance particularly on financial disclosure were introduced. The regulatory powers of the Securities and Exchange Commission (SEC) had been strengthened with the Securities Regulation Code, which became effective in 2000. The General Banking Law of 2000 tightened the requirements for preparing financial statements by banks and other financial institutions. The country's central bank reissued the Manuals of Regulation in two

volumes, one for banks (Jan. 2000) and the other for non-banks (May 1999). The 1980 Corporation Code, the 1999 National Internal Revenue Code (NIRC), and the 1975 Accountancy Law were the other laws that provided the legislative and institutional framework for the accountancy profession.

The Securities and Exchange Commission (SEC) implemented the provisions of the Revised Securities Act and Corporation Code. It covered the forms and content of financial statements, the definition of accounting terms, accounting rules and regulations. The Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) interpreted and enforced the NIRC and the Tax and Customs Code respectively. The BIR approved changes in corporate accounting policies and methods, and required filing of audited financial statements. The Accounting Standards Council (ASC) promulgated accounting standards while the Auditing Standards and Practices Council (ASPC) promulgated auditing standards. The Professional Regulation Commission (PRC) granted the accounting licenses and through the Board of Accountancy (BOA) approved accounting and auditing standards, regulated the accountancy profession, and determined and prescribed admission requirements for Certified Public Accountants (CPAs). The Philippine Institute of Certified Public Accountants (PICPA) selected and designated members of the ASC, oversaw continuing professional education for CPAs, and enforced with the BOA the Code of Ethics for the profession.

ADB AND WORLD BANK RECOMMENDATIONS

The Asian Development Bank (ADB) conducted a series of country Diagnostic Studies on Accounting and Auditing (DSAA) practices in Asia after the 1997 crisis while teams from the World Bank (WB) and International Monetary Fund (IMF) undertook corporate governance country assessments under their Reports on the Observance of Standards and Codes (ROSC) program.

The Philippine DSAA (Narasimham and Reid, 2002) gave a comprehensive description and analysis of Philippine accounting and auditing standards and practices and identified deficiencies in the standards and standard-setting arrangement including lack of compliance monitoring in financial reporting, weaknesses in accountancy education, Certified Public Accountant (CPA) licensure standards and quality assurance arrangements. The study was completed prior to a WB review under the Reports on the Observance of Standards and Codes (ROSC) program and served as a resource for the ROSC Report on Philippines Accounting and Auditing (Dec. 17, 2001) that focused on the institutional arrangements underpinning the quality of accounting and auditing practices in the Philippines. A joint WB-IMF team had earlier completed its ROSC Corporate Governance Country Assessment (WB Sept. 2001) which uncovered evidence of non-compliance with various Philippine accounting standards and recommended several policy changes. Lengthy discussions were held with representatives from the Philippine government and accountancy profession on the results of both studies.

The Philippine DSAA presented issues and recommendations associated with gaps or weaknesses in Philippine accounting and auditing arrangements which were consistent with those identified by the subsequent World Bank review of Philippine Corporate Sector Accounting and Auditing Practices whose consultants used the preliminary findings of the ADB study as a major resource. The ADB acknowledged that the Philippine accountancy profession was once among the region's strongest and the recommendations were intended to return the accountancy profession to its former status. The recommendations were classified into improvements in the accounting and

auditing standards and practices, in the quality of financial reporting, in the standards for CPA licensure and quality assurance arrangements, and in the standards of accountancy education and training.

The 2001 ROSC recommended amendments to the existing laws to strengthen the enforcement capabilities of the regulating bodies, to take steps to adopt international standards in accounting and auditing by adopting the International Accounting Standard (IAS) and International Standard in Auditing (ISA) in full without any modification, to change the responsibility of the standard setting bodies (ASC and ASPC) from standards setting to developing implementation guidelines and interpretations of the international standards, to provide for the creation of a quality assurance review mechanism to evaluate the system of quality control of auditors/audit firms involved in conducting statutory audits of public companies and financial institution, to create an independent research organization to monitor the quality of information provided in published financial statements, to take necessary steps to improve accountancy education, and to revitalize PICPA.

DEVELOPMENTS AFTER 2002

A new Accountancy Law (R.A. 9298) was passed in 2004, although promulgating few significant changes in the provisions of accounting law, improved the institutional framework by empowering the Professional Regulatory Board of Accountancy to prescribe and adopt the rules and regulations necessary for carrying out the provisions of the law. Many of the changes were therefore incorporated in the Implementing Rules and Regulations. For example, it explicitly required all CPAs to be members in only one registered and accredited national professional organization (APO). And while PICPA was retained as the APO, it required PICPA to come up with a credible three-year plan as a condition for renewal.

The new law also mandated the Board to prescribe and/or adopt a Code of Ethics for the practice of accountancy and strengthened its punitive powers. It created the Financial Reporting Standards Council (FRSC) and Auditing and Assurance Standards Council (AASC) to replace the former accounting and auditing standards setting councils, and an Educational Technical Council (ETC) to assist the Board in carrying out its function of ensuring coordination with the Commission of the Higher Education (CHED) in the areas of curriculum, faculty, library and facilities.

It explicitly required continuing professional education (CPE) by creating a PRC CPE Council whose functions include among others the acceptance, evaluation, and approval of applications for the accreditation of CPE providers, CPE programs, and exemptions from CPE requirements. Accounting professionals must now earn 60 CPE units within three years and present to the PRC a certification of CPE credit units earned before licensing can be renewed. With the board's approval, PICPA established a CPE Council as a counterpart organization to PRC's CPE Council for Accountancy. The PICPA CPE Council serves as the implementing arm of the PRC CPE Council, including the acceptance and processing of applications for accreditation of CPE providers.

The new law also explicitly required the accreditation of individual CPAs and firms engaged in public accountancy. Individual practitioners and firms or partnerships in public accountancy, including their partners and staff, need to be accredited by the PRC and the Board every three years and must have three years of meaningful experience in the practice of accountancy either in public

practice, in commerce, in industry, in the academe, or in government. They must all earn CPE credits and document internal quality assurance procedures within the firm. The law also created a Quality Review Committee (QRC) to conduct an oversight into the quality of audit of financial statements through a review of the quality control measures instituted by individual CPAs, firms or partnerships in order to ensure compliance with accounting and auditing standards and practices.

Some DSAA and 2001 ROSC recommendations were not implemented, e.g. practical experience requirement for and written component to the CPA licensure exam, provisional CPA title, and accounting technician membership category. The new law however empowers the BOA to implement these recommendations when appropriate. The new accreditation and quality review process, if properly designed and implemented, would more than make up for the above mentioned deficiencies.

A World Bank review of accounting and auditing in the Philippines noted the improvements and gave follow up recommendations (ROSC March 15, 2006) focusing on the need for a monitoring and enforcement mechanism for quality control review. It recommended the establishment of an oversight body to coordinate the quality control programs of the various stakeholders and provide appropriate transparency in carrying out the quality control function. It also recommended adequate education and training on the new international standards not only for auditors and preparers of financial statements but also for regulators and tax officials. For schools, global developments in accounting and auditing should be reflected in the CPA training and examination arrangements. For BOA examiners, the professional qualification examinations should test candidates' knowledge about the practical aspects of professional ethics. For trainee accountants, practical experience leading to qualification as a professional accountant should be conducted under the direction of a mentor who is an experienced CPA. And for PICPA as a CPE provider and as the body designated to create a CPE Council should build up a core of full time professionals to handle its CPE activities rather than rely on volunteers. The report also recommended rationalizing the audit requirements for small companies.

The ROSC proposal to rationalize audit requirements for smaller companies deserves merit. Small and medium enterprises account for more than 99% of Philippine establishments or more than 4 million entities. The thresholds for submission of audited financial statements were set many years ago and are now too low that the system by itself encourages below-standard audits. Both the SEC and the Bureau of Internal Revenue do not have enough trained personnel to review most of the submitted financial statements. Unevenness in the quality of audits between the large and small auditing firms were observed and most of those interviewed welcomed the idea of classifying audit firms into two or three tiers and applying different levels or quality control procedures to each tier.

CONCLUSION

It is apparent that the Philippine adheres to the various developments in the accounting profession, however, implementations and compliance are the areas that need constant evaluations. Rahman aptly pointed out that it is the compliance mechanism rather than the standards themselves that is the weak link. Assuming that sufficient training and continuous professional education given enough time would not be wanting, it is the lack of an efficient and effective enforcement mechanism that will allow widespread non-compliance with the standards. As the leader of the

World Bank team that prepared the two ROSC documents on accounting and auditing in the Philippines, Rahman knew very well that the Board of Accountancy even with the Quality Review Committee and SEC would not have sufficient resources to guarantee an efficient and effective enforcement mechanism. The rationalization of the threshold requirements and the proposed independent oversight body to coordinate the quality control programs of the various stakeholders and provide appropriate transparency in carrying out the quality control function could be the lynchpin in the success of the recently introduced reforms.

ACCOUNTING MAJORS' ABILITY TO IDENTIFY FINANCIAL REPORTING ERRORS AND OMISSION AND THE CONVERGENCE BETWEEN U.S. GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

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ABSTRACT

The accounting profession has faced many challenges during the past few years, including financial reporting scandals and compliance with new legislation, namely the Sarbanes-Oxley Act of 2002. A new challenge is on the horizon that likely will bring many opportunities, as well as challenges for the accounting profession. This change is the virtually certain convergence between U.S. GAAP and International Financial Reporting Standards (IFRS).

This expected convergence with IFRS, which is supported by the Securities and Exchange Commission and the Financial Standards Board, will necessitate that accounting professionals, public companies, educators, and financial statement users are knowledgeable about IFRS, which in many areas are similar to U.S. GAAP. In addition, during the multi-year transition period, accounting majors have to acquire knowledge of U.S. GAAP as well as IFRS. Yet, students tend to have difficulties with financial reporting consistent with U.S. GAAP. These difficulties have to be addressed.

The purpose of this study is (1) to identify accounting majors' specific strengths and weaknesses regarding financial reporting issues involving consolidations and other complex accounting issues and (2) to develop recommendations that will help accounting educators address these weaknesses in light of the added complexity arising from the almost certain convergence to IFRS.

The results of this study show that overall, the mean percentage of correct identification of errors and omissions varied considerably among financial reporting categories. Students were more likely to identify errors and omissions on the face the financial statements than in the financial statement notes. The results suggest that specific financial reporting issues and note disclosures continue to be difficult for students and must be further addressed. Financial reporting cases could be utilized to help students improve their financial reporting knowledge, address differences and similarities between U.S. GAAP and IFRS, and focus on weaknesses identified by this study.

INTRODUCTION

A new and exciting challenge is on the horizon for the accounting profession and for public companies. This challenge is presented by the nearly certain convergence of U.S. Generally

Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS), which is supported by U.S. standard setters. This tremendously significant event not only presents challenges, but also opportunities. Convergence with IFRS will transform the U.S. accounting profession into a global profession, creating tremendous professional opportunities. It also will require that during the transition period, accounting professionals know and understand U.S. GAAP, as well as IFRS.

Current and future accounting professionals must prepare for this convergence, which in essence entails the U.S. adopting a version of IFRS that both U.S. standard setters (FASB and the SEC) and the IASB agree upon. U.S. GAAP and IFRS are fundamentally different in that U.S. GAAP is largely rule-based, while IFRS primarily are principles-based. Rule-based standards are more detailed, attempting to address as many issues as possible, which often leads to very lengthy rules. Principles-based standards, on the other hand, generally provide broad guidance and less detail, and require more professional judgment.

The enhanced professional judgement needed under principles-based IFRS rules requires comprehensive understanding of accounting principles and the underlying concepts. Accounting professionals must be very knowledgeable about financial reporting and possess comprehensive understanding of underlying concepts and principles. Yet, undergraduate accounting students frequently have difficulties preparing financial statements and related disclosures under current U.S. GAAP. This likely will become an even greater challenge as accounting students must become familiar with the financial accounting and reporting of two similar, yet fundamentally different sets of rules.

If students are to acquire comprehensive knowledge about consolidations and other difficult accounting concepts for both, IFRS and U.S. GAAP, current weaknesses in knowledge need to be identified and addressed. This will help accounting educators refine and refocus their efforts in helping students learn U.S. GAAP and IFRS.

The purpose of this study is (1) to identify accounting majors' specific strengths and weaknesses regarding financial reporting issues involving consolidations and other complex accounting topics and (2) to develop recommendations that will help accounting educators address these weaknesses in light of the added complexity arising from the almost certain convergence to IFRS. The results of this study show that overall, the mean percentage of correct identification of errors and omissions varied considerably among financial reporting categories. Students were more likely to identify errors and omissions on the face the financial statements than in the financial statement notes. This suggests that specific financial reporting issues continue to be difficult for students and must be addressed.

BACKGROUND LITERATURE

In 2002, the IASB and the FASB signed what is commonly referred to as the Norwalk Agreement in which the two standard setters agree to (a) eliminate differences and (b) coordinate their future standard setting efforts (FASB, 2002). FASB also issued "Principles-Based Approach to U.S. Standard Setting" (FASB, 2002), a proposal that would lead to more principle-based accounting standards, which would reduce the existing overload of specific accounting standards and likely require more professional judgment. IFRS already are principles-based, while U.S. GAAP

are primarily rule-based. The FASB and its current Chair, Robert Herz, support convergence to IFRS (Herz, 2008).

Convergence of U.S. GAAP and IFRS is highly likely and is supported by the SEC. In December 2007, the SEC issued a rule which eliminated the required and typically costly requirement for foreign companies listed on U.S. financial exchanges to reconcile IFRS-based financial statements to U.S. GAAP (SEC, 2007). On August 27, 2008, the SEC announced that it will issue a proposed roadmap that may lead to the adoption of IFRS by U.S. public companies by fiscal year 2014, and may allow certain large SEC registrants to early-adopt IFRS for fiscal periods ending after December 15, 2009 (SEC, 2008).

Financial reporting for public companies has become quite complex. Standards issued by the FASB, the primary source of GAAP in the U.S., have become very detailed and extensive and frequently exceed 100 pages. In addition, many public companies are consolidated entities, which requires the application of complex consolidation rules and procedures and further enhances the complexity of accounting issues.

Financial accounting misstatements are fairly common and have increased during the past few years. Misstatements typically occur because of errors, omissions, and incorrect application or choice of accounting standards. For example, in 2005, 1,295 U.S. listed corporations restated their financial statements filed with the SEC and over a nine-year period (1997-2005), 30% of the public companies restated their financial statements filed with the SEC at least once, some several times (Turner & Weirich, 2006).

HYPOTHESIS DEVELOPMENT AND METHODOLOGY

Accounting professionals, accounting educators and students, the business community and particularly large public companies must prepare for the pending convergence to IFRS. Fortunately, in many difficult areas of accounting, IFRS and U.S. GAAP are similar. These include accounting for pensions, EPS, deferred taxes, and consolidations, and are the focus of this study.

Many accounting text books tend to devote less space to disclosure requirements than to the related financial accounting rules. In addition, due to time constraints and an ever-increasing amount of financial reporting rules that need to be covered in class, coverage of disclosure requirements tends to be secondary to conceptual discussions and accounting methodology. As a result, students rarely read or analyze financial statement notes and tend to feel less comfortable with financial statement notes than with financial statements. Identifying omitted financial statement items and disclosures tends to be more difficult for students than it is to evaluate the correctness of existing items and disclosures. Thus, hypothesis H1 and H2 are:

H1: Students are more likely to identify errors and omissions on the face of the financial statements than in the financial statement notes.

H2: Students are more likely to identify errors than they are to identify omissions.

The researcher developed a financial reporting project that consists of financial statements and financial statement notes for a hypothetical consolidated entity, and included 38 intentional errors and omission relating to the topics covered in Advanced Accounting at a major western

university. Eighty-five students who were enrolled in three sections of Advanced Accounting and Financial Reporting during the Winter 2005, Winter 2003, and Summer 2002 worked on this project for the first eight weeks of the quarter while the related subject matter was covered in class. Students were expected to evaluate the completeness, correctness, and articulation of the financial statements and financial statement notes as a whole and related to specific issues and topics covered in the course.

Students submitted written reports describing the errors and omission and recommending specific changes that would serve to correct errors and omissions consistent with GAAP. These student projects were the basis for this analysis. Correct responses were summarized and the data was evaluated using descriptive statistics and paired-sample t-tests. The specific topics covered in the course and included in the project, and the number of errors and omissions were as follows: overall financial statements (3); accounting changes and error correction (3); pension accounting (7); deferred income taxes (6); earnings per share (4); and business combinations (15).

RESULTS

The mean percent of correct answers to the 38 items varied considerably between financial reporting categories and items. For the overall financial statements the highest percent correct was 78%, the lowest, 28%; for accounting changes and error corrections, the highest percent correct was 49%, the lowest, 15%; for pension accounting, the highest percent correct was 52%, the lowest 13%; for deferred income taxes, the highest percent correct was 67%, the lowest, 13%; for earnings per share, the highest percent correct was 55%, the lowest, 20%; and for business combination related topics, the highest percent correct was 62%, and the lowest, 5%.

Tests of hypothesis H1 suggest that students are more likely to correctly identify errors and omissions on the face of the financial statements than the financial statement notes ($p<0.01$). Hypothesis H2 found no significant difference between the percentage of errors and the percentage of omissions correctly identified by students ($p>0.05$). The following strengths and weaknesses were identified:

Strengths

1. Identification of mathematical errors
2. Reconciling schedules needed for pension accounting
3. Identification of errors in the articulation between amounts shown in financial statements and notes
4. Identification of omitted disclosures regarding new business acquisitions
5. Identification of inter-company transactions

Weaknesses

1. Disclosure of effect of new legislation
2. Identification of potential off-balance sheet transactions needing recognition
3. Identification of effect of pending legislation
4. Identification of omitted comparative financial statement years
5. Identification of omitted disclosures in notes regarding pensions and deferred taxes.

CONCLUSIONS

The mean percent of correct identification of financial reporting errors and omissions varied considerably among financial reporting categories. Some students focused primarily on style and format, instead of content.

In light of the almost certain convergence to IFRS, accounting educators must help students to learn and understand financial accounting and reporting under both U.S. GAAP and IFRS. This could will be a difficult task, particularly in Intermediate and Advanced Accounting courses, where time constraints are critical. Identifying weaknesses and strengths will help focus educators' efforts and help them optimize scares instruction time. Using financial reporting cases that include financial reporting issues that need additional attention may be useful in addressing weaknesses. In addition, cases that address similarities and differences between U.S. GAAP and IFRS, and cases that include financial statement notes likely will be useful.

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THE EFFECT OF THE 2003 TAX ACT ON CORPORATIONS' CAPITAL STRUCTURE

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ABSTRACT

This paper examines the effect of "Jobs and Growth Tax Relief Reconciliation Act of 2003" (hereafter the "2003 Tax Act") on the firms' capital structures. Two major provisions of the 2003 Tax Act are lowering dividends income taxes from 38.6% to 15% (61% reduction) and taxes on capital gains from 20% to 15% (25% reduction). Since the 2003 Tax Act more likely to reduce the cost of equity capital than the cost of debt capital, the equity (debt) capital is expected to be more (less) attractive after the 2003 Tax Act. Hence, firms are more (less) likely to issue equity (debt) securities and pay off previously issued debt after 2003. We find the evidence that firms' leverage ratio (Debt to Equity ratio) decreases after 2003 and firms have financed more from issuing stocks rather than from borrowing long-term debts. However, we do not find the evidence supporting direct association between changes in cost of equity capital and changes in firms' leverages, implying that magnitude of changes in cost of equity capital does not affect firms' decisions about capital structures. In conclusion, we find evidence that personal taxes may impact on firms' capital structures. Our study has a significant contribution to tax study by demonstrating that investor-level taxes have predictable and material effects on firms' financing strategy.

HISTORICAL INFLUENCES ON MODERN COST ACCOUNTING PRACTICES

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ABSTRACT

This paper reviews the significance of military cost accounting practices used during the U.S. Civil War. Many of our modern cost accounting practices were derived from those utilized by the U.S. Army from 1861 to 1865. Cost accounting practices were vitally important during this period in order to properly manage all expenses relating to "men and materials" Army accounting clerks and quartermasters were taught comprehensive accounting principles and practices at West Point. Prior to the Civil War period, the accounting systems used by American business firms differed little from the basic bookkeeping principles introduced by Pacioli in 1494. These military principles were incorporated into American businesses following the war.

The first portion of this paper relates to the development of cost accounting in the United States from the late 1700s to the Civil War era. In particular, major improvements in cost accounting theory introduced at the West Point Military Academy by Colonel Sylvanus Thayer are discussed. Thayer is often called the father of the Military Academy and the originator of a â€œnew managerialism.â€ This new managerialism involved an emphasis on discipline and ethical behavior as well as procedures and practices aimed at improving academic standards. Thayer provided the leadership for major improvements in the identification, classification, and management of costs. His disciplined education created a framework used by numerous military institutions around the country in an effort to properly record and classify all types of costs. Thayerâ€™s practices were incorporated into three major texts used in the training of all accounting clerks and quartermasters.

The second part of this paper reviews the three instructional texts that were required reading for any soldier who prepared accounting statements and reports. The Revised Regulations of the Army of the United States 1861, The Company Clerk, and The Quartermasterâ€™s Guide were major instructional guides for any soldier who was required to prepare periodic accounting reports or statements. These documents described the numerous reports that were required for a military company or regiment on a daily, weekly, monthly, or quarterly basis. The required reports involved the identification and summary of all costs related to the men and materials. Accounting for payroll alone presented a huge burden as soldiers were frequently promoted or were employed on â€œextra-dutyâ€ work details which provided additional earnings.

The third segment of this paper reviews actual Civil War accounting records. These documents emphasize the importance of a standard costing system that was used extensively by the army. For example, the army developed a standard cost system for all types of clothing used by the

soldiers. Cost reports were prepared in order to determine if a soldier was over or under budget on his clothing allowance. Other reports discussed in this paper include budgets used by the army in its effort to control costs. Many of the cost accounting reports utilized today can be traced to the army's accounting system of the 1860s.

This paper should be of interest to conference attendees as they discover the importance of military training on the development of cost accounting in the United States. Many of the accounting principles used by the army during the Civil War continue to benefit American businesses today. West Point trained soldiers took their knowledge of cost classification and management with them as they accepted executive positions in business firms following the war. The authors feel that this paper will provide information of interest to any educator involved in teaching cost or managerial accounting.

THE DU PONT MODEL: EVALUATING ALTERNATIVE STRATEGIES IN THE RETAIL INDUSTRY

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ABSTRACT

The purpose of this paper is to examine the financial performance of retail firms through the use of the modified Du Pont method of financial ratio analysis and to infer the drivers of financial success under alternative business strategies. Firms in the retail industry were categorized according to their high/low relative net operating income to sales and asset turnover ratios. Firms with high relative net operating income to sales and low relative asset turnover were assumed to be pursuing a differentiation strategy and those with high relative asset turnover and low relative net operating income to sales were assumed to be pursuing a cost leadership strategy. The performance variable used was return on net operating assets.

Prior research suggests that a firm could, in theory, perform well following either strategy. However, the findings of this research suggest that retail firms that pursue a differentiation strategy are more likely to achieve a higher return on net operating assets than those that pursue a cost leadership strategy.

This paper should be of interest to members of the Academy whose teaching, scholarship, and business engagement activities include the analysis of businesses using information from financial statements or investment services such as Value Line.

A MARKOV CHAIN MODELING APPROACH FOR PREDICTING A RETAIL MORTGAGE HEALTH INDEX

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ABSTRACT

This paper provides an indexing procedure for a mortgage loan health status by means of a finite Markov chain approach, which converts the loan health abstract idea into a workable number system. This method could be easily extended to other banking products as well. A regression method is used to analyze the local macroeconomic factors' effect on the health index. The management of a bank could use these procedures to adjust its loan approval policies based on current characteristics and future prediction of the portfolio.

UNPLEASANT SOCIAL SECURITY SURPRISES FOR SOME CLIENTS

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ABSTRACT

As of September 09, 2008

This study presents the Government Pension Offset (GPO) and the Windfall Exclusion Provision (WEP) provisions within the Social Security system, and provides a discussion of how these two little understood parts of the Social Security law could significantly impact the dollar amount of the monthly benefit received by some of your clients. These two rarely discussed provisions in the law are very important considerations for the financial planner because some of the financial planner's clients may be seriously overestimating the Social Security benefit to which they will be entitled. It will be the responsibility of the planner to recognize that a client is potentially subject to these benefit-reducing provisions of the law, and to determine a way to compensate for the negative effects these laws may have on clients.

The people potentially affected by the GPO and WEP are certain persons who receive a pension from employment in which they did not pay Social Security taxes. For example some people employed in federal, state or local government work and many police departments, firefighter departments, and public school systems chose to opt out of the Social Security system many years ago when they had that option. In theory this has allowed the pension funds of these organizations to pay larger pensions to their workers, since both the worker's and the monthly employer's contributions that would have gone into Social Security have instead gone into the pension funds for investment. However, with legislation that has been adopted in recent years, the workers who have not been paying into Social Security may have some unpleasant surprises ahead. Since few wealthy people retire from a career where they will be affected by these laws, those persons who are affected (certain civil servants, policemen, firemen, and teachers) may find the GPO and WEP to be devastating to their retirement finances.

The first surprise for clients will be the very existence of the GPO and WEP. All they have seen on their annual Statements is that projected benefits might be affected by various factors, including the WEP and the GPO. The descriptions of these two provisions are so non-descriptive that they would typically not raise any 'red flags' among individuals getting ready to retire. But the financial impact that these two provisions can have on individuals is very large, as is show in Tables 3 and 4. The drop in the amount of the monthly benefit is painfully large should the spouse with uncovered employment survive the other spouse. Income shortfalls from anticipated income (25% in the scenarios demonstrated above) are potentially quite real.

The second surprise involves the fact that the amount that a retiree may receive after retirement and while both spouses are alive, is dramatically less than the amount the prospective retiree sees on his or her annual Statement. In the scenario described in Table 2 the wife might have

expected a spousal benefit of $1,000. But her covered employment benefit eliminates it entirely. In the scenario described in Table 3, the wife might have expected a spousal benefit of $1,000. But in this case her uncovered employment benefit reduced the spousal benefit and her widow's benefit by ? of the amount of her uncovered benefit. In Table 4 (the last scenario) the wife would see an expected benefit amount of $1,200 on her annual Statement prior to retirement and she might also have expected a spousal benefit of $1,000 based on her husband's Social Security Statement. Imagine her surprise when she finds that the WEP has reduced her net Social Security benefit to $860 and also totally eliminates her spousal benefits.

In some ways the most potentially upsetting surprise for a retiree is the fact that even if retirees learn today of the impact of the GPO or WEP on their retirement benefits, there is likely little that they can do now about the fact that they will be receiving much less in retirement from Social Security than had been indicated on their annual Statement.

Yet this is exactly where the role for the planner may start. A financial planner can perform a vital and valuable service to clients identifying and quantifying the financial impact the GPO and WEP will have on retirement income. The financial planner then adds value by offering suggestions or products that will make up for the shortfall caused by these Social Security provisions. For example, in our last two scenarios one obvious alternative solution may be the use of increased life insurance for husband to help cover the income shortfall of the surviving wife if he predeceases her.

Earlier recognition of the dangers of the GPO and WEP will lessen the financial impact of these Social Security offsets and may allow for a more financially secure retirement.

INTRADAY STUDY OF THE IMPACT OF DENIAL OF SERVICE ATTACKS ON INTERNET FIRMS

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ABSTRACT

Rapid advances in computer technology has transformed how we do business and transmit information over the internet in real time; but with these advantages businesses have also assumed new risks. This paper investigates the market impact of Denial of Service (DoS) attacks on internet firms and the information transfer affecting the market value of other internet and internet security firms. In this study we use seemingly unrelated regressions (SURs) and portfolio approach to study the market impact of DoS attacks by using intra-day data obtained from the NASTRAQ database. We find evidence for trading volume of firms being adjusted for DoS attacks but mixed results for firm's returns.

FOUR TOOLS (UNDER THE UMBRELLA OF CONTINUOUS IMPROVEMENT) TO HELP AUDITORS PREVENT/DETECT FRAUDS

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INTRODUCTION

The fact is that fraud is on the rise. This is evident from the trends reported in several reports issued by the Association of Certified Fraud Examiners ACFE). From 2002 to 2008, losses, in terms of the U.S. Gross Domestic Product, have risen from $600 billion to $994 billion and the percentage of annual revenue lost to fraud has varied between 5% to 7% (ACFE, Report to the Nation, 2002, 2004, 2006, 2008).

Fraud has ramifications that affect several constituents. Fraud has the potential to negatively impact the company in which it is committed, its work force, its vendors and customers, its industry, the individuals and companies involved in its governance process, the economy which it serves, the U.S. capital market, the U.S. economy, and also the world economy. With every case of fraud there is a bit of trust that is lost in humans, in the governance and regulatory process, and in free markets.

In the past, the public accounting profession was held to a higher standard while being able to self-govern, control entry to the profession, establish a code of conduct and engage in peer review. More recently, the profession has been intimately connected with the ups and downs in the major cases of frauds. Arthur Andersen, most directly, was affected in the Enron fraud. Other frauds followed in WorldCom and Sunbeam which brought the public accounting industry to the front and center. This led to investors questioning the honesty and independence of public accountants. Its practices were investigated and new regulations were put in place through the Sarbanes-Oxley Act (SOX) (Sarbanes-Oxley Act 2002). In an open letter to the Public Company Accounting Oversight Board (PCAOB), three former Chief Accountants of the SEC stated, "The foundation upon which investor confidence is built is an audit of the financial statements by an independent third party, the independent auditor. However, the past several years have shown numerous cracks in this foundation." (Rezaee 2004).

One issue that has arisen because of these scandals is the "expectations gap" that exists between what society expects from auditors and what auditors perceive as their responsibility. The growing public demand for accountability is captured in a study conducted by the AICPA in 2003. The study noted that over 80% of those surveyed believed the job of external auditors is to prevent fraud (AICPA, The CPA Letter, 2003). While this is a common public perception, the current auditing standards (SAS 88, SAS 99), do not require auditors to prevent fraud, nor are they designed to detect fraud, other than financial statement fraud. In other words, a whole host of occupational frauds would go undetected through the procedures performed during a financial statement audit despite the standards being followed.

The purpose of this paper is to discuss four tools that will help external auditors conduct more thorough audits in an effort to prevent/detect frauds. It will also help the auditing profession regain its status as a significant player in the fraud prevention/detection area. The four tools discussed in this paper are training, environmental awareness, professional skepticism, and leaning from experience (see Figure 1). An overarching goal of auditors should be continuous improvement. The next part of the paper discusses each tool. That is followed by a conclusion section.

Training

The first section discusses, training future auditors is a critical element in ensuring that they are ready for the world around them. Training has to start early in the life of an accounting student and it has to continue throughout their careers to ensure that they are keeping abreast of changes, not only in their particular field of accounting, in fraud prevention and detection areas. For this initiative to be a success, a variety of interested parties needs to come together and collaborate to ensure success.

Environmental Awareness

Environmental awareness is a tool that will be very beneficial to auditors. A commitment should be made by the public accounting firm to ensure that their staff is sufficiently trained and aware of the environment in which their client firms are operating. It would be beneficial for the public accounting firm to hire consultants who are industry experts. Such consultants should be commissioned to write a report on the state of the industry in which the firm has clients. Audit staff assigned to an audit should be given time to read and digest the information as it relates to the environment within which its clients are operating. Additionally, sufficient time should be given so that audit staff may be able to learn on the job and care should be taken so auditors recognize that the number one goal is audit quality and not simply audit efficiency. Such a strategy should lead to a higher quality audit and a motivated and committed work force.

Professional Skepticism

The deterioration of professional skepticism did not occur in a single audit season, nor will professional skepticism be permanently restored by adapting curriculum and modifying auditor staff training. In the long run, professional skepticism will be limited by the encompassing engagement issue of independence. Future auditors should be trained in the classroom on professional skepticism, the art of asking questions and eliciting responses, determining if the responses are adequate or following-up with further questions, and identifying 'red flags' and following them to a satisfactory resolution without treating audit efficiency as the sole or number one goal.

Learning from experience

There is no substitute for experience. For auditors to be effective in their efforts they need to learn from their and other professionals experiences. One way is for auditors to learn from the

mistakes that were made in past audits within their and other firms. A synopsis of those situations needs to be part of the training of auditors before they go out to the field to audit. Audit firms need to be penalized if mistakes are recurring in nature. It is one thing to not realize that a mistake was made once. It is completely different for a firm to make the same mistake again and hurt a number of stakeholders in the process. Stiff fines should be levied in such situations. Leading organizations in the area of fraud prevention and detection need to be a part of the learning process of auditors. Classes should be taken at these institutions and other experts should be consulted to ensure that auditors are adequately prepared when they leave to conduct an audit. It is recommended that a forensic expert, preferably a certified fraud examiner, be assigned to each audit team as standard procedure.

CONCLUSION

At this point in time it is unrealistic to expect that auditors will detect all frauds that are being committed. A number of significant changes need to take place in the public accounting industry before we can hope that auditors will become the primary group that will be responsible for preventing and detecting frauds. This article discusses four tools that will help auditors prevent/detect frauds. The tools are training, environmental awareness, professional skepticism, and learning from experience. It is important to remember that the overarching goal (umbrella) under which these tools falls is continuous improvement.

The overall desire of the public accounting industry needs to be to improve continuously. They need to understand that they need to embark on a journey that will make them the primary fraud fighters. There needs to be an absolute commitment to improving auditor skills as they relate to fighting fraud.

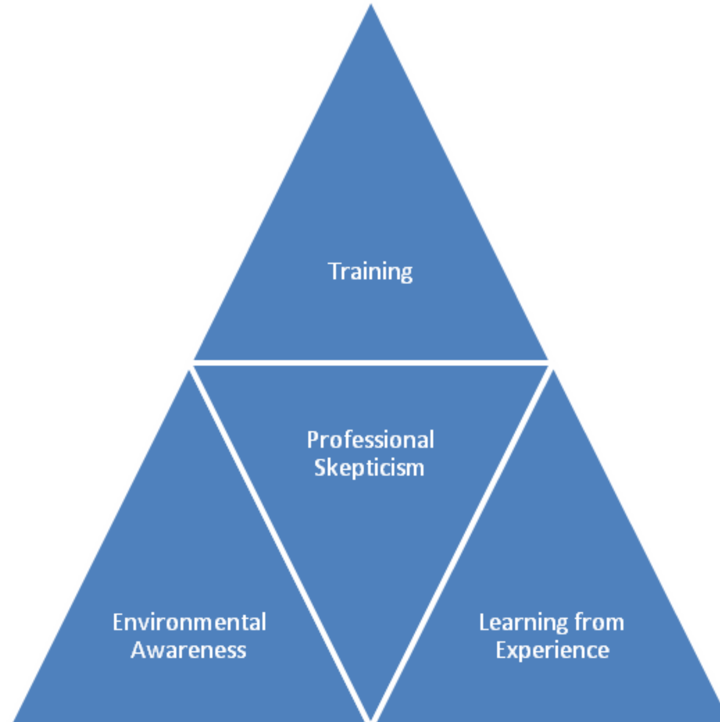
The first step in this journey of continuous improvement is training. A number of partnerships need to be established to ensure that training starts when auditors are students in universities. Professors need to train students (future auditors) to think, questions, analyze, and problem solve. Once students become employees audit firms need to spend a considerable amount of time training them and making sure that they are focused on the quality of the audit as the primary goal, and not simply audit efficiency. Firms need to pool their training methods and share findings that will help improve auditor preparedness and will improve employee retention.

The second step in this journey of continuous improvement is environmental awareness. For an auditor to be a successful fraud fighter they must understand the environment under which their client is operating. Audit procedures should be modified when it looks like the industry is under a period of stress. Experts should be consulted and studies should be a part of training before an audit team visits a client. The risk level, quite like the threat level determined by the Department of Homeland Security, should be determined and work should be planned and modified accordingly.

The third step in this journey of continuous improvement is professional skepticism. The audit team should be professional but should maintain a skeptical attitude when conducting the audit. They should be able to ask questions effectively, be able to form judgments without a-priori assumptions that a client is guilty or innocent of fraud. A thorough effort calls for the audit team to follow every lead and be convinced that all efforts were made to ensure that any potential 'red flag' was investigated to its logical and thorough end.

The last step in this journey of continuous improvement is learning from experience. Experience is the best teacher. Instead of reinventing the wheel, it is advisable that auditors share and learn from their and others' experiences. They need to take advantage of institutions and studies that will help them better understand frauds and how they are committed. It is recommended that each audit team have at least one forensic accountant, preferable a certified fraud examiner.

Figure 1
Four Tools to Help Auditors



CONTINUOUS IMPROVEMENT

EMPIRICAL INVESTIGATION OF THE RELATIONSHIP BETWEEN THE LEVEL OF PLAYERS' SALARIES AND FINANCIAL PERFORMANCE IN THE NBA

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ABSTRACT

According to popular perception and the assertions of franchise managers, sports franchises in the United States are operated as for-profit businesses. One of the premises of operating a business for profit is the expectation that investments in the business are undertaken with the goal of producing a profit either now or in the future. The choice of investments in inputs and the cost of these inputs is a strategic choice in the management of a business. This research examines player salaries in the NBA and the strategic choice of salary level as a strategic choice. It compares player salaries and operating income to determine if there is a positive relationship between these two elements.

INTRODUCTION

The purpose of this paper is to examine if there is a positive relationship between player salary costs and the financial performance of a franchise in professional basketball. For this paper, performance is defined in terms of financial performance. While this paper does not address the salary caps and financial structures of professional sports, it does examine the question of whether an investment in higher salaries for NBA players justified on a return on investment (ROI) basis. Despite the institution of salary caps and the high labor cost for players, considerable latitude is exercised by team management in the strategic choice of how much to pay in total player salaries. Therefore, performance in this context will be measured as the correlation between total salary cost and financial performance of the team.

It has been argued that the production, distribution and consumption of professional sports are unique in many respects (Stotlar, 1994). However, there is a common assumption that a professional sport franchise in the United States is a profit seeking business. In fact, professional sport executives maintain that a professional sports team is managed similarly to any other business (Mullin et al., 1993). Player personnel selections greatly influence the business strategy of the professional sports team (Nourayi, 2006). In this paper we consider the willingness to incur higher player salaries as a strategic input-choice characteristic of team management. This characteristic is measured by total player salary cost. We attempt to determine the correlation between this strategic management characteristic and the financial performance of the team. The expected

correlation will be modified by uncontrollable market variables such as market size. In addition to these market variables, player salary is almost certainly influenced by a host of moderating variables such as win/loss records and the popularity of individual players. However, if the perceived similarities between professional sports and other businesses exist, the cost of this most important input should influence financial performance. It is hoped the results of this analysis will provide useful information on how this managerial characteristic impacts financial success.

PRIOR RESEARCH

As previously noted, there is little research available which is relevant to the current research question. The available body of research concentrates primarily on attendance (Soucie, 1994) or win/loss records (Wakefield and Sloan, 1995) as measures of success in performance. The weakness in this approach is analogous to a corporation measuring performance based on market share or gross receipts. Moreover, as reported in Irwin, et al., (1999), Spolestra (1997) resoundingly refuted that more victories equals more profit. In spite of these findings, the news media continue to attribute financial success of professional sports teams to win/loss records (Teaford, 2002).

In addition to a large body of sports marketing research, a limited number of papers on a variety of other elements of professional sports management have been published. Ferrand and Pages (1999) focus on the image of the professional sports team and associations between professional sports and sponsorships from other corporations. Nourayi (2006) demonstrated the suitability of applying a continuous improvement framework and benchmarking to professional sports team management. This ambitious work not only analyzed the relationship between win/loss ratio and fan attendance (ticket sales), it also examined the playing characteristics of individual players, identified performance gaps, and explained success in terms of win/loss records.

METHODOLOGY

This study assesses the relationship between total player expense and a team's financial success as measured by operating income. If player expense usually provides an adequate return on investment, then an increase (decrease) in player expense should generate a corresponding proportional increase (decrease) in operating income. Therefore, the null hypothesis would be stated as:

H_O: Player expense has a positive relationship with team financial performance.

A regression analysis is performed in which player salary expense serves as the independent variable while operating income is the dependent variable. This study also analyzes total player expense, operating income, and operating income as a percentage of player expense by team to identify trends and/or patterns.

DATA COLLECTION

For the purposes of this paper, total player expense includes salaries, benefits, bonuses, and penalties incurred as a result of exceeding the team's salary cap. In the NBA, franchises may exceed the salary cap, but when they do so, they must pay a penalty equal to the amount by which they exceed the cap (Salary Cap for 2004-05 is $43.87 million, 2005). Total player expense and operating income for each NBA franchise was obtained for a ten year period, 1998 to 2007 (NBA Team Valuations, 2007). For comparability purposes, the Charlotte Bobcats are excluded from the analysis since this expansion team has only existed since 2005.

RESULTS

As noted in Table 1, player expense is negatively related to operating income in all but the first of the ten of the years tested. This relationship is statistically significant at alpha equal to .05 for the combined model of all ten years and six of the ten individual years (2001, 2003-2007). These results support a rejection of the null hypothesis which stated that total player expense is positively related to operating income. The results for 1998, 1999, 2000, and 2002 are not significant at a level of alpha equal to .05. However, all but the one of these years also show a negative relationship between player salary and operating income. While the 1999 results may be influenced by the NBA strike which occurred during the season, no other events can readily explain the insignificant results for these years.

Table 1: Regression Analysis P-Values

	Coefficient X	t-Statistic	P-value
All	-0.17802011	4.748405017	.002831767
2007	-0.81114231	-3.656029367	.001091241
2006	-0.85700253	-4.570937585	.000096468
2005	-0.47335541	-2.127663513	.042645796
2004	-1.09379673	-4.693681922	.000069379
2003	-1.5339911	-5.903464851	.000002730
2002*	-0.21300697	-0.883473409	.384779734
2001*	-0.46595732	-2.083729186	.046779412
2000	-0.07345917	-0.286325759	.776814190
1999*	-0.18395018	-0.694457324	.493328341
1998*	0.115494832	0.504497664	.618004351

Table 2 lists the teams with one of the five lowest operating incomes as a percent of total player expense in at least three years during the study period. Not surprisingly, there are a number of teams that consistently fall into this category and over the ten years of the study, only six distinct teams fit into this category.

Table 2: Teams Producing the Lowest Operating Income as a % of Player Expense										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Mavs	(24.1%)	(62.5%)	(16.7%)	(38.3%)	-	(24.0%)	(41.0%)	(18.9%)	(24.7%)	-
T-blazers	-	-	(17.1%)	(21.1%)	(27.4%)	(85.0%)	(63.5%)	(35.6%)	(22.7%)	(33.5%)
Grizzlies	-	-	(20.0%)	(25.5%)	-	(37.0%)	-	(22.9%)	(25.4%)	(16.0%)
Bucks	-	(65.2%)	(27.1%)	(26.7%)	(14.3%)	(24.2%)	-	-	-	-
Nuggets	(25.0%)	-	-	-	(9.4%)	-	-	-	-	(11.0%)
Knicks	-	-	-	-	-	-	(14.6%)	-	(33.1%)	(41.0%)

Similarly, Table 3 presents the teams which generated one of the five highest operating incomes as a percent of total player expense in at least three years during the 10 year study period. The Chicago Bulls, which are considered by many to be one of the most, if not the most, successful NBA team ever, tops this list. A case might be made that the investment in player salaries during the years prior to 1999 resulted in the exceptional return on player salary in the subsequent years.

Table 3: Teams Producing the Highest Operating Income as a % of Player Expense										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Bulls	-	100.0%	160.0%	157.6%	90.7%	104.3%	64.9%	58.3%	80.3%	115.8%
Lakers	65.8%	-	63.8%	47.7%	78.6%	-	-	57.6%	42.9%	-
Pistons	107.1%	-	-	45.0%	-	47.1%	-	43.1%	34.9%	75.8%
Suns	-	24.0%	34.7%	55.6%	-	-	-	83.3%	74.5%	86.5%
Celtics	-	9.5%	-	--	35.4%	46.4%	-	-	-	-
Clippers	-	-	41.4%	36.4%	47.1%	-	-	-	-	-

During those pre-1999 years the Bulls roster included many extremely popular, talented, successful, and expensive players. It is highly possible this investment in talent built a fan-base that continues to contribute to the financial success of the franchise. In 1998, the Bulls incurred more player expense, $69 million, than any other team; this was the only year the Bulls did not rank in the top five teams for the highest operating income as a percentage of Player Expense. As a result

of restructuring in an attempt to eliminate some older and more expensive players, the Bulls lost Scotty Pippen, and Dennis Rodman, among others. These changes, along with Michael Jordan's retirement, decreased the Bull's player expense significantly. Despite disappointing performance on the court, this decrease in player expense allowed them to generate the highest operating income and the highest operating income as a percentage of player expense in seven of the next nine years, and they were in the top five the remaining two years (2002/2006 and 2004/2005, respectively).

While no one can dispute the fan appeal of top athletes such as Michael Jordan, Dennis Rodman, and Scotty Pippin, the higher salaries paid to keep these athletes does not necessarily generate enough revenue to cover the higher salary expense and provide an adequate return on investment for the owner(s) of the sport franchise. This finding moderates Spolestra's (1997) finding that more victories corresponds to higher profit only to the extent that these victories may be achieved without excess player cost.

Generalization of this study is limited. This study was limited to one league of one sport. It remains to be seen whether or not similar results would be found with other sports or other sport leagues.

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THE EFFECT OF UNDERWRITER REPUTATION ON PRE-IPO EARNINGS MANAGEMENT AND POST-IPO OPERATING PERFORMANCES

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ABSTRACT

The purpose of this study is to investigate whether underwriters play any systematic and significant role for IPO issuers. More specifically, we hypothesize that there is a negative relation between underwriter reputation and earnings management before an IPO (certification role) and that there is a positive relation between underwriter reputation and firm operating performance after an IPO (monitoring role). Using a sample of 369 IPO's over six-year period (1997-2002), we find that high-reputation underwriters are associated with less earnings management before an IPO. We also find that IPO issuers with high-reputation underwriters exhibit better post-IPO operating performance after controlling for pre-IPO earnings management. These results support our hypotheses, and are robust across different measures of variables and testing methodologies, including an instrumental variable two-stage least square 2SLS) regression and a weighted least square (WLS) regression.

MUMBAI AS AN INTERNATIONAL FINANCIAL CENTER

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ABSTRACT

This paper argues for Mumbai as an International Financial Center (IFC) in the league of other International Financial Centers such as New York, London, and Tokyo.

The rapid growth of the Indian economy and growth of cross-border financial flows have created substantial local demand for IFC. This 'drive' supports the development of skills, and generates economies of scale on the part of financial firms operating in Mumbai.

India has four strengths by way of human capital endowments that give it a competitive edge over Shanghai, Singapore, and Dubai namely (1) the extensive use of English, which is the lingua franca of international finance, (2) generations of experience with entrepreneurship, speculation, trading in securities and derivatives, risk taking, and accounting, (3) strong skills in information technology and quantitative thinking, and (4) prominent role of individuals of Indian origin in global financial firms that can act as intermediaries in the development of Mumbai as an IFC.

Mumbai is well located in terms of being able to interact with all of Asia and Europe through the trading day. In this regard, Mumbai has an edge over Shanghai.

Properly functioning financial markets require a constitutional basis and machinery for system governance that is stable, reliable, resilient and flexible, and one that reduces future political risks and uncertainty. Globally credible financial systems need to be rooted in legislative, judicial, and regulatory frameworks that adhere to rule-of-law and respect/protect property rights; in principle and practice. Mumbai had distinct advantage in this regards over Shanghai, Singapore and Dubai.

High GDP growth and the success of Indians in global finance all over the world, ensure that India has significant 'mindshare' in global financial firms. Clearly Mumbai had a distinct advantage here over Dubai and Singapore and perhaps even over Shanghai.

Mumbai has the foundations for providing global IFC by virtue of its dynamic, technologically capable securities platforms in the National Stock Exchange and the Bombay Stock Exchange.

The aforementioned conditions make it ripe for Mumbai to leapfrog into an IFC and join the leagues of New York, London, and Tokyo. However, there are some daunting challenges that include (1)financial regime governance, (2) missing markets and institutions, and (3) urban facilities and governance in Mumbai.

BANKING AND FINANCIAL CRISIS IN TURKEY FROM 1929 TO 2007

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ABSTRACT

"Impact Which Does Not Kill You Makes You Stronger"

Turkey is a country in which many crises are experienced in the fields of banking and financial system. Through this study, financial crises of Turkey sample are examined. Clear-cut information about crisis is given and their causes and effects are emphasized. Turkish financial system and banking almost became the least affected from 2007 mortgage crisis. Especially Europeans started to examine Turkish banking system which got stronger by learning from previous crises. Because Turkish banking system acknowledged its mistakes from previous crises, purged of them and the system became more resistant to crises. So it is possible to say that "Impact that doesn't kill makes you stronger". In this study, the crises Turkish banking system went through was demonstrated by a methodological examination.