A content analysis of financial advertisements

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A Content Analysis of Financial Advertisements.

by

Justin P. Challinor
B.Sc. (Hons.)

A Master's Thesis
Submitted in partial fulfilment of the requirements for the award of
Master of Philosophy
of the
Loughborough University of Technology

July, 1994

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A Content Analysis of Financial Advertisements.

ABSTRACT

The main objective of this thesis is to expose the present format assumed by financial advertisements. This objective was met by content analysing all financial advertisements which appeared in two years copies of the Investors Chronicle.

The specific issues addressed in meeting the research objective were those of: The relative importance placed on financial advertisements in each year studied; the relative stress placed on a financial entry; page size assumed by each advertisement and; advertisement constitution.

The above objective was furnished by studying:

i] Conceptual Framework projects connected with financial reporting;

ii] Behavioral\psychological factors in the presentation decision of management\preparers.

iii] The nature of the advertising process.

The study shows that there is much room for improvement in the presentation of financial advertisements, as when viewed from a critical angle less than neutral representations can be detected. It argues that such a problem can be addressed through regulation - a conceptual framework covering this area was recommended.
# LIST OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preface</td>
<td>xii</td>
</tr>
<tr>
<td>List of Tables</td>
<td>xiii</td>
</tr>
<tr>
<td>List of Figures</td>
<td>xiv</td>
</tr>
<tr>
<td>List of Abbreviations</td>
<td>xv</td>
</tr>
</tbody>
</table>

## CHAPTER ONE: INTRODUCTION

1.1 NATURE OF THE RESEARCH

1.2 THE NEED FOR RESEARCH INTO FINANCIAL ADVERTISEMENTS

1.3 GENERAL BACKGROUND AND DEFINITIONS

1.4 SCOPE OF THE STUDY

1.5 APPROACH TO THE STUDY

1.6 IMPORTANCE OF THE STUDY

## CHAPTER TWO: A REVIEW OF EXISTING CONCEPTUAL FRAMEWORK PROJECTS AND CRITIQUE OF THEIR LACK OF EMPHASIS ON BEHAVIOURAL ASPECTS OF EXTERNAL FINANCIAL ACCOUNTING REPORTING

2.1 INTRODUCTION

2.1.1 Outline

2.1.2 Definition of a CF

2.1.3 Need for a CF

2.1.4 Use of a CF

2.2 CHANGING AIMS OF FINANCIAL REPORTING

2.3 USERS, USES AND ENTERPRISES THAT MAY BE REQUIRED TO PUBLISH FINANCIAL STATEMENTS
2.4 UNDERLYING ASSUMPTIONS FOR PROFIT MEASUREMENT

2.4.1 Concepts of Capital and Capital Maintenance

2.4.2 Bases of Measurement for Recognition

2.5 BALANCE SHEET APPROACH MODEL

2.6 OBJECTIVES OF FINANCIAL STATEMENTS

2.7 QUALITATIVE AND SUBJECTIVE MEASUREMENT OF FINANCIAL INFORMATION

2.7.1 Understandability

2.7.2 Relevance

2.7.2(a) Comparability

2.7.2(b) Timeliness

2.7.2(c) Clarity

2.7.2(d) Completeness, or Full Disclosure

2.7.2(e) Predictive Value

2.7.2(f) Feedback Value

2.7.3 Reliability

2.7.3(a) Objectivity of Reported Information

2.7.3(b) Verifiability

2.7.3(c) Precision

2.7.4 Criteria that Possess and Add To the Qualities of both Relevance and Reliability

2.7.4(a) Isomorphism

2.7.4(b) Freedom from Bias (Neutrality)

2.7.4(c) Rationality

2.7.4(d) Non-Arbitrariness

2.7.4(e) Uniformity

2.7.5 Pervasive Constraints that may Restrict the Existence of any Qualitative Characteristics

2.7.5(a) Substance Over Form

2.7.5(b) Materiality

2.7.5(c) Cost/Benefit Effectiveness

2.7.5(d) Flexibility

2.7.5(e) Data availability

2.7.5(f) Consistency

2.7.5(g) Prudence (conservatism)

2.7.5(h) The Trade-off

2.7.5(i) True and Fair

2.8 SHOULD CFS TAKE ACCOUNT OF MANAGEMENT/PREPARER THOUGHT AND OPINIONS?
2.8.1 Is a Cf Which Avoids Preparer Bias Possible? ........ 63
2.8.1(a) Can a Cf be "Built on the Twin Pillars of Neutrality and Verifiability of Financial Statement Data"? .......... 64

2.9 ATTEMPTS AT A CF ........................................ 65
2.9.1 Unofficial CFs ........................................ 65
2.9.2 Official CFs ........................................ 65

2.10 ASPECTS NOT SUFFICIENTLY CONSIDERED BY EXISTING CF ........................................ 66

2.11 SUMMARY AND CONCLUSIONS ........................................ 68

CHAPTER THREE: THE BEHAVIOURAL ASPECTS AND PSYCHOLOGICAL MOTIVATIONS OF THE PREPARERS OF EXTERNAL FINANCIAL REPORTS

3.1 INTRODUCTION ........................................ 73
3.1.1 Outline ........................................ 73
3.1.2 Behaviouralism ........................................ 75

3.2 THE LINK BETWEEN FINANCIAL REPORTING AND BEHAVIOURALISM ........................................ 78
3.2.1 The Link Between Behavioural Motivations and Bias ........................................ 79
3.2.1(a) Behavioural Feedback ........................................ 80
3.2.1(a1) Economic Consequences ........................................ 82

3.3 ENTERPRISE OBJECTIVES ........................................ 84
3.3.1 Management/Preparer Objectives ........................................ 85
3.3.1(a) Management/Preparer Disclosure Decisions ........................................ 86

3.4 MANAGEMENT/PREPARER BEHAVIOUR ........................................ 88
3.4.1 Management/Preparer Motivations ........................................ 90
3.4.2 Needs ........................................ 92
3.4.3 Attitudes ........................................ 92
3.4.3(a) Perceptual Component ........................................ 94
3.4.3(b) Feeling Component ........................................ 94
3.4.3(c) Action-tendency Component ........................................ 95
3.4.4 Freedom from Bias.................................................96
3.4.5 Personality.........................................................97
3.4.6 Values...............................................................97
3.4.7 Wants...............................................................97
3.4.8 Selective Accounting Policy Adoption.........................98
  3.4.8(a) Income Smoothing...........................................100
  3.4.8(b) The Treatment of Extraordinary and Exceptional Items...........107
  3.4.8(c) Off-Balance Sheet Financing....................................108
  3.4.8(d) Brands and Goodwill..........................................108
  3.4.8(e) Window-Dressing..............................................109
  3.4.8(f) Biased Asset Valuations......................................110
  3.4.8(g) The Awarding of Bonuses out of Profit....................111
3.4.9 Functional Fixation..............................................111
3.4.10 Is Manipulation of Reported Earnings Per Share and Smoothing of Reported Income Common?.................112
3.4.11 Fraudulent Management/Preparer Behaviour......................112
3.4.12 Possible Constraints on Management/Preparer Behaviour...........113
3.5 INFORMATION ENGINEERING..........................................113
3.6 THE NEED FOR SPECIFIC STANDARDS TO CONTROL MANAGEMENT/PREPARER BEHAVIOURAL/PSYCHOLOGICAL MOTIVATIONS...........114
3.7 SUPPLEMENTARY DISCLOSURES.......................................116
3.8 SUMMARY AND CONCLUSIONS.......................................117

CHAPTER FOUR: ADVERTISING AND OUTLINE OF THE RESEARCH HYPOTHESES TO BE USED IN THIS STUDY

4.1 INTRODUCTION......................................................121
4.1.2 Outline.............................................................121
4.1.3 Definition of Advertising........................................121
4.2 THE THEORY OF ADVERTISING.....................................122
4.2.1 Characteristics of an Effective Advertisement.....124
4.2.2 Corporate Advertising............................125
4.2.3 Presentation of Corporate/Financial Advertisements............130

4.3 ADVERTISING MEDIA........................................131
4.3.1 Mechanical and Physical Aspects of Advertising................133
4.3.1(a) Page Location Within the Publication.......................133
4.3.1(b) Location on a Page....................................133
4.3.1(c) Size..................................................134
4.3.2 General Factors Affecting Media Choice.........................136

4.4 RESEARCH HYPOTHESES......................................137

4.5 SUMMARY AND CONCLUSIONS..................................138

CHAPTER FIVE: RESEARCH METHODOLOGY

5.1 INTRODUCTION..............................................139
5.1.1 Outline of Research Methodology............................139

5.2 QUANTITATIVE AND QUALITATIVE APPROACHES TO RESEARCH........140

5.3 THE AVAILABLE DATA COLLECTION METHODS.........................145
5.3.1 Surveys..................................................146
5.3.1(a) Interviewing..........................................147
5.3.1(a1) Telephone Interviews/Questionnaires....................147
5.3.1(a2) Personal Interviews................................148
5.3.1(b) Mail Survey Questionnaires................................151
5.3.1(b1) Reasons for a Subject's Participation in a Research Project..............................................154
5.3.1(b1a) Encouragement to Participate in a Research Project........155

5.3.2 Observation...............................................156

5.3.3 Examination of Documentary Sources..........................157
5.3.3(a) Documents Produced at the Behest of the Researcher........158
5.3.3(a1) Questionnaires (see surveys)............................158
5.3.3(b) Existing Documents...................................158
5.3.3(b1) Case Studies ........................................... 158
5.3.3(b2) Content Categories (Data Collection
Stages of "Content Analysis") ....................... 159
  5.3.3(b2a) Objectivity ..................................... 161
  5.3.3(b2b) System .......................................... 161
  5.3.3(b2c) Generality .................................... 161

5.4 "CONTENT ANALYSIS" - A DISCUSSION ...................... 162
5.4.1 Reliability ............................................. 165
5.4.2 Validity .................................................. 165
  5.4.2(a) Stability .......................................... 168
  5.4.2(b) Reproducibility .................................. 168
  5.4.2(c) Accuracy ......................................... 168
  5.4.2(d) Semantical Validity .............................. 169
  5.4.2(e) Sampling Validity ............................... 169
  5.4.2(f) Correlational and Predictive Validity ....... 169
  5.4.2(g) Construct Validity .............................. 170

5.4.3 "Content Analysis - Marks of Distinction ............. 170
  5.4.3(a) Uses of "Content Analysis" ...................... 170

5.5 DATA ANALYSIS METHODS .................................. 171
5.5.1 Analysis of Content (Analysis Stage of
"Content Analysis") .................................... 171
  5.5.1(a) System of Enumeration .......................... 172
5.5.2 Comparison ............................................. 173
5.5.3 Statistical Methods .................................. 173
  5.5.3(a) Frequency Distribution ......................... 174
  5.5.3(b) Illustrative Chart ............................... 174
  5.5.3(c) Significance Test ............................... 175
  5.5.3(d) Crosstabulation ................................. 177
  5.5.3(e) Independence Test .............................. 178
  5.5.3(f) Linear Regression/Correlation ................. 179

5.6 SUMMARY .................................................... 181
5.6.1 Chosen methods of data collection ................... 181
  5.6.1(a) Existing documents ............................. 181
5.6.2 Choice of Analysis Methods ......................... 183
5.6.3 Conclusions ............................................ 183
CHAPTER SIX: DATA ANALYSIS

6.1 INTRODUCTION..........................................................184
6.1.1 Outline..............................................................184

6.2 CONTENT ANALYSIS......................................................187

6.2.1 Analysing the Content data........................................190
6.2.1(a) The Importance Placed on Financial Advertisements............192
6.2.1(a1) Summary..........................................................193
6.2.1(b) The Importance Placed on Specific Results in a Financial Advertisement..................................................193
6.2.1(b1) Summary..........................................................207
6.2.1(c) Page Size as a Factor in Financial Advertisements.............208
6.2.1(c1) Summary..........................................................214
6.2.1(d1) Summary..........................................................225

6.3 CONCLUDING NOTE......................................................225

CHAPTER SEVEN: SUMMARY AND CONCLUSIONS

7.1 SUMMARY.................................................................227

7.2 CONCLUSIONS AND IMPLICATIONS......................................228

7.2.1 The importance placed on financial advertisements by advertisers..................................................228
7.2.2 The importance placed on particular financial entries.............229
7.2.3 Page size as a factor in financial advertising..........................229
7.2.4 The Constitution of Financial Advertisements......................230

7.2.5 Further issues.........................................................231
7.2.5(a) A Conceptual Framework for Financial Advertising............232
7.2.5(a1) Bi-Annual Frequency of Appearance...........................232
7.2.5(a2) Relevant Financial Results to be Outlined......................232
7.2.5(a3) Advertisements To Be of a Given Page Size..........................233

7.3 LIMITATIONS OF THIS STUDY..........................................233
7.4 SUGGESTIONS FOR FURTHER RESEARCH .................. 233

7.5 FINAL REMARK ...................................... 233
APPENDICES

APPENDIX I  LETTER FROM THE STOCK EXCHANGE.......235-236

APPENDIX II  CONTENT SHEET..............................237

APPENDIX III  LETTER TO THE INVESTORS CHRONICLE.......238

APPENDIX IV  LETTER FROM THE INVESTORS CHRONICLE.......239

APPENDIX V(a)  NUMBER (AND PERCENTAGE) OF OCCURRENCES
OF SECTION 2, 3 AND DIVIDEND ENTRIES.......240

APPENDIX V(b)  BAR CHART SHOWING THE FREQUENCY OF
APPEARANCE OF SECTION 2, SECTION 3
AND DIVIDEND ENTRIES FOR BOTH
POPULATIONS AGGREGATED.....................241

APPENDIX V(c)  BAR CHART SHOWING THE FREQUENCY OF
APPEARANCE OF SECTION 2, SECTION 3
AND DIVIDEND ENTRIES FOR EACH OF THE
TWO POPULATIONS............................242

APPENDIX VI  DISTRIBUTION SHOWING THE FREQUENCY
WITH WHICH THE "ADDITIONAL RESULTS"
ENTRY APPEARS.................................243

APPENDIX VII  DISTRIBUTION SHOWING THE EXISTENCE OF
"COMPARATIVE FIGURES".........................244

APPENDIX VIII  DISTRIBUTION SHOWING THE EXISTENCE OF
AN ENTRY MAKING A DECLARATION OF AUDIT
STATUS............................................245

APPENDIX IX  DISTRIBUTION SHOWING THE EXISTENCE OF
A "CHAIRMAN'S STATEMENT" ENTRY.............246

APPENDIX X  DISTRIBUTION SHOWING THE EXISTENCE OF
A "DISCUSSION OF THE PAST" ENTRY.........247

APPENDIX XI  DISTRIBUTION SHOWING THE EXISTENCE OF
AN "EXPLANATORY STATEMENT" ENTRY.........248
APPENDIX XII  DISTRIBUTION SHOWING THE EXISTENCE OF AN "OUTLOOK/NEW MARKETS" ENTRY..............249

APPENDIX XIII  DISTRIBUTION SHOWING THE EXISTENCE OF A SLOGAN ENTRY......................................250

APPENDIX XIV  DISTRIBUTION SHOWING THE EXISTENCE OF A "MENTION OF PRODUCTS" ENTRY................251

APPENDIX XV  DISTRIBUTION SHOWING THE EXISTENCE OF A "GEOGRAPHICAL ANALYSIS/MARKET" ENTRY....252

APPENDIX XVI(a)  DISTRIBUTION SHOWING PAGE SIZE.............253

APPENDIX XVI(b)  BAR CHART SHOWING THE DISTRIBUTION OF PAGE SIZE FOR THE TWO POPULATIONS AGGREGATED..................254

APPENDIX XVI(c)  BAR CHART SHOWING THE DISTRIBUTION OF PAGE SIZE FOR EACH OF THE TWO POPULATIONS.........................255

APPENDIX XVII(a)  CROSSTABULATION SHOWING THE NUMBER OF NAMED ENTRIES WHICH APPEAR IN AN ADVERTISEMENT OF EACH PAGE SIZE FOR THE TWO POPULATIONS AGGREGATED........256

APPENDIX XVII(b)  CROSSTABULATION SHOWING THE NUMBER OF NAMED ENTRIES WHICH APPEAR IN AN ADVERTISEMENT OF EACH PAGE SIZE FOR THE 1987 POPULATION.........................257

APPENDIX XVII(c)  CROSSTABULATION SHOWING THE NUMBER OF NAMED ENTRIES WHICH APPEAR IN AN ADVERTISEMENT OF EACH PAGE SIZE FOR THE 1991 POPULATION.........................258

APPENDIX XVIII  CROSSTABULATION SHOWING THE TOTAL NUMBER OF FINANCIAL ENTRIES WHICH APPEAR IN EACH YEAR FOR AN UNADULTERATED SAMPLE AND TWO CONTINGENT SAMPLES.........................259

APPENDIX XIX(a)  DISTRIBUTION SHOWING THE RELATIONSHIP BETWEEN THE PERIOD TO WHICH AN ADVERTISEMENT RELATES AND THE FREQUENCY WITH WHICH THOSE ADVERTISEMENTS OCCUR.....260
APPENDIX XIX(b) CROSSTABULATION SHOWING THE RELATIONSHIP BETWEEN THE PERIOD TO WHICH AN ADVERTISEMENT RELATES AND THE FREQUENCY WITH WHICH THE FINANCIAL ENTRIES CONTAINED IN THOSE ADVERTISEMENTS OCCUR FOR THE TWO SAMPLES AGGREGATED......261

APPENDIX XIX(c) CROSSTABULATION SHOWING THE RELATIONSHIP BETWEEN THE PERIOD TO WHICH AN ADVERTISEMENT RELATES AND THE FREQUENCY WITH WHICH THE FINANCIAL ENTRIES CONTAINED IN THOSE ADVERTISEMENTS OCCUR FOR EACH OF THE TWO SAMPLES...........262

APPENDIX XX DISTRIBUTION SHOWING THE STATUS OF ADVERTISED FINANCIAL RESULTS..............263

BIBLIOGRAPHY..................................................264
Once I had graduated from undertaking my first degree in Economics & Accountancy, my choice was to undertake research in an accountancy area. Having earned the relevant position at Loughborough University the specific areas which interested me were auditing, motivational psychology, advertising and general accounting theory. This study spans all four subject areas and recommends further additions to accounting theory.

Defining a specific research question to embrace the above four areas was rather awkward. Also difficult was to find a way in which relevant - possibly elusive - research data could be found. For helping me to find solutions to both of these problems and generally guiding my thought, providing me with invaluable suggestions and encouragement, throughout the project I would like to thank my supervisor Dr. Andrew Higson.

This thesis was made possible by the financial support of Touche Ross & Co. for which I am sincerely grateful. For organising this I thank John Roques, Ken Wild and Haydn Everitt - who I also thank for his invaluable suggestions and encouragement.

Thanks are also due to: Dr. David Coates for his help and suggestions with the statistical aspects of this thesis and; Prof. John Sizer and Prof. Ian Morrison, my first and subsequent Directors of Research, for their practical help.

I also wish to try and express my appreciation, although words are insufficient, to my parents for their help, tolerance, encouragement and support.
LIST OF TABLES

2.1 TRUEBLOOD OBJECTIVES, ALONG WITH THOSE OF OTHER ORGANIZATIONS........................................ 22

2.2 "CRITERIA FOR ASSESSMENT OF STANDARDS AND OF ACCOUNTABILITY"................................. 32

2.3 OUTLINES OF AND PROJECTS ON CFS, SET OUT IN CHRONOLOGICAL ORDER................................. 37

4.1 ADVERTISING MEDIA PERTINENT TO THIS STUDY............. 132

4.2 LUCAS (1942), THE IMPACT OF ADVERTISEMENTS USING SIZE AS A VARIABLE.............................. 135

5.1 QUANTITATIVE AND QUALITATIVE APPROACHES TO RESEARCH.................................................. 144

5.2 CAVEATS OF RELIABILITY........................................... 167
LIST OF FIGURES

1.1 OUTLINE OF THE THESIS................................................. 6

2.1 HIERARCHY OUTLINING THE FIRST TEN OF THE TWELVE 'TRUEBLOOD' OBJECTIVES........................................ 27

2.2 THE FASB HIERARCHY OUTLINING 'THE QUALITATIVE CHARACTERISTICS OF FINANCIAL REPORTING INFORMATION'..................................... 30

2.3 FLOWCHART BUILDING 'AN OUTLINE OF ACCOUNTING QUALITIES'................................................................. 36

2.4 ASB VIEW OF THE QUALITATIVE CHARACTERISTICS OF FINANCIAL INFORMATION......................................... 39

3.1 ATTITUDE COMPONENTS..................................................... 93

3.2 SEGREGATION OF "REAL" AND "ARTIFICIAL" INCOME SMOOTHING................................................................. 104

5.1 QUALITY OF A CONTENT ANALYSIS........................................ 164
### LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>American Accounting Association</td>
</tr>
<tr>
<td>AARF</td>
<td>Australian Accounting Research Foundation</td>
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<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
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<td>Statement of Standard Accounting Principles</td>
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</table>
CHAPTER ONE

INTRODUCTION

1.1 NATURE OF THE RESEARCH

A financial advertisement, as referred to in this study, is a presentation which outlines various financial results attained by an enterprise in a stated period of time.

The formulation of the content of financial advertisements is conducted by management/preparers. They have no current framework to restrict the substance of these advertisements, therefore their behavioural/motivational bias, where representations are concerned, is only contained by the relevance of information contained.

As will be seen in chapter 2 a conceptual framework governing the representations made in 'official' financial statements, has been created in other countries and is under permanent review by the ASB in the UK.

The objective of this thesis is to study the format of financial advertisements. This objective will be addressed by studying the merits, constitution and characteristics of "promotional" financial advertisements (see Appendix i). Although not official (see London Stock Exchange (1984, section 5, chapter 2, paras 23 & 24)), these financial advertisements provide evidence of the progress in general
financial advertising. Also these financial advertisements were available in large annual samples (see section 6.2) - which provide statistically convicting evidence - unlike their official counterparts.

The above objectives were analysed in chapter six under the auspices of: importance issues; issues connected with stressed results; page size issues and; advertisement constitution issues.

1.2 THE NEED FOR RESEARCH INTO FINANCIAL ADVERTISEMENTS

To the knowledge of the researcher no similar investigative text on this subject exists. Such a subject area should be of interest to an academic and a business audience, the general public and hopefully a regulatory body.

The business audience would hopefully include management/preparers, who both create and read financial advertisements. A regulatory body such as the ASB may find this study and its recommendations interesting as they are original, current and pertinent.

1.3 GENERAL BACKGROUND AND DEFINITIONS

Advertising, as noted in chapter 4, can be defined as: "any form of nonpersonal presentation and promotion of ideas, goods or services by an identified sponsor" ((Kotler and Armstrong (1989, p.432)). Financial advertising may be undertaken not only in the hope of improving company turnover
and share price, but also because it bolsters the 'Corporate Image' of the enterprise - as argued by Wilmhurst (1985, pp.18-19). Corporate image is a market dominated phenomena and so can have a positive or negative affect upon the fortunes of a company. Therefore financial advertising can be defined as: An advertisement describing the financial performance of an enterprise over a preceding stated period.

Through efforts to positively bolster corporate image, this study argues that the neutrality of financial advertisements can be affected. Neutrality, discussed further in section 2.6.4(b), was defined by the FASB (1980) as the: "absence in reported information of bias intended to attain a predetermined result or to induce a particular mode of behaviour". They define bias as:

the tendency of a measure to fall more often on one side than the other of what it represents instead of being equally likely to fall on either side. Bias in accounting measures means a tendency to be consistently too high or too low.

Such bias, where advertising is concerned, could come about by highlighting some figures and glossing over others.

It will be argued in chapter 2 that in 'official' financial representations - balance sheets and statements of profit and loss - biased representations can theoretically be avoided by the employment of a stringent Conceptual Framework - e.g. that of the FASB (1973 - 1985), see Gore (1989). A Conceptual Framework can be defined as "a theoretical endeavour with the practical aim of clarifying the objectives of financial reporting, and how alternative practices are
likely to help to achieve these objectives" (Macve (1981)).

According to Findlater and Constantine (1980, p.126):

As well as providing guide-lines to the standard setting body, a conceptual framework should:
1] Provide a frame of reference for resolving questions in the absence of specific standards.
2] Determine bounds for judgement in preparing financial statements.
3] Increase financial statement users' understanding of, and confidence in, financial statements and enhance comparability.

Non-neutral representations beg one to question the motivation behind their existence. It is argued in chapter 3 that such motivation may be triggered by the behavioural influences of their management/preparers. Siegel and Ramanauskas-Marconi (1989, p.1) argued that behaviouralism and accounting is "concerned with how human behaviour influences accounting data and business decisions and how accounting information affects business decisions and human behaviour".

Clearly there exist many psychological facets which make up a financial advertisement, these belong to the reader as well as the preparer. Such facets include: advertisement size, location within the publication, page position and character of the publication (see section 4.3.1).

1.4 SCOPE OF THE STUDY

In its exploration of the nature of financial advertisements, this study will try and engulf both the theory and practice thereof. It will also discuss arguably related issues like Conceptual Framework projects and behavioural/psychological aspects of financial reporting.
This particular study requires knowledge of more than one specific topic, therefore familiarity with a wealth of literature was seen to be necessary.

1.5 APPROACH TO THE STUDY

The overall outline of this study is illustrated in figure 1.1.

Chapter two outlines the ideals behind and the need for a conceptual framework for "official accounting reports". The underlying discussion, throughout, refers primarily to neutrality. This chapter also reviews most conceptual framework projects undertaken until 1992.

Chapter three discusses, at a very elementary level, the possible behavioural/psychological elements behind presentation decisions.

Chapter four describes and discusses the various attributes and permutations thereof behind a financial advertisement.

Chapter five outlines research methodology, both that used for this project and in general. Chapter six analyses the research findings for this study.
Finally chapter seven presents the conclusions and implications of the study, and suggests areas for further research.

**FIGURE 1.1**

**OUTLINE OF THE THESIS**

**CHAPTER TWO**

Conceptual Frameworks

**CHAPTER THREE**

Behavioural/Psychological Aspects

**CHAPTER FOUR**

Advertising

**CHAPTER FIVE**

Research Methodology

**CHAPTER SIX**

Analysis

**CHAPTER SEVEN**

Summary and Conclusions

**1.6 IMPORTANCE OF THE STUDY**

This chapter has introduced the subject of this thesis, reported on the need for research into the area, and set out the outline for the thesis. It is an important study as very little work has been undertaken on the content of financial advertisements.
CHAPTER 2

A REVIEW OF EXISTING CONCEPTUAL FRAMEWORK PROJECTS AND CRITIQUE OF THEIR LACK OF EMPHASIS ON BEHAVIOURAL ASPECTS OF EXTERNAL FINANCIAL ACCOUNTING REPORTING

2.1 INTRODUCTION

The objective of this chapter is to both review and point out short-comings in various conceptual framework (cf) projects. In so doing, the debate regarding the purpose of the financial statements, is embarked upon. A major element contributing to the purpose of the financial statements is the emission of financial information - which is further satisfied by financial advertisements.

2.1.1 Outline

The format of this chapter, following a general introduction to the subject area, is firstly to argue that the primary aim in financial reporting has changed since accounting was acknowledged as a useful theory.

Second, the users, uses and enterprises that may be required to publish, financial statements will be examined.

Third, the two underlying assumptions upon which the process of financial reporting is based will be defined.

Fourthly, the objectives of financial statements will be discussed.
Fifth, the various qualitative characteristics of the figures that appear in financial statements will be outlined.

I see the latter two objectives in the intended context of this chapter as being of upmost importance, as I see them as providing the foundations on which both financial reporting standards and a cf can be built.

Sixthly, upon the above base, it will be discussed whether in cfs, account is taken of the management/preparer - of the financial statements - thoughts and opinions. Discussion will then turn to the question as to whether it is possible to build a cf which avoids preparer bias. Focus will then be placed on whether a cf, as was noted as having "profound implications" for the external auditor by Higson in 1989, can be "built on the twin pillars of neutrality and verifiability of financial statement data" (Higson 1989).

Finally, influential existing literature related to cfs will be cited and comment on aspects not covered sufficiently by those frameworks will be made.

A summary of the points noted in the chapter will then be made and any conclusions that can be drawn from the analysis outlined.

2.1.2 Definition of a CF

Generally, one can identify an overall framework for a topic: "threads converge upon, or issue from, a conceptual
This generalization was made more context specific by Agrawal (1987, p.167) who defined a cf for external financial accounting reporting as a:

coherent system of interrelated objectives and fundamentals that is expected to lead to consistent standards and that prescribes the nature, function and limits of financial accounting and reporting. The fundamental concepts are expected to guide the selection of transactions, events and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and reporting them to interested parties.

In 1981 the ICAEW published a report entitled "A Conceptual framework for Financial Accounting and Reporting: The Possibilities for an Agreed Structure", written by Richard Macve, as requested by the ASC. The report reviewed cf projects being carried out by other financial accounting standard setting organizations. A cf was identified as a "theoretical endeavour with the practical aim of clarifying the objectives of financial reporting, and how alternative practices are likely to help to achieve these objectives".

2.1.3 Need for a CF

Cf projects for financial accounting reports are undertaken to provide much needed uniform procedural constraints (or rules) within which to perform financial reporting, to review existing standards and develop new standards. Manuel F. Cohen, in a speech in 1964 before the Investment Bankers' Association of America - said "an immediate and pressing objective is to eliminate the use of alternative accounting principles underlying financial statements not justified by differing circumstances" [note 1].
Further it was the opinion of Booth and Cocks (1990, p.523) that:

> a conceptual framework is a resource for the profession to exercise power. Its adoption does not depoliticize standard setting, but rather imbeds the relations of society into its mechanisms, thereby concealing their nature.

This complements Laughlin and Puxty's (1983) view of a conceptual framework as a device for the resolution of political conflict over standards.

These constraints are in addition, not to replace or overrule, existing accounting standards. Tonkin and Skerrat (1989, p.10) described the expectations that a financial reporter should hold once in possession of such a framework: "A cf should be regarded as a common basis for identifying issues, for asking questions and for carrying out research rather than as a package of solutions". This view agrees with that of Vatter (1947) below.

Paton and Littleton (1940, p.4) stated the need for a cf for accounting by outlining the daily task faced by an auditor, arguing that it would 'standardize' the tasks that s/he tackles:

> the public accountant must be endowed with broad understanding, a keen sense of equity, and a high degree of independence, if his work is to be most effective. In view of his special position, moreover, the public accountant should be fortified by a framework of authoritative concepts and standards, technical and interpretive, to which particular issues may be referred.

Vatter (1947, p.1) states the need for a cf:
Every science, methodology, or other body of knowledge is oriented to some conceptual structure—a pattern of ideas brought together to form a consistent whole or a frame of reference to which is related the operational content of that field. Without some interfacing structure, procedures are but senseless rituals without reason or substance; progress is but a fortunate combination of circumstances; research is but fumbling in the dark; and the dissemination of knowledge is a cumbersome process, if indeed there is any 'knowledge' to convey.

When proceeding to construct a CF, it is necessary to have some basic premises on which to build. According to Anthony (1983, p.23), two such premises could be based on: 

"[1] beliefs about the nature and behaviour of economic entities and [2] beliefs about the needs of users of accounting information". As stated by Sanders, Hatfield and Moore (1938, pp.5-6):

The existence of [this body of premises] does not mean that there is only one proper accounting treatment for every situation with which the accountant must deal. For many such situations, there are available a number of treatments which are in accord with the generally accepted principles. But the affirmation of the general acceptance of accounting principles does mean that many and, indeed, most of the possible treatments are inappropriate.

2.1.4 Use of a CF

As emphasized by the FASB in SFAC 1 (1978, paragraph 43) "The primary focus of financial reporting is information about an enterprise's performance provided by measures of earnings and it's components".
One of the reasons for the creation of a cf was to reduce any possible niches in company financial reports from where bias can be conceived. Such bias would emanate from the management/preparers of these reports. The filling agent for these niches could be a framework which GAAP (above) could be constructed around. Ijiri (1975), when addressing the subject area related to the relevant "accounting language" to use in financial reporting, stated:

To express an event in accounting or in English, we must follow certain rules. Without following certain rules diligently, not only does one run the risk of being misunderstood, but one also risks a penalty for misrepresentation, lying, or perjury. Comparability of statements is essential to the effective functioning of a language whether it is in English or in accounting. At the same time, language has to be flexible enough to adapt to a changing environment.

2.2 CHANGING AIMS OF FINANCIAL REPORTING

A fundamental change in attitude in setting financial accounting objectives was evident in 1970 in the US. More specifically, this change was evident in the APB Statement No. 4 (1970). Before the publication of this document, financial reports were prepared, fundamentally, in order to satisfy accounting purposes of stewardship reporting which implied an emphasis on the accountability of management. The AAA (1966, p.19) reported "Accounting information is the chief means of reducing the uncertainty under which external users act as well as a primary means of reporting on stewardship". The stewardship approach was considered by Littleton (1953, p.80) as being particularly appropriate to the income statement, as this statement "sets in contrast a representation of certain
causes and certain results that have been more or less under the control of management”.

As defined by Anthony (1983, p.45):

Literally, as suggested by the Biblical parable of the steward, the idea of stewardship relates to the performance of a person, or to a group of people known collectively as the management. Accounting does give some clues about the performance of management, but management activity is only one of many factors that affects the performance of the entity. A report on performance reflects both how well the management has performed and how well the entity has performed.

However the AAA (1966, p.23), suggested: “accounting information for external users should reflect their needs by reporting measurements and formulations thought to be relevant in the making of forecasts without implying that the information supplied is wholly adequate for such prediction.”

Since 1970 'user needs' and a general emphasis on decision-making have been viewed as the main requirements. This current attitude was reflected by the CICA (1980, p.25): "relevance to users' needs is an overriding requirement of accounting information". Also Anton (1976, p.120) reported "most of the discussion appearing in the literature on the objectives of financial accounting during the past ten years tends to rely on the notion of user-primacy".

Historically, in the literature on accounting principles according to Anton (1976, pp.40-41), accounting models have been built using three methods:

1] An inductive approach used by Sanders, Hatfield and Moore (1938), furthered by Paul Grady (AICPA
Accounting Research Study No. 7 (1965) and chapters 6 to 8 of APB statement No. 4 (1970);

2] A Deductive approach generally espoused by the AAA in its earlier pronouncements and supported by some members of the AICPA. That approach was the base for Accounting Research Study Nos. 1 to 3, but it was rejected by the APB in statement No. 1 (1962). However, the deductive approach was used in chapter 3 to 5 of APB statement No. 4 (1970) and;

3] An information-oriented approach that strives to satisfy information needs of readers of financial statements espoused by some academicians for over a decade and by the AAA (1966). It was also the approach used by the AICPA (1973).

When using the "information-oriented approach", it is necessary to know which user groups require the financial information, the purposes it is required for and when it is required for.

A fourth method, noted by Kirk (1981, p.86) and Carsberg (1983, p.9), can be added to the above three. This approach is being used by the FASB in their cf project. It is known as a decision usefulness model. Such a method requires that each standard setting decision be based on an assessment of costs and benefits of various alternatives and a judgement by the standard setters on which of the alternatives is more useful in the decision making process of the user of financial information.

2.3 USERS, USES AND ENTERPRISES THAT MAY BE REQUIRED TO PUBLISH FINANCIAL STATEMENTS

Each user group has their own specific use for the information reported in financial statements. Each particular use is a reflection of, as the IASC (1989) would term it, the "economic decision making needs" of each group. The ASSC (1975) wished to constrain the term "user group" into "those
with a reasonable right to financial information”. However, even within its constraints, the ASSC (Section 1.9, p.17) agreed that the following groups, outlined primarily by the IASC (1989) and the ASB (1991b), plus a group aggregated as "analysts and advisers", have "a reasonable right to information and whose information needs should be recognized by corporate reports".

Investors, as the providers of risk capital, use the financial statements both to assess the risk inherent in, and the return expected on, their investment. Specifically, they need information helping them to determine whether to buy, hold or sell their investment. Shareholders, as the providers of equity capital, have to make a similar decision, using the financial statements as guidance. Additionally, they are interested in information helpful in assessing the ability of the enterprise to pay dividends. The ASSC (1975) argued that the general term 'investors' be confined to holders of convertible securities, options or warrants, they also argued that potential shareholders be included.

Lenders, as the providers of loans are interested in the financial statements in order to assess the likelihood of their loans plus any related interest getting repaid when due.

Employees and Unions, as the providers of labour, use the financial statements to assess the stability of their employers. In addition, they assess profitability and any other relevant information to determine the level and consistency of
remuneration, the level and possibility of retirement benefits/pension and any employment opportunities.

Trade creditors, lenders and suppliers, as providers of loan capital and other assets, use the financial statements to assess whether the enterprise is, or will be, in a position to repay any money owed to them, plus any accrued interest.

Customers, as providers of operating income, use the financial statements to determine the continuance of the enterprise as a going concern. This is of greater importance if they have a long-term involvement or a dependence on the enterprise.

Governments and their agencies, as regulatory bodies and law creators and enforcers, use the financial statements in order to: assess, what they see as, an appropriate allocation of resources; regulate the activities of enterprises; determine taxation policies and; generate national income and similar statistics.

The general public, as both affected by, and potentially related parties to, the enterprise, use the financial statements in order to: assess the contribution made by the enterprise to the local economy, for example in terms of employment and patronage to local suppliers; determine the prosperity of the enterprise; and examine the range of its activities.
Analysts and advisers, including financial analysts and journalists, economists, statisticians, researchers, stockbrokers and other providers of advisory services such as credit rating agencies, implicitly use the financial statements. Management are not only a party of preparers but are also users, indeed the "main" users of financial statements - as argued by Higson (1989).

To this list, the FASB (1987) were able to add teachers and students.

In the opinion of the sub-committee who wrote the Corporate Report (ASSC, 1975, p.16), the entities believed to be required to publish corporate reports (financial statements) are:

1] Limited companies (listed and unlisted);

2] Nationalized industries and other commercially oriented public sector bodies;

3] Unincorporated business enterprises;

4] Non-commercially oriented central government departments and agencies;

5] Local authorities;

6] Trade Unions and trade and professional associations; and

7] Pension schemes, charitable and other trusts and non-profit seeking organizations.
2.4 UNDERLYING ASSUMPTIONS FOR PROFIT MEASUREMENT

It is necessary to select a concept of capital maintenance and an appropriate measurement base for it, as profit can only have been made once capital has been maintained.

2.4.1 Concepts of Capital and Capital Maintenance

It is important for an enterprise to choose an appropriate concept of capital, as it represents the "goal to be attained in determining profit". (IASC [1989, paragraph 103])

The chosen concept of capital gives rise to the concept of capital maintenance adopted by an enterprise, the need for which was explained by the IASC (1989, paragraph 105):

The concept of capital maintenance is concerned with how an enterprise defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured.

The chosen concept of capital maintenance is based on whether user needs are more strongly oriented towards maintenance of nominal invested capital and its purchasing power, or the operating capability of the enterprise. The former of which would imply the adoption of the concept of financial capital maintenance - "cumulative earnings in excess of cumulative dividends" (FASB [1976a, para. 267]) - and the latter the adoption of physical capital maintenance - "the physical productive capacity of the enterprise" (FASB [1976a, para. 271]).
2.4.2 Bases of Measurement for Recognition

Measurement bases determine "the monetary amounts at which the elements of the financial statements are to be recognised and carried in the balance sheet and income statement" (IASC [1989, paragraph 99]). There are a number of measurement bases employable in financial reporting, including historical cost, current cost, realisable (settlement) value and present value. Each measurement base can be used to differing degrees and in varying combinations in financial statements, apart from when the physical capital maintenance concept is adopted under which only the current cost measurement base can be utilised. The measurement base adopted for use with the financial capital maintenance concept depends on the type of financial capital that the enterprise is seeking to maintain.

2.5 BALANCE SHEET APPROACH MODEL

This approach, used frequently by David Solomons, treats information relating to assets with paramount importance and requires that expenditures incurred be allocated among different periods. As Solomons was responsible for his own framework in 1989 and was consulted on the planning of the FASBs SFAC 2, to name but two influential texts, his opinion is highly respected. At this stage of my chapter I wish to quote Solomons (1990, p.30) in order to help structure what I have written:

Once the users of the general purpose financial statements have been identified and their needs have been determined, the key which unlocks the conceptual framework which I have developed is the adoption of the balance sheet approach to virtually all accounting questions. Though I tried to make it
clear that this did not mean that the balance sheet was to be regarded as more important than the income statement.

The balance sheet and profit and loss account, however, are seen by some authors as unacceptable realities which provide a haven for bias to develop. According to Brown (1990, p.40) "The profit and loss account and balance sheet, those reactionary bastions of historic cost (as modified to include whatever management wants, in more or less whatever form it wants it), have long since had their day".

2.6 OBJECTIVES OF FINANCIAL STATEMENTS

The ASSC (1975, p.17) argued: "Users who ordinarily rely on financial statements alone may be served most by developing accounting objectives".

Weston, a member of the Trueblood study group (AICPA [1973]) - probably the most complete study on the objectives of financial statements to date - in an article written for a symposium in 1978, discussed the basic objective of financial reports:

The objective is to furnish information, primarily in monetary terms, about the resources and obligations of an entity - and changes therein during a period useful to investors and creditors in making decisions as to the commitment of their capital. The information should assist these investors in evaluation, comparing and predicting the timing and amounts of returns on their investments and the related risks and uncertainties.

This opinion of the basic objective of financial reports can, because of Weston's affiliation, be treated as a close reflection of those of the Trueblood study group.
Corporate financial reporting has numerous objectives which depend essentially on the preparer of the information as well as the audience which the reported information is intended for. However, I will deal here with the most generally accepted and acceptable of these objectives, which were covered, primarily, in the 'Trueblood report' (AICPA [1973]).

The 'Trueblood' committee presented twelve objectives, which appear in table 2.1 along with those of other organizations who outlined objectives in their respective tentative outlines and research reports regarding of projects. Each of these twelve objectives is quoted below.
## OBJECTIVES OF FINANCIAL STATEMENTS

Table 2.1

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<td>Financial Reporting Objective</td>
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</tbody>
</table>

Notes:
A * denotes the advocation/mention of the objective in the document. The numbers identify the various objectives quoted in this text.
The committee concluded that it is an objective of financial statements to:

[1] "provide information useful for making economic decisions" (p.13);

[2] "serve primarily those users who have limited authority, ability or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise's economic activity" (p.17);

[3] "provide information useful to investors and creditors for predicting, comparing, and evaluating potential cash flows to them in terms of amount, timing and related uncertainty" (p.20);

[4] "provide users with information for predicting, comparing, and evaluating enterprise earning power" (p.24);

[5] "supply information useful in judging management's ability to utilize enterprise resources effectively in achieving the primary enterprise goal" (p.26);

[6] "provide factual and interpretive information about transactions and other events which is useful for predicting, comparing and evaluating enterprise earning power" (p.30);

[7] "provide a statement of financial position useful for predicting, comparing, and evaluating enterprise earning power" (p.31);
[8] "provide a statement of periodic earnings useful for predicting, comparing, and evaluating enterprise earning power" (p.32);

[9] "provide a statement of financial activities useful for predicting, comparing, and evaluating enterprise earning power" (p.33);

[10] "provide information useful for the predictive process" (p.36);

[11] "provide information useful for evaluating the effectiveness of the management of resources in achieving the organization's goals" (p.46) - when the reporting organization is governmental or not-for-profit and;

[12] "report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment" (p.55).

The committee also listed items of information not intended to represent separate objectives, but their component parts or amplifications, giving directions about how things can be done. These directions are numbered to correspond with the numbered objective:

[6a] "basic underlying assumptions with respect to matters subject to interpretation, evaluation, prediction, or estimation should be disclosed" (p.30);
[7a] "this statement should provide information concerning enterprise transactions and other events that are part of incomplete earning cycles" (p.31);

[7b] "current values should also be reported when they differ significantly from historical cost" (p.31);

[7c] "assets and liabilities should be grouped or segregated by the relative uncertainty of the amount and timing of prospective realization or liquidation" (p.31);

[8a] "the net result of completed earnings cycles and enterprise activities resulting in recognizable progress toward completion of incomplete cycles should be reported" (p.32);

[8b] "changes in the values reflected in successive statements of financial position should also be reported, but separately, since they differ in terms of their certainty of realization" (p.32);

[9a] "this statement should report mainly on factual aspects of enterprise transactions having or expected to have significant cash consequences" (p.33);

[9b] "this statement should report data that require minimal judgement and interpretation by the preparer" (p.33);

[10a] "financial forecasts should be provided when they will enhance the reliability of users' predictions" (p.37) and;
"performance measures should be quantified in terms of identified goals" (p.46).

According to the notation used in Gans (1974) and Sorter (1974) in the proceedings of the Robert M. Trueblood Memorial Conference, also by Anton (1976), the first ten of these twelve objectives can be set out, due to their unequal nature and importance, in a hierarchy (figure 2.1).
Source: Hector R. Anton (1976)
It can be seen in figure 2.1 that some of these ten objectives are fundamental to useful financial reporting, whereas others are simply a means to achieving other objectives. Two objectives (no.s 2 and 5), unlike all the others, are unaffected by the fulfilment of other objectives. It may also be noted from this figure, that four 'levels' of the hierarchy consist of objectives, progressing from those that are general and basic to the less fundamental and more specific. The fifth level outlines general recommendations, which act as parts and amplifications of objective no.s 6-10, and give directions about how things should be done. Each of the five levels is detailed below:

I] One Objective (no. 1) that is the base underlying all the others;
II] Two Objectives (no.s 2 and 3) that identify the primary users of financial statement information and their major use of that information;
III] Two Objectives (no.s 4 and 5) that specify information about earning power and stewardship as the kinds of information needed for the use identified in no. 3;
IV] Five Objectives (no.s 6, 7, 8, 9 and 10) that describe means for implementing no. 4; and
V] Nine specific recommendations (6a, 7a, 7b, 7c, 8a, 8b, 9a, 9b and 10a), each phrased with "should," pertaining to types of information, disclosure, classification, and the like, in financial statements. (Anton [1976, p.42])

The other two objectives (no.s 11 and 12 plus a subsidiary recommendation no. 11a) outlined in the study group report, do not fit into the proposed hierarchical structure. This is because the users of the financial statements of governmental and not-for-profit organizations, produced as a reflection of these two objectives, by implication are not interested in cash flow performance and so a separate study is necessary, as has appeared in SFAC 4 (1980c).
It is important to realise that the objectives of financial reporting are shaped by the values and characteristics of society and as such need to be periodically re-examined. For this reason reference to several commendable reports is necessary (listed in table 2.1).

It is also important to recognise that fundamentally the objectives of corporate financial reporting are reflected in the existing standards outlined by standard setting bodies. The periodic re-examination of objectives, executed for the reasons outlined in the previous paragraph, is therefore carried out on an on-going basis by the replacement and adoption of new standards.

2.7 QUALITATIVE AND SUBJECTIVE MEASUREMENT OF FINANCIAL INFORMATION

The ASB (1991b, paragraph 22) noted: "Qualitative characteristics are the attributes that make the information provided in financial statements useful to users".

In SFAC 2 the FASB solely concentrated on discussing what it saw as useful qualitative characteristics of financial information. The various subjective aggregates they viewed as being sufficiently rigourous to be defined as 'the qualitative characteristics of financial reporting information' are outlined in hierarchical order in figure 2.2.
DECISION MAKERS AND THEIR CHARACTERISTICS (FOR EXAMPLE, UNDERSTANDING OF PRIOR KNOWLEDGE)

PERVERSIVE CONSTRAINT

USER-SPECIFIC QUALITIES

PRIMARY DECISION-SPECIFIC QUALITIES

INGREDIENTS OF PRIMARY QUALITIES

SECONDARY AND INTERACTIVE QUALITIES

THRESHOLD FOR RECOGNITION

BENEFITS > COSTS

UNDERSTANDABILITY

DECISION USEFULNESS

RELEVANCE

RELIABILITY

TIMELINESS

VERIFIABILITY

REPRESENTATIONAL FAITHFULNESS

COMPARABILITY (INCLUDING CONSISTENCY)

NEUTRALITY

PREDICTIVE VALUE

FEEDBACK VALUE

MATERIALITY

Source: FASB (SFAC 2, 1980)
The FASB probably found this a necessary separate study because: Their previous discussion, in SFAC 1 (1978), about objectivity and user needs in financial statements was "not sufficient in itself to enable the Accounting [standard-setting body] to develop new accounting standards and improve and refine the ones that are already in existence ...". After issuing SFAC 1 they were in the "... position where it is necessary to define criteria that can be used in judging whether the objectives and the user needs were being met" (CICA [1980, p.53]).

Qualitative characteristics together with the objectives of financial reporting, whilst considering user needs, are sufficient to distinguish "what information can and ought to be excluded from financial statements" (CICA [1980, p.55]). The former of these elements of financial information which the CICA classified as "Criteria for Assessment of Standards and of Accountability" are outlined in table 2.2.
## TABLE 2.2
CRITERIA FOR ASSESSMENT OF STANDARDS AND OF ACCOUNTABILITY

<table>
<thead>
<tr>
<th>Criteria that may be in conflict with those in the other column, or require “trade-offs”</th>
<th>Criteria that are compatible with those in both of the first 2 columns</th>
<th>Constraints that may apply against any of the criteria in the first 3 columns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance (to users’ needs)</td>
<td>Objectivity (i.e., not subjective)</td>
<td>Substance over form</td>
</tr>
<tr>
<td>Comparability</td>
<td>Verifiability</td>
<td>Materiality</td>
</tr>
<tr>
<td>Timeliness</td>
<td>Precision</td>
<td>Cost/benefit</td>
</tr>
<tr>
<td>Clarity</td>
<td>Isomorphism</td>
<td>effectiveness</td>
</tr>
<tr>
<td>Completeness, or Full Disclosure</td>
<td>Freedom from bias</td>
<td>Flexibility</td>
</tr>
<tr>
<td></td>
<td>Rationality</td>
<td>Data availability</td>
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<tr>
<td></td>
<td>Non-arbitrariness</td>
<td>Consistency</td>
</tr>
<tr>
<td></td>
<td>Uniformity</td>
<td>Conservatism (a very minor constraint)</td>
</tr>
</tbody>
</table>

Source: Stamp (1980)
This table is useful in addition to figure 2.2, which clearly charts the requisite qualitative characteristics of accounting information and their relative importance, since it provides:

a) "the yardsticks whereby standard setters, as well as preparers and users of published financial statements, can decide whether the end has been achieved, namely whether published financial statements are indeed meeting the needs of users and the objectives of financial reporting" (CICA [1980, p.52]);

b) direct comparison between i) conflicting criteria (columns 1 and 2), ii) compatible criteria with those in both of the first two columns (column 3) and iii) criteria which may constrain those listed in the first three columns (column 4);

c) a format allows them to be shown in a concise and simplified manner.

In table 2.2 the CICA labelled the primary qualitative information measurement characteristic at the top of the first two columns, whilst they saw the undernoted characteristics in these columns as being their sub-components. In column 2 this primary qualitative information measurement characteristic was noted as "objectivity", whereas the FASB in SFAC 2 (1980a) and so in their "Hierarchy of Accounting Qualities" (figure 2.2) in agreement with many other influential authors, including the IASC (1989), dub this qualitative aggregate "reliability".
As in my opinion the latter form of notation aids clarity, I shall stick to it.

Direct comparison between conflicting criteria in columns 1 and 2, implies that a trade-off has to be made between the listed criteria in each of these columns. This is because the criteria listed in each separate column are "sufficiently different in character that improvements made in respect of a criterion in the first column may have to be made at the expense of a lower adherence to one or more of the criteria in the second column, or vice versa". (CICA [1980, p.56])

Compatible criteria with those in both of the first two columns, implies that "an improvement" in any of the criteria listed in column 3 will induce a corresponding change in at least one criterion in each of the first two columns.

Criteria which may constrain those listed in the first three columns, implies that if one of the criteria listed in column 4 cannot be fulfilled by a piece of accounting information then "this may militate against the introduction of the change no matter how attractive it may seem in terms of the criteria listed in the first three columns" (CICA [1980, p.56]). Also, if an item of information does not conform to any one of the criteria in column 4 then it does not posses the requisite qualities which accounting information is desired, by existing standards, to posses.
Each 'column' of criteria can be separated, insomuch as in figure 2.3, with reference to the FASB's attempts to build 'A Hierarchy of Accounting Qualities' (figure 2.2), I will attempt to build 'An Outline of Accounting Qualities' based on the criteria outlined by the CICA (1980) plus another four qualitative characteristics, namely understandability, predictive value, feedback value and the trade-off. My flowchart will only attempt to order the criteria into a 'Hierarchy' to aid the user in making his economic decisions. It will be of help, for this purpose in that, the development of such an informal system of weighting the various criteria will help in the process of ranking them into an order of importance when trade-offs amongst various criteria are found to be necessary. Only mild emphasis should be placed on this 'Heirarchial' structure, however, because I agree with the opinion of the CICA (1980, p.54):

It is precisely because of the fact that the criteria are qualitative in their nature, and that there will often be differences of opinion about the subjective weights to be attached to the various criteria, that judgement is so important in the practice of accounting.

In addition to this differentiation from the 'hierarchy', my flowchart adds certain specific qualities of information which do not appear in some of the other, more influential, outlines of and projects on cfs (listed in table 2.3). As table 2.3 is set out in chronological order, it can be seen that 'qualitative financial accounting concepts' have grown in both importance and number relative to authoritative 'objectives' as time has progressed.
AN OUTLINE OF ACCOUNTING QUALITIES
Figure 2.3

True and fair
Cost/benefit effectiveness
Substance Over Form
Flexibility
Consistency
Data Availability
True and Fair
Prudence (Conservatism)
(Pervasive Constraints)

UNDERSTANDABILITY

ISOMORPHISM

RATIONALITY

NON-ARBITRARINESS

UNIFORMITY

RELEVANCE

RELIABILITY

FREEDOM FROM BIAS
(NEUTRALITY)

COMPARABILITY

TIMELINESS

VERIFYIBILITY

PRECISION

CLARITY

PREDICTIVE VALUE

COMPLETENESS OR FULL DISCLOSURE

FEEDBACK VALUE

The Trade-off
(Appplies to all Qualitative Characteristics)

Materiality
(Threshold for Recognition of all Qualitative Characteristics)
QUALITATIVE CHARACTERISTICS NOTED IN VARIOUS CONCEPTUAL FRAMEWORK PROJECTS/TENTATIVE OUTLINES

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Notes:
- A * represents advocates/mentions of the qualitative characteristic in the document.
- Representation faithfulness is a concept similar to both isomorphism and precision.
- Significant relationships are similar to material relationships.

The AAA (1966) advocated mentioned those accounting qualities denoted, however, they specifically recommended the use and adherence to four "standards" - relevance, verifiability, freedom from bias, and quantifiability - along with five "guide-lines" - appropriateness, disclosure of significant relationships, disclosure of environmental information (noted under timeliness as this represents the informational quality mentioned by the committee in relation to this predictive guide-line), uniformity, and consistency.

The various boards/committees sometimes used different terms to describe a characteristic. In the above table: Q refers to Objectivity; Q refers to Quantifiability; A refers to Appropriateness; S.R. refers to Significant Relationships; P refers to Prudence; B.B.C. refers to "Balance Between Characteristics"; D refers to Disclosure; Pr. refers to Presentation; U.A. refers to "Users' Abilities"; V.D.&M. refers to "Valid Description & Measurement"; C.W.A.S. refers to "Compliance with Accounting Standards"; C.O.A. refers to "Choice of Aspect" and; C.V. refers to "Confirmatory Value".

In the above table:
- * represents the advocated/mentioned qualitative characteristic in the document.
Figure 2.4 clearly illustrates the way in which the ASB (1991b) view the Qualitative characteristics of financial information.

Having considered these documents, I remain consistent with the CICA, in re-catagorizing certain qualities. This re-catagorization is in terms of: determining which one or both, if any, of the primary characteristics a subsidiary quality may serve to portray; and which characteristics act to constrain these two primary characteristics either singularly or together.

All of the following definitions are of characteristics of accounting information, which in order to be gathered and reported, need to be qualitatively estimated in a subjective fashion. I shall define each criteria (or qualitative characteristic) from the top left corner of table 2.2 to the bottom right, plus another four widely adopted qualitative characteristics, which I see as useful, from the work of other influential authors including the FASB (SFAC 2, 1980a) and the IASC (1989).
Figure 2.4

THE QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

WHAT MAKES ACCOUNTING INFORMATION USEFUL?

Threshold quality

Primary characteristics

RELEVANCE 23-25

Information which is not material cannot be useful

more of one may mean less of other

RELIABILITY 25-27

WHAT INFORMATION IS RELEVANT?

Information which influences decisions

PREDICTIVE VALUE 24

CONFIRMATORY VALUE 24

inter-related

CHOICE OF ASPECT 28

WHAT INFORMATION IS RELIABLE?

Information which is free from error or bias

SUBSTANCE 30

VALID DESCRIPTION & MEASUREMENT 28

PRUDENCE 32.40

NEUTRALITY 31

RELEVANT INFORMATION ➔ USEFUL INFORMATION ➔ RELIABLE INFORMATION

Secondary characteristics

WHICH QUALITIES, IF LACKING, WOULD LIMIT THE USEFULNESS OF THE INFORMATION?

COMPARABILITY 34-37

UNDERSTANDABILITY 38

CONSISTENCY 34

DISCLOSURE 35.37
e.g. accounting policies and corresponding figures

COMPLIANCE WITH ACCOUNTING STANDARDS 35

WHAT LIMITS THE LEVELS OF RELEVANCE AND RELIABILITY?

balance between characteristics 40

TIMELINESS 41

BENEFIT: COST 42

TRADE OFFS

29 seconds - ASR (1991)
2.7.1 Understandability

Understandability is, according to the IASC (1989), a "principal" and an "essential" qualitative characteristic. Its existence assumes that reported information will be studied 'reasonably' diligently and that the users are 'reasonably' knowledgeable. A reasonable knowledge, in this case, needs to be of "business and economic activities and accounting". Information that holds the quality of relevance but is "complex", should not, however, be excluded from the financial statements on the grounds that some users will find it difficult to understand.

A problem implied by this characteristic, as noted by the ASSC (1975), is "to whom should the information be understandable?" In order to avoid sacrificing completeness in favour of understandability, management/preparer judgement will need to be applied.

2.7.2 Relevance

The relevance of financial information derives from its use in economic and social decision making. As a concept, or characteristic of information, it refers to the ability of the information to "influence the economic decisions of users by helping them evaluate past, present or future events or conforming, or correcting their past evaluations". (IASC [1989, paragraph 26]) Such "information needs", according to the ASSC (1975), are "unlikely to be static, but will evolve", the concept of evolution implies that relevance cannot be viewed as a static concept.
The AAA (1966, p.9) pointed out that relevance, as a concept, applies in different ways to different people. They qualify this by taking the example of a building which was bought new and now is worth twice its original cost. This example illustrates that different cost figures are relevant to different people at different times: The original (historic) cost is relevant for calculations of depreciation; for a person who is considering buying the building its present value is the relevant figure; the person who is both the seller and the original owner is interested in both the present value of the building and its historical cost, so that he can work out the financial consequences of such a sale transaction.

Further the AAA (1966, p.9) argue: "The accounting function should under many circumstances, provide information with a high degree of relevance to a specific intended use although it may have little relevance to any other".

2.7.2(a) Comparability

For financial information to possess the qualitative characteristic of comparability it has to also possess the characteristic of relevance. In the view of Anthony (1983), comparability is necessary, in that it is useful to compare the financial statements of different enterprises: "The validity of such comparisons is lessened if each of these entities did not prepare its financial statements according to the same standards".
Peloubet (1961, p.39) explains that complete comparability cannot be attained:

The impossibility of presenting the accounts of different companies in the same industry on a completely comparable basis arises from the fact that physical and financial conditions and management policies are different, and this must be reflected differently in the accounts. The accountant, public or private, cannot influence management decisions in any other way or to any greater extent than is warranted by his role of adviser.

The IASC (1989, Paragraph 39) referred to comparability of accounting information in different time periods: "Users must be able to compare the financial statements of an enterprise through time in order to identify trends in its financial position and performance".

The ASSC (1975) agreed with the above observations, but also noted the problem that critics of accounting standards would put forward alternatives, many realistic, to meet these underlying user needs. Financial information is compared when a choice is to be made upon it. An example of comparable financial information, as cited by the CICA (1980), is when an investment decision is made between possible alternatives.

2.7.2(b) Timeliness

It is a necessity that financial disclosure be timely, in that it be published reasonably soon after the end of the period to which it relates. However the preparers are restricted as to the degree and amount of financial information he can 'muster' for disclosure, especially when working within the confines of relevance.
Ensuring that information is both reliable and timely also creates a problem for management/preparers. This was noted by the ASB (1991b, paragraph 41), they suggested that a "balance" between the two qualitative characteristics must be found.

2.7.2(c) Clarity

Clarity is rather a self explicit intentional quality of financial statements. It implies that supplementary disclosures, which lengthen financial statements, be kept to a minimum. The CICA's (1980, pp.59-60) suggestion was that to achieve maximum disclosure, via supplementary statements, whilst attaining maximum clarity in financial statements, a "file" should be kept at the head office of the company. From this file "booklets" should be made available "to any interested user upon payment of a small fee".

2.7.2(d) Completeness, or Full Disclosure

It is useful, first, to distinguish between the above two separable accounting qualities: Full disclosure is a requirement of reported information in financial statements; completeness refers to a requirement that the information given in an accounting standard is as comprehensive as possible.

Full disclosure or completeness, refers to the requirement for unequivical evidence of a companies reported financial position. An analogy to full disclosure was eloquently expressed in a dictum given by Mr. Justice Brandeis, "Sunlight is the best disinfectant".

43
However, full disclosure may not be in a company's best interest, as argued by the CICA (1980, p.59) it is necessary to consider the argument voiced primarily by "preparers, auditors and even some users of financial statements", that full disclosure may jeopardise the future financial position of the company, in that some publishable financial information is rather vulnerable.

Another argument against full disclosure is that, beyond a certain (if not rational) point, further disclosure would cause the financial statements to become cumbersome and lack clarity. Although, the rationalisation for further disclosure would be to view it in the context of the 'Efficient Market Hypothesis'. This hypothesis indicates the securities market's unsatiating rate of impounding new information, implying a demand for additional disclosures in separate supplementary statements.

2.7.2(e) Predictive Value

The qualitative characteristic of predictive value, closely embraces certain objectives of financial reporting. It refers to information which is helpful in the assessment of future cash flows. Carsberg (1983, p.12) noted when considering this concept:

A decision must depend on a view of what is going to happen in the future and information therefore can be useful for a decision only if it helps the prediction of what is going to happen in the future ... people want to know where a business has got to only in the hope that it will help them to discover where it is going.
2.7.2(f) Feedback Value

This characteristic refers to the information which emanates from past predictions and is put in parallel with actual financial results. Carsberg (1983, p.12) considered such information to be useful "because the understanding of past errors in predictions may enable a person to learn how to make better predictions in the future".

2.7.3 Reliability

The IASC (1989, paragraph 31) defined reliable information as that which "is free from material error and bias". Such freedom from bias, which was, when verified, referred to by the FASB in SFAC 2 (1980a, paragraph 59) as "representational quality", implies that the information is reproducible. To extend this definition they go on to say that reliable information "can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent". Representational faithfulness, together with reliability ensure that financial information cannot be subjective and is reproducible.

2.7.3(a) Objectivity of Reported Information

I will use Paten and Littleton's definition:

Objectivity relates to the expression of facts without distortion from personal bias. It is in contrast to "subjective," a word which suggests that the personal equation-state of mind, wish, intent to deceive may affect the result. 'Objective evidence' therefore is evidence which is impersonal and external to the person most concerned, in contrast with that person's unsupported opinion or desire.
When discussing the objectivity of reported information, CICA (1980, p.56) discussed this notion in terms of it being:

an antonym to subjectivity, and connotes the notion of reproducibility. Thus for a measurement to be objective its value should be reproducible by any number of sufficiently skilled and experienced observers working quite independently of each other.

The latter sentence of this quotation is very similar to a definition of the APB (1970, p.18) of verifiable financial accounting information (see section 2.7.3(b)). The CICA (1980, p.35) justify this similarity by pointing out that a lack of objectivity "means essentially that a lack of adequate verification may lie at the root of the problem".

Such a form of reporting was also noted by AAA (1966, p.7) as a "criteria to be used in evaluating potential accounting information". Throughout this publication the criteria was referred to as quantifiability. It "relates to the assignment of numbers to the information being reported". (p.11)

The components of the financial statements can generally be classified as arising from accounting transactions or accounting estimates. Accounting transactions include transactions such as purchases of raw materials or fixed assets, sales of finished goods, an expense for the leasing of a warehouse. These types of transaction either happen, or do not. The subjectivity required to deal with such items is at a minimum. In fact, "Accountants have always derived satisfaction from the fact that most of their measurements are
transactions based" (Solomons, 1989, pp.34-35). However, too much emphasis can be placed on reporting these objective elements of reported information. This was noted by Littleton (1939, p.11), he considered:

Nine-tenths of the problems of the accountant are due to this demand to express results in terms of years. The accountant is wrestling with it. That it has not been solved is apparent to anyone who opens a text on the subject.

The same view was put forward by the FASB (1978, p.1) "[Accounting] information often results from approximate, rather than exact, measures".

By an over-adherence to objective reporting within set guide-lines the information can lose some of its intended value to users. For example, it is widely accepted that both interpretive analysis (including accounting estimates) and forecasting are of paramount importance to many users. By its nature forecasting as a financial information source cannot be measured objectively. Similarly, accounting estimates require the exercise of a great amount of judgement and are very subjective. Provisions for bad debts, return sales and stock write downs are all examples of accounting estimates, which are 'suitably' valued by preparers of financial information. It is the uncertainties associated with these accounting estimates that mean there is no single correct figure for the amount of profit reported in a particular accounting period. Further, it was the opinion of the AAA (1966, p.7) that "When accountants express non-quantitative information in compliance with other standards they should not imply its measurability".
Extreme manipulations of accounting estimates may be classified as 'window dressing'. It is possible to give a biased report of most of the objectives of financial reporting, therefore it is important that stringent guidelines be enforced. In discussing this point Tonkin and Skerratt (1989, p.60) concluded:

> While detailed rules may be anathema to many on the grounds of the rigidity they introduce, it is nevertheless a fact that general statements which are not buttressed by sufficiently detailed rules cannot respond to the needs of our current environment. Increasingly it is clear that accounting rules need to be written with a view to meeting most of the situations likely to be encountered and to be sufficiently rigourous and comprehensive to resist challenge by the ingenious.

It was the opinion of Solomons (1990, p.32) "that discussion of reliability will be more productive if the ingredients are considered separately, the term 'reliability' being dispensed with as far as possible".

2.7.3(b) Verifiability

Solomons (1989, p.52) stated that "All of the information given by the financial statements should be verifiable". The APB in 1970 (p.18) defined Verifiable financial accounting information as that which "provides results that would be substantially duplicated by independent measurers using the same measurement methods".

This implies that bias (discussed specifically in section 2.7.4(b)), could have been reduced before presentation in the financial statements through verification - this sub-characteristic further stresses the notion that reliability
connotes reproducibility. Mautz and Sharaf (1961, pp.41-42) considered verification to be a process that "carries one to a position of confidence about any given proposition".

Paton and Littleton (1940, p.19) simply stated: "Verifiable evidence" then is evidence of such a nature as to lend itself to establishing the truth" and added:

So long as some accounting facts are subject to unconvincing determination, and verification is in some measure incomplete, there is need for improvement. The first steps toward improvement lie in the clear recognition of the varying degrees in which objective determination may be applied. On that basis the most objective facts can be given increasing preference and efforts can be made to make the least objective more objective. (Here objective information refers to reliable information)

According to the AAA (1966, p.7), verifiability is important because "accounting information is commonly used by persons who have limited access to the data ... also because users of accounting information sometimes have opposing interests". They go on to say that "This standard does not always require identical results. It may, in some instances allow variation within known limits" (p.10).

The AAA (1966, p.27) warned that

Failure to observe the standard of verifiability to a minimum degree would place the accountant, in some cases, in the role of forcaster and would reduce the confidence of the user and thereby diminish the usefulness of accounting reports. We believe that a substantial level of verifiability is most important for externally reported accounting information.

On p.28, they discuss 'the degree of verifiability' further and postulate:
The degree of verifiability of historical transaction-based valuations may be extremely high, and some sacrifice of verifiability for increased relevance may improve the usefulness of the information. In some instances, the use of current cost for assets, such as securities, may involve no sacrifice of verifiability.

The AAA (1966, p.66) often referred to "the accounting theory of the future" and in the context of verifiability recommended "establishing standardized ways of measuring [economic] activities".

It was the opinion of Solomons (1990, p.32) that:

there is much more to reliability than just verification. If a measurer uses the wrong basis for a measurement, verification may simply just confirm the error. Faithful representation [precision] is the key concept. The task of verification is to add assurance that the representation is faithful.

2.7.3(c) Precision

Precision is a very similar concept to representational faithfulness. Defined by the FASB in SFAC 2 (1980a, paragraph 86) representational faithfulness (precision) can be defined as:

the correspondence or agreement between a measure or description, and the phenomenon it purports to represent. Representational faithfulness of reported measurements lies in the closeness of their correspondence with the economic transactions, events and circumstances that they represent.

The more comprehensive the level and physical quantity of information the greater will be the trade-off between precision and timeliness (a 'sub-characteristic' of relevance) and the less relevant further improvements in precision.
The materiality constraint is closely associated with the precision of information, if precision is unattainable in a complete sense. Materiality 'recommends' a permissible leeway in that it suggests a quantitative limit for information to abide by.

2.7.4 Criteria that Possess and Add To the Qualities of both Relevance and Reliability

These criteria include:

a] isomorphism;

b] freedom from bias (neutrality);

c] rationality;

d] non-arbitrariness and;

e] uniformity.

2.7.4(a) Isomorphism

Isomorphism is, in the case of accounting information, a qualitative characteristic which invites comparison with the concept of representational faithfulness - or precision. It is a quality which implies that the balance sheet - a few numbers on a piece of paper - is an isomorphic representation of the financial position of a company. However, the more qualitative an isomorphic representation has to be, the more partial its representation becomes. In this case which requires a balance sheet to give a representation of economic reality, its isomorphic quality must depend on the accuracy (or neutrality [see below]) of the "picture" portrayed.
2.7.4(b) Freedom from Bias (Neutrality)

Bias is a concept which exists in reported financial information, rather than a guide-line to which information should abide. For this reason, in figure 2.3, this qualitative characteristic is intended to be depicted as 'derived' from financial information which is imperfectly weighted between the 'key characteristics' of relevance and reliability.

Bias, "may serve the needs of one set of users [but] cannot be assumed to aid or even leave unharmed the interests of others". (AAA [1966, p.11]) It is usually related to subjective information, which is aggregated using qualitative measurement techniques. However, historic cost information, of which objective financial information is usually strongly intertwined, "is not free from bias if the user is concerned with assessing the adaptivity of the enterprise" CICA (1980, p.60).

Bias, as defined by the FASB in SFAC 2 (1980a) refers to the "tendency of a measure to fall more often on one side than the other of what it represents instead of being equally likely to fall on either side. Bias in accounting measures means a tendency to be consistently too high or too low".

The FASB (1980a, paragraph 78) postulated that bias, as a concept, can be categorized.

Accounting information may not represent faithfully what it purports to represent because it has one of or both of two kinds of bias. The measurement method may be biased so that the resulting measurement fails to represent what it purports to represent.
Alternatively, or additionally, the measurer, through lack of skill or lack of integrity, or both, may misapply the measurement method chosen.

Paton and Littleton (1940, pp.2-3) warned accounting authorities and preparers against the presence of bias by stating "through bias in favour of one interest or prejudice against another, inequitable results may follow".

The FASB (1980a) maintained that a lack of bias in financial statements implies the existence of neutral accounting information and that verification and representational faithfulness are implied and existent qualities of such information. Specifically, in paragraph 79 they state: "freedom from bias, both in the measurer and the measurement method, implies that nothing material is left out of the information that may be necessary to ensure that it validly represents the underlying events and conditions". They defined neutrality as an "absence in reported information of bias intended to attain a predetermined result or to induce a particular mode of behaviour". Arthur Young in their 'UK GAAP' (1989, p.48) termed their definition slightly differently, having made close reference to the FASB's SFAC 2 (1980a), they stated that neutrality "implies the provision of all relevant and reliable information - irrespective of the effects that the information will have on the entity or a particular user group".

In their statement of aims, the ASB (1991a) stated:

Financial statements should be neutral in the sense that it is free from any form of bias intended to influence users in a particular direction and should
not be designed to favour any group of users or preparers.

2.7.4(c) Rationality

Rationality is that quality of information which implies its basic reason d'etre. For instance, the rationality for a bank loan in a set of financial statements would most likely be that the enterprise was in need of cash for some reason.

2.7.4(d) Non-Arbitrariness

Some accounting allocations are chosen on an arbitrary and subjective basis. Subjective because, management/preparer opinion is taken as to which allocation method (or approximation) is to be adopted. As depreciation is my example, then either the straight line basis, the sum of the digits basis or the declining balance basis may have been chosen. The mere fact that a choice has taken place implies a degree of arbitrariness. The aim in financial reporting is to reduce this arbitrariness to a minimum in order to maximize the rationality of the information.

2.7.4(e) Uniformity

Uniformity in accounting is a desirable quality of reported information as long as it exists in moderation. Uniformity can be directly derived from a frequently stated objective of accounting standardization: "to narrow the areas of difference" in accounting treatment. The overriding objective of Uniformity is to bring about the desirable characteristic of Comparability among the financial statements of different enterprises. Uniformity of information needs to be a quality with a controlled magnitude so as to avoid the
possibility of a Procrustean process in financial reporting, as exists in France under the Plan Compatible. It would be useless for preparers of financial information to produce completely uniform results, as this would not reflect economic reality.

It was stated by Luper (1965, p.62)

I doubt that even the standard advocates of uniformity would assert that complete uniformity is attainable or even desirable. They should know that even if 100% uniformity were attainable, that meaningful comparability between companies will not likely result. Differences in management philosophy, attitude and objectives, differences in physical conditions, in size, majority and growth prospects, market location and positions and a host of possible other differences, none of which can be fully reflected in financial statements, make comparability through uniform accounting utterly impossible.

The AAA (1966, p.18) advised that "uniformity should never be the justification for inappropriate information".

2.7.5 Pervasive Constraints that may Restrict the Existence of any Qualitative Characteristics

Such pervasive constraints include:

a] substance over form;

b] materiality;

c] cost/benefit effectiveness;

d] flexibility;

e] data availability;

f] consistency;
g] prudence (conservatism);

h] the trade-off and;

i] true and fair.

2.7.5(a) **Substance Over Form**

If a related party transaction contains concealed facts and so of questionable economic substance, but is of correct legal form, it is not allowing the:

underlying economic reality of the entities position and performance [to be], so far as it is possible for accounting to do so, revealed in financial reports ... [It is being] concealed or masked by ingenious accounting artifices whose justification is that they conform to some rule or legal device whose purposes are irrelevant to the portrayal of the true underlying position. (CICA [1980, p.36])

This position is paramount to allowing the application of desired accounting treatments, in which case a lack of validity or representational faithfulness exists, causing the information to be unreliable, or perhaps even in such a case, biased.

An important aspect of accounting to bear in mind when standard setting or preparing financial statements and working with the dictum of substance over form in mind, is that of "economic consequences". As in the opinion of the CICA (1980, p.61) "it makes no sense at all to produce a standard one of the principle effects of which will be to induce businesses to rearrange their affairs so as to eliminate the effects of the standard".
2.7.5(b) **Materiality**

Not all financial information can be precisely measured, due to the "continuity, complexity, uncertainty and joint nature of results inherent in economic activity". (APB Statement 4, 1970, p.6). Implying that the value of some of an enterprise's economic activities must be estimated. This type of financial information must abide by the underlying constraint of materiality. The IASC (1989, paragraph 30) stated: "Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements". Materiality can thus be seen as providing a threshold for the values of qualitatively based and/or subjective pieces of financial information which is used as a yardstick to judge whether or not disclosure is justified. Therefore, "If presentations of financial information are to be prepared economically on a timely basis and presented in a concise, intelligible form, the concept of materiality is crucial". (FASB, 1975, p.6)

The AAA (1966, p.15) referred to this type of accounting information as that which aids in the disclosure of significant relationships. They postulated that "Reports should be prepared to permit observation of significant financial and operating activities of the firm".

2.7.5(c) **Cost/Benefit Effectiveness**

It is difficult to attach figures to the benefits of adopting different accounting standards and/or practices. This qualitative/subjective measurement problem is not similarly
paramount where costs are concerned, as the majority of them are sunk anyway, when the financial results appear. Generally, when information is not cost/benefit effective, it is unlikely to be material as its inclusion in the financial statements would be of questionable benefit. An exception to this generalization is in the case of directors' emoluments and benefits, these transferred monies are of recognizable benefit but are not strictly material.

As far as financial reporting and financial standardization are concerned, the party who gain the direct benefits from these activities are the users (preparers derive indirect benefits), whereas the party who bear the costs of administration is the reporting enterprise.

Ijiri (1981, pp.27-30) expands on this idea in a concept that he labels "accountability". He points out that although users have certain rights to financial information, the entity also has certain rights with respect to the privacy of information. In deciding on whether to require the disclosure of certain information, the standards setting body must weigh the benefits to the user, whom Ijiri calls the accountee, against the cost to the entity, the accountor.

2.7.5(d) Flexibility

The qualitative characteristic of flexibility in financial reporting runs contrary to the notion of uniformity, hence proving a direct constraint where a trade-off is necessary.

58
The need for flexibility stems from the need for constant advance in techniques of financial measurement and disclosure. The rate of such advances in accounting need to be sufficient to keep pace with environmental change.

2.7.5(e) Data availability

A lack of available data can be viewed as affecting the preparers of financial information or the users of financial statements. As far as preparers are concerned, such a problem may pose a direct and possibly insurmountable problem. It can also be viewed as a problem created by preparers, because they neglect to disclose the full financial implications of the activities in which their enterprise has indulged, which also means that the qualities of completeness, clarity, precision verifiability and a host of other related characteristics are not fulfilled either.

2.7.5(f) Consistency

Consistency, as recognized by the ASSC (1975), is a necessary quality of financial information as this characteristic is an aid in the need for users to be able to understand and to compare financial reports. This is clearly helped by restricting arbitrary changes in measurement and disclosure procedures, often made by the information preparers with the intention of disguising or concealing the full effects of a company's activities from users of its financial statements.

Financial statements are produced at least annually, so if an accounting method and/or a standard gives inappropriate
measures and is applied consistently, then clearly, in such a
case, consistency will not be a virtuous characteristic. This
was recognised by the ASSC (1975), they noted that "It is
recognized that an unthinkingly mechanical application of
generally accepted standards does not inevitably produce a
fair presentation".

2.7.5(g) Prudence (conservatism)

To add reliability to more subjective, qualitative
accounting information, increased prudence should be exercised
in measurement. The IASC (1989, paragraph 37) defined and
postulated that uncertain information implies the need for the
use of prudence:

Uncertainties are recognised by the disclosure of
their nature and extent and by the exercise of
prudence in the preparation of the financial
statements. Prudence is the inclusion of a degree of
cautions in the exercise of the judgements needed in
making the estimates required under conditions of
uncertainty, such that assets or income are not
overstated and liabilities or expenses are not
understated.

However this "degree of caution in the exercise of
judgements" should be dealt with carefully and not lean too
heavily on the doctrine of conservatism. Such decision-making
would clearly reflect the outline portrayed by MacNeal's three
fables (1939, pp.2-15). That is financial statements generally
only recognise realized profits - unrealized profits being
excluded because too much emphasis has been placed on the
prudence concept.
The Trueblood report (AICPA [1973, p.59]) argued: "Conservatism for its own sake may actually introduce bias", and:

If financial statements do communicate information about varying degrees of uncertainty, about the judgements made and the interpretations applied, and about the underlying factual information, then the impact of surprises - pleasant or unpleasant - will diminish greatly. This should result in a substantial lessening in the belief that conservatism is essential.

The ICAS (1988, paragraph 5.10) argued that prudence "militates against economic reality, we should like to see the dropping from UK company law of the emphasis on prudence (conservatism)".

The ASB (1991b, paragraph 40) noted: "the application of prudence tends to result in bias to reduce assets and profits and increase liabilities, losses and expenses ...". However, they also suggest a method in which such a situation can be avoided:

... If the exercise of prudence in reporting financial information is not to amount to a loss of neutrality, prudence should be an attitude of mind denoting a careful assessment of all uncertainties and a vigilance to possible risks rather than a systematic measurement bias.

2.7.5(h) The Trade-off

Preparers of financial information, when confronted with 'raw accounting data' find it necessary to strike a trade-off not only between the relevance and the reliability of the information but also between other qualitative characteristics before information can be reported. For this reason such a trade-off is viewed by the IASC as a constraint that may
restrict the existence of any qualitative characteristics. This argument is reflected in the Framework of the IASC (1989, paragraph 45):

In practice a balancing, or trade-off between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgement.

2.7.5(i) True and Fair

The goal which an auditor, or a preparer (in a perfectly theoretical world) strives for is the attainment of a true and fair view. This concept is a close relation of both isomorphism, substance over form and precision. Combining the constraining influences of the application of both qualitative characteristics and accounting standards to reported information, should cause the resulting financial statements to portray what is generally understood to be a true and fair view of, "or as presenting fairly such information". (IASC [1989, paragraph 46])

2.8 SHOULD CFS TAKE ACCOUNT OF THE MANAGEMENT/PREPARER THOUGHT AND OPINIONS?

Estimated or subjective information needs to attain the characteristic of materiality before it is disclosed. These estimations are made by the preparers of financial reports.

However, it was argued by Davidson (1963, p.126) that 'Published financial statements are reports on management, they can be meaningful only if management is unable to control their contents".
2.8.1 Is a Cf Which Avoids Preparer Bias Possible?

A cf can only encourage the evasion of management/preparer bias through the encouragement of neutral and verifiable reporting.

The AAA (1936, p.188), before 'neutrality' was a widely accepted qualitative accounting criteria, stated: "it should still be possible to agree upon a foundation of underlying considerations which will tend to eliminate random variations in accounting procedures resulting not from the peculiarities of the individual enterprises, but rather from the varying ideas of financiers and corporate executives as to what will be expedient, plausible, or persuasive to investors at any given point of time".

A similar argument emerged from the FASB (1980a, paragraph 107):

Neutrality in accounting is an important criterion by which to judge accounting policies, for information that is not neutral loses credibility. If information can be verified and can be relied on faithfully to represent what it purports to represent - and if there is no bias in the selection of what is reported - it cannot be slanted to favour certain interests, but only because the information points that way, much as a good examination grade favours a good student who has honestly earned it.

Information that is both relevant and reliable, generally, will eliminate problems of bias. Yet if management/preparers wish to influence user decisions to attain their own ambitions - a process which is noted to occur in numerous influential texts, usually masquerading as policies helpful to the future operations of the company -
then bias can be introduced. Here bias can germinate in many ways (discussed in chapter 3).

2.8.1(a) Can a Cf be "Built on the Twin Pillars of Neutrality and Verifiability of Financial Statement Data"?

Higson (1989) came to the conclusion that this was an end to be striven for by financial accountants, but in practice is almost an unattainable end because the financial statements invariably inherit management/preparer bias. Gilman (1939, p.611) argued that if neutrality was unattainable, then users should be made aware of this limitation, he observed:

Understanding of conventionalised and often arbitrary accounting figures requires not so much a knowledge of the technical procedures used in preparing accounting records as it does a knowledge and an evaluation of the various factors that have made accounting what it is. It is the understanding of these influences and their effects that the roots of accounting interpretation are found.

The ideals of neutrality and verifiability of financial statement data would probably be much more straightforward to achieve if management/preparers were to adopt, as assumed by Carey (1946), a similar code of conduct to that of "members of the accounting profession". This conduct serves "in part [as] a pledge to the public that in consideration of public confidence the profession will protect the public interest, and in part a code of behaviour designed to protect the profession itself against the selfish impulses of individual members".

Such discussion can be rounded off with the following exposition from Paton and Littleton (1940, p.19):
Hence accounting facts are not always conclusively objective or completely verifiable. But observers are of the opinion that accounting facts are more convincingly objective now than they used to be and more definitely verifiable. As a result the possibilities for accidental error, wishful thinking, biased self-interest, and intentional fraud are now minimised as never before.

2.9 ATTEMPTS AT A CF

According to Anthony (1983, p.8), "The principal cf's developed in recent years can be grouped under two headings: "unofficial and official". 'Unofficial frameworks' were defined as "those not developed by, or at the request of an authoritative body". Whereas 'official frameworks' are those "developed by or at the request of an authoritative body and concerned with research and publication". Both categories also contain discussion documents about cf's: The need for them; their uses; recommendations for their preparation and; comments on existing frameworks. The document by the ICAS (1988), for example, was prepared for discussion purposes.

2.9.1 Unofficial CFs


2.9.2 Official CFs

These frameworks have been carried out by: The APB in their report by Moonitz (1961), Sprouse and Moonitz (1962),
Grady (1965) and Statement No. 4 (1970); the AICPA (1973); the IASC (1989); the FASB in their 6 concepts statements; the ASSC (1975), the CICA in their report by Stamp (1980); the ICAEW in their review of projects prepared by, or on behalf of, other "official" bodies - written by Macve (1981); the ASC addressed document by Solomons (1989); the ICAS (1988); the ASB (1991) and; the AARF in their four concepts statements (which I have read).

2.10 ASPECTS NOT SUFFICIENTLY CONSIDERED BY EXISTING CFS

To be more useful, a cf outlining future orientation of accounting disclosures could pay more attention to making the resulting financial reports more subjective in nature, by emphasizing greater use of qualitative aggregates. If this argument were adopted to a larger extent, attempts should be made to both influence and accommodate such attitudes whilst not over-analysing them thus causing the reported information to lose its original meaning. A simple objective model frequently does not give sufficiently clear information. Furthermore as argued by Burton and Fairfield (in Burton, Palmer and Kay, 1981, p.1.24):

Even in the presentation of historical data the multiple complexities and uncertainties of a business enterprise make it increasingly difficult to utilize a well-defined, single-valued consolidated model to prescribe results in a meaningful way. Thus we have a dual movement in financial reporting: in the direction of a better-defined, more circumscribed, and more objective (but also less useful) set of financial statements; and towards a more future-oriented subjective, and expansive set of required supplementary disclosures. Both thrusts seem likely to continue.
However, in the opinion of Hines (1991, p.316) "There is no subjectivity in accounting measures. They are not evaluations. Subjectivity begins not in the mind of the accounting report preparer or measurer but only in the minds of accounting information users".

Existing of projects, both official and unofficial, had little mention, if any, of the behavioural aspects - the psychological motivations - of management/preparers when preparing the financial statements - surely study in this area is a crucial determinant to the 'true and fair' presentation of the financial statements.

The AAA (1966, p.64) was perhaps the document - not a complete or usable framework - which came closest to embarking upon this subject, but even in this text only brief mention was made to behavioural research and they were only really suggestions:

Accounting is also concerned with effective transmission or communication of information. The committee believes the accounting communication method is in need of re-examination. The assumptions of the preparers of the statements and the reactions of the recipients of the information need to be explored. The problem may lend itself to systematic research, for recent developments in the behavioural sciences suggest that the reactions and needs of the people preparing and using reports are capable of study. This suggests that the study of accounting in the future may well include research on the behavioural aspects of accounting information.

The AAA (1966, p.15) paid particular attention to the construction of the income statement when discussing the
guide-lines marshalling the disclosure of significant relationships.

Although not generally provided, income statements reflecting functional and behavioural as well as natural expense classifications in sufficient detail to permit inter-statement analysis would represent an important contribution to the fulfilment of this guide-line.

The users of financial information, their behavioural reactions and informational needs, provide a further important area of financial reporting to which attention has not been paid. Again the AAA (1966, p.20) was the only authoritative text to pay attention to this area, but even here they only really made suggestions for research:

until much more is known of the behavioural characteristics of external users, accounting information must be developed from a broad and imprecise understanding of the informational needs of external users. When and as the results of fundamental research on the informational needs of external users bear fruit, the structure of accounting theory and reporting based upon it can logically be expected to expand.

2.11 SUMMARY AND CONCLUSIONS

The AICPA, consistent with other regulatory bodies that have constructed a cf, appear to regard accounting concepts as offering guidance to accounting regulators, reporting entities, and the users of financial statements.

This chapter has more than fulfilled the specific requirements outlined specifically by the CICA (1980, pp.104-105).
With a conceptual framework in place, a standard-setting body is able to review existing standards in the light of its procedural proposals. The standard-setting body should do this with a view to determining whether such standards:

[1] result in the production of financial statements which meet user needs;

[2] are both objective and subjective in their measurement - as seems appropriate;

[3] take account of the outlined qualitative characteristics; and


The issue of accountability has been tackled by outlining the intended users of, and their needs from, the financial statements.

I referred to the cf project by the IASC (1989), whose opinion it was that the relevant basis upon which financial statements should be constructed is the accrual basis. However, a proviso exists, that is the reporting enterprise is assumed to be a going concern, if not, an alternative basis of accounting has to be used and disclosed.

Generally, it is necessary for the preparer of the financial statements to adopt a measurement base that will be most relevant to user needs. This is dependent on the adopted
capital maintenance concept used in the preparation of the financial statements.

Twelve specific reporting objectives relating to the financial statements and the objective information they provide was discussed with strong reference being given to the report by 'the Trueblood study group'.

The consideration of qualitative characteristics of reported information and subjective judgement in making financial decisions was given upmost importance as I saw this 'area' as having influence on and close links with preparer (managerial) decision making when preparing the financial statements.

It was further considered whether cfs should take account of management/preparer thought and opinions. A conclusion which can be drawn from the discussion is that cfs together with the accounting standards they suggest are capable of catering for management/preparer thought and opinions. However, the degree to which these opinions are adopted depends on the level of subjective opinion and qualitative measurement which the cf prescribes in each standard. This subjective opinion and qualitative measurement can, however, lead to bias and so it was discussed whether a cf which avoids preparer bias is possible.

Finally citation was made to various attempts at a cf for financial accounting and I point out that there has been
virtually no attention paid to the behavioural characteristics or psychological motivations, which are portrayed in the financial statements by their preparers.

Now that the FASB have 'completed' their cf project, a question which is to be tackled is whether such projects have fulfilled their functional objectives "principally that of providing a basis for standard setting and resolving accounting controversies" (Hines [1991]). Some authors have suggested that it may be worthwhile for the FASB to return to their project at some future date. Johnson (1985) concluded that if the project were ever to be taken up again, it would not be until after the last term of the last board member who was involved with the project, which would probably mean about 1996.

At present there does not exist a cf governing financial advertisements anywhere in the world. Such a cf would be useful for similar reasons to those outlined above. It would also fulfil a similar role. In chapter 7 I attempt to outline such a framework - the knowledge evolving from facets highlighted by my content analysis (chapter 6).
NOTES TO CHAPTER 2

CHAPTER 3

THE BEHAVIOURAL ASPECTS AND PSYCHOLOGICAL MOTIVATIONS OF THE PREPARERS OF EXTERNAL FINANCIAL REPORTS

3.1 INTRODUCTION

The objective of this chapter is to discuss the particular format of presentation adopted in the production of external financial accounting reports and to outline their behavioural aspects, embracing their preparers motivations. Bedford (1973, p.52) argued: "failure to consider explicitly the behavioural aspects leaves the communication portion of accounting disclosures on a somewhat unstable foundation".

Accounting disclosures mentioned above by Bedford include financial advertisements - two samples of which will be analysed by this study. The objectives of this chapter should help to shape and underline this analysis.

I stand by the opinion of the AAA (1971, p.247) "by its very nature, accounting is a behavioural process".

3.1.1 Outline

Following a definition of the aims of behavioural science and an introduction to the subject area, the format of this chapter will be as follows:

Firstly, links between financial reporting, behaviouralism, behavioural motivations and bias will be
discussed. Also the similar concepts of behavioural feedback and economic consequences will be brought into the context of this chapter.

Secondly, the general objectives of an enterprise and those of management/preparers will be considered along with the disclosure decisions of the latter.

Thirdly, management/preparer behaviour and motivations will be discussed in terms of their needs and attitudes - which will be divided into three components: perceptual component; feeling component and; action-tendancy component. Then the necessity for freedom from bias in financial reporting will be stressed along with the conjectures that financial reports reflect the personality, values and wants - which are all behaviourally motivated characteristics, of preparers. It is postulated in this study that these behaviourally motivated characteristics are precursors to selective accounting policy adoption, such as: income smoothing; the treatment of extraordinary and exceptional items; off-balance sheet financing; brands and goodwill; window-dressing; biased asset valuations and; the awarding of bonuses out of profit. Also studied is the use of the concept of functional fixation by managers/preparers in reporting the financial position of an enterprise. The question as to whether manipulation of reported earnings per share and the smoothing of reported income is a common practice will be considered. Followed by a discussion of fraudulent management/preparer behaviour and the possible constraints on
their behaviour when reporting the financial results of an enterprise.

Fourthly, information engineering - an activity which produces 'creative accounting' (biased) information - will be discussed.

Fifthly, the need for standards due to the behavioural/motivational biases of management/preparers will be discussed.

Finally, a summary of the chapter will be made and some conclusions which can be drawn from the analysis noted.

3.1.2 Behaviouralism

To make a firm foundation upon which subsequent arguments can stand, it is sensible to note the AAA (1971, p.248) definition and aims of behavioural science:

Behavioural science encompasses any field of inquiry that studies, by experimental and observational methods, the behaviour of man (and the lower animals) in the physical and social environment ... the objectives of behavioural science is to understand, explain and predict human behaviour, that is, to establish generalisations about human behaviour that are supported by empirical evidence collected in an impersonal way by procedures that are completely open to review and replication and capable of verification by other interested scholars. Behavioural science, thus, presents the purpose of experimentally confirming specific hypotheses by reference to observable changes in behaviour.

The AAA (1971, p.248) argued that research embracing behavioural science has to fulfil certain criteria:
To be considered a part of behavioural science, research must satisfy two basic criteria. First, it must ultimately deal with human behaviour. The primary aim of behavioural science is to identify underlying regularities in human behaviour - both similarities and differences - and to determine what antecedent conditions give rise to them and what consequences follow from them. Second, the research must be accomplished in a "scientific manner". This means there must be a systematic attempt to describe, interrelate, explain, and hence predict some set of phenomena; that is, the underlying regularities in human behaviour must be observable or lead to observable effects.

When tackling the 'behavioural aspects' of financial accounting reporting, I, along with the AAA (1977, p.17), think it is necessary to qualify the relationship and applicability of behavioural science to accounting:

Empirical research involving observation of individual behaviour as it relates to accounting information has ordinarily been associated with the term "behavioural accounting research" (BAR). The objective of BAR is to understand, explain, and predict aspects of human behaviour relevant to accounting problems.

This view was also held by Belkaoui (1989, p.xii):

Behavioural accounting concerns itself with human behaviour as it relates to accounting information and problems. Its basic objective is to explain and predict human behaviour in all possible contexts.

Siegel and Ramanauskas-Marconipp (1989, p.1) were of a similar opinion:

Behavioural accounting is the interface of accounting and social science. It is concerned with how human behaviour influences accounting data and business decisions and how accounting information affects business decisions and human behaviour.

March (1987, p.158) employed rather a useful analogy, in which "sophisticates" can be thought of as the preparers of financial information and "innocents" as its users:
In the beginning, God created innocents and sophistcates. Sophisticates are clever; innocents are not. Cleverness pursues self-interest with as much guile and imagination as possible. Information is an instrument in the service of the clever, and competition rewards people in proportion to their relative cleverness with information instruments. This is the creed of numerous articles on how to exploit information to further self-interest.

Such a situation was seen as attributable to a certain party by Anthony (1966, p.260): "If the business accountant [preparer] were an independent agent rather than an employee, we might rely on his estimate of the effect of an executive corollary".

It is clear from foregoing argument that preparers may wish to show enterprise performance in its best possible light, in order to make any feedback from performance data favourable. On this point Williams (1987, p.174) gave the following comment:

The object status of accounting data gives a recursive element to the feedback role played by such data. If accounting data are themselves outcomes, then conceivably every possible action a decision maker might take has a corresponding accounting system indicating that action and making it appear, ex post, to be best. The choice of accounting data can be the choice of what outcome the decision maker wants.

In this study, I intend not to be guilty of any of the following shortcomings in existing behavioural accounting research noted by Weick (1970) when addressing behavioural accountants:

While you may not know much of what the social science disciplines have to say about human behaviour, you are surely familiar with human behaviour per se. This leads me to think that the problem is access to interesting behaviours rather than a conceptual deficit ... you seem to have
problems dredging out those insights, observing interesting regularities in what people do, and mining these observations for their relevance to behavioural accounting.

The AAA (1977, pp.17-18) also made comments upon existing behavioural accounting research: "Behavioural accounting research studies ordinarily lack any agreed-upon basis by which their results may be assessed" and "BAR lacks a theoretical base to facilitate the selection of appropriate accounting procedures for individuals in economic decision making".

Accounting reports are intended to be an observed phenomena. They are produced so that their users may observe the well-being of the enterprise, which they may partially own.

3.2 THE LINK BETWEEN FINANCIAL REPORTING AND BEHAVIOURALISM

Such a link can be established by considering the preparers and their motivational influence on the financial results. Stated simply by Burton et al (1981, p.1.18) "Disclosure is a check on business behaviour".

It should be recognised that preparers are somewhat restricted in the legitimacy of their disclosures by the accounting standard-setting body of their country. Burton et al (1981, p.1.18) noted: "It is widely recognised that certain disclosure requirements have been established by regulatory bodies primarily because they represent a check on the behaviour of managers", they add:
Certain detailed disclosures may have an anti-competitive effect or may cause management to avoid certain actions that might be to the benefit of both firm and society, simply because management is unwilling to devote the time and emotional effort to deal with the questions that might result. Disclosure requirements imposed for their behavioural impact are thus a two-edged sword and must be dealt with extremely carefully.

3.2.1 The Link Between Behavioural Motivations and Bias

Behavioural reporting characteristics, exposed in financial reports, brought about by the underlying motivations of preparers can create colouration in financial information, which is the forebearer of information engineering (discussed in section 3.5). This hypothesis was discussed in terms of the quality of representational faithfulness of reported information by the AAA (1966, p.39), who reported:

From a financial reporting perspective, the economic activity of a firm must be reported as faithfully as possible, without coloration for the purpose of influencing behaviour in any particular direction.

However, where management/preparer 'judgement' is used, notably when subjective opinions and qualitative measurement are necessary, then "colouration" of the financial statements occurring may be highly likely (as discussed earlier). In such a case it is probable that their behaviour will be influenced. This 'colouration' of financial information is paramount to bias. The FASB (1980a), agreed that management/preparer behaviour can be influenced in the quest of reporting financial information causing a lack of neutrality - an "absence in reported information of bias intended to attain a predetermined result or to induce a particular mode of behaviour".
Preparer representations whether biased or neutral influence the behaviour of users according to Griffin (1982, p.114):

Accounting information influences behaviour. It not only provides neutral information for decision making, but it also motivates, influences, and otherwise induces behaviour by way of feeding back the results of decisions in a variety of ways and by acting as a "scoring system" for measuring results.

3.2.1(a) Behavioural Feedback

The CICA (1980, paragraphs 15-32) point out that to a certain extent "behavioural feedback" elements are a determinant of the contents of financial statements. For example, values depend on peoples expectations which are, in turn, influenced by, inter alia, the making of accounting measurements, so that a measurement of value may itself alter peoples expectations and thus the value it seeks to measure.

This notion of a behavioural feedback (inducement) was extended by Prakash and Rappaport (1977, p.32) through the introduction of the concept of "information inductance":

Accounting affects the decisional behaviour of a unit (whose performance is reflected in an accounting measurement) through information inductance. The units may choose to alter their behaviour or their report of their behaviour because they are concerned about and anticipate the feedback effects which might come their way due to the recipient's use of the information.

The decisional behaviour of users affects the production process. This implies that preparers have the ability to further influence future financial results via the ongoing effects of information inductance. This was argued by Prakash
and Rappaport (1977, p.35), it explains in greater depth, some aspects of the above discussion by Griffin:

But when attention is focused on information inductance, we see the on-going production process in the firm as being moved by the decisional behaviour of the people in the firm acting out their organisational roles. This underscores the fact that capital per-se does not earn a return by itself; it is people's decisional behaviour that brings about production and determines the distribution of product among the factors of production.

It is then apparent, that preparer opinion, and so their behavioural motivations, influence the information present in the financial statements. This however, does not imply that these representations are biased. Prakash and Rappaport posed the important question of "What is the significance of information inductance for setting financial standards?" This question can be extended to ask whether a cf (as discussed in the previous chapter), which would influence the contents of accounting standards, is significantly affected by the presence of information inductance. Prakash and Rappaport (1977, p.36) discussed the substance of the former question by saying:

Accounting changes can bring about real (as opposed to merely descriptive) changes at the firm, the industry, and the economy level ... [At the firm level decision makers make] their resource allocation decisions differently due to inductance associated with the external reporting required of the firm.

An opposing view to that of Griffin (1982) was noted by Kirk (1981, p.85). He maintained that financial reporting standards which, theoretically, reflect accounting information do not, if followed in an unbiased fashion affect behaviour:
In summary, the notion that financial reporting standards redistribute wealth is exaggerated. Standards reflect economic activity: they do not drive or control capital market prices or predictably affect managerial behaviour.

But, according to the CICA (1980, p. 60), biased reporting cannot be readily eliminated because of the accounting profession's ignorance of behavioural/motivational decision theory:

One of the great difficulties in producing standards and financial statements that are truly free of bias is our great ignorance of the nature and variety of user decision models, so that it may be difficult to be sure whether information is biased or not.

3.2.1(al) Economic Consequences

A parallel can be drawn between a discussion of the behavioural feedback of financial reporting and a discussion of the economic consequences resulting from an accounting standard since both refer to the results of an accounting decision once it has been implemented.

Zeff (1978b) defined economic consequences as "fundamental questions of resource allocation and social choice [which] appear to underlie the question of choice among financial reporting alternatives".

The topic of inherent economic consequences in reporting biased financial information probably first appeared in the work by the AAA (1966, p. 5):

The standard of freedom from bias is advocated because of the many users accounting serves and the many uses to which it may be put. The presence of bias which may serve the needs of one set of users cannot be assumed to aid or even leave unharmed the interests of others. It is conceivable that biased
information could properly be introduced if it would aid one group without injuring the position of any other, but this conclusion cannot be reached with certainty in external reporting, where all potential users must be considered.

However, whilst striving to attain neutrality - "information which is free from bias" (IASC [1989]) - a preparer may, according to the CICA (1980, p.61), still work towards the results of desired economic consequences - "The essential point is that the purpose of accounting is to provide measures which are free from bias, leaving it to the user to decide how the information is to be interpreted". Therefore, if biased reports exist, accounting as a body of knowledge stands to lose its credibility and be seen as a generator of fiscal, economic, political or social policy.

Higson (1989) discussed the impact that the economic consequences of reported financial information may have on the preparers of financial information. Several influential authors have also confronted this topic: - Zeff (1978a and 1978b), who specifically discussed management\preparer interventions in the standard setting and reporting processes; Johnson (1966), who hypothesized that it requires a "lively imagination" to believe that management is genuinely concerned with fair presentation when choosing between accounting alternatives; Taylor and Turley (1986, p.100), who considered that "management's choice of accounting policies may be based upon an anticipation of economic consequences" and; Prakash and Rappaport (1977), who drew a parallel between information inductance and "the process whereby the behaviour of an individual is affected by the information he is required to
communicate". Higson (1989, p.7) discussed the advantageous use of economic consequences:

The term 'economic consequences' has been used to describe situations where interested parties (such as management) have sought to influence accounting standard setters or where accounting policies have been selected on the basis of the impact they would have on financial statement users.

3.3 ENTERPRISE OBJECTIVES

It is widely agreed in the authoritative accounting literature that the objectives of a body have a substantial bearing on its behaviour. It remains an open question as to whether an accepted theoretical assumption in economics - the overriding objective of a business enterprise is to maximise profit - is true in practice. On this argument Anthony (1983, p.36) stated:

Simon in his Nobel lecture refers to a vast body of empirical evidence about the behaviour of firms and of individuals within firms. He concludes that none of this evidence supports the premise that profit maximization is the governing objective of business.

Anthony (1983, p.37) goes on to say that Simon did not cite Alfred Chandler (1977) and his Pulitzer prize winning book and theory The Visible Hand, which analyzed the behaviour of American corporations from 1850 to 1950.

The "visible hand" is the hand of management. Chandler demonstrates that management action is a much better explanation of the behaviour of the modern corporation than the "invisible hand" of the marketplace that classical economists assume to be the governing factor.

Other authors eg. Cyert and March (1963, pp.239-240) adopt an economist's perspective by arguing that it is competition in a market which triggers profit maximising
behaviour thus "prevent-ing] a management from manipulating
the activities of the firm to conform to personal objectives", and it is the absence of these competitive conditions which
"permit managers to pursue their own goals". They summarize:

the rules of profit maximization will not
necessarily allocate the residual funds in firms
which, after satisfying their minimal profit
demands, possess additional uncommitted resources.

3.3.1 Management/Preparer Objectives

The generally accepted enterprise objective of
maximising profit does not encompass the diverse objectives of
management/preparers. In the opinion of Devine (1962a, p.14)
"with the separation of ownership and control and the
currently ill-defined lines of responsibility, management/preparer objectives may at specific times seem
inconsistent if not beyond understanding".

Devine (1962a, pp.14-15) pointed out further
difficulties implied in the study of management/preparer
objectives:

The problem is further complicated by the
possibility that even if the overall intention of
management were known, there still would be
intentions on individual items of policies that
obviously do not square with the overall objectives. Management's immediate goals may be inconsistent
with one another and with long run goals and, worse,
they may be inconsistent with objectives of
creditors, government agencies, owners of other
outside interests. Moreover, there is always a
possibility that the representations do not agree
with the intentions.

Other monetary aspects of a business enterprise may be
seen by management/preparers as more important objectives than
purely profitability. For example the maximization of retained
earnings, the maintenance of solvency for the enterprise, the management of losses within acceptable limits and the maintenance of rising annual earnings. The latter objective was noted by Monsen and Downs (1965):

Thus the attention of management is based on stock prices rather than earnings (profits), which are viewed as a means to obtain higher stock prices rather than as ends in themselves. Therefore, if top management must choose between (a) Maximising profits over a given period by accepting fluctuating earnings, or (b) achieving total profits by maintaining steadily rising annual earnings, it will normally choose the latter.

3.3.1(a) Management/Preparer Disclosure Decisions

It was the opinion of the ICAS (1988, paragraph 3.16) that when making a decision about disclosure:

Managements traditionally concentrate - and existing legal requirements in the UK support this - on presenting in the financial statements of the corporate report an account of their stewardship in the form of a record of past transactions; they do not seek to appraise and report what the entities future performance may be ... managements have a responsibility for the future economic well-being of their entities and so must look to future expectations.

Also, in the forward to the document, they stated: "We are also sharply aware of the difficulty of reconciling the demands on management to disclose information with their duty to safeguard investors interests and recognise that sometimes it may be in investors' interests not to disclose."

The general economic climate clearly affects the disclosures of preparers, therefore these disclosures need, not only a more subjective base, but also a more qualitative base. When accounting measures are qualitative by nature, the
skill and opinion (judgement) of the measurer is utilised. According to Revsine (1977, p.88) "Theoretically, management selects an accounting principle by examining the underlying circumstances in a specific area".

Derived from "skill and opinion" in judging "the underlying circumstances", it is the job of management/preparers to assess the differing 'subjective weights' which need to be attached to the financial information in selecting, what in their judgement is the appropriate accounting method. Theoretically, as stated by Revsine (1977, p.88):

the method that is chosen should 'present fairly' the financial position of the firm. In making the choice, management should adhere to two constraints. Firstly, the method selected must be a member of a set of techniques called GAAP. Second, once selected, the method must be applied consistently from year to year.

It is worth noting however that in the opinion of the CICA (1980, p.54) "A decision as to whether or not judgement was good usually has to await the unfolding of events". However, when events are "unfolded", a lack of 'fairness' may be witnessed, as observed and commented upon by Tonkin and Skerrat (1989, pp.59-60):

In this environment, it is inevitable that management will more forcibly seek to report in a way it perceives to be in its best interest sometimes with little regard to "fairness". This marked change in atmosphere has undoubtedly placed increased pressure and stress on the accounting profession. This change in atmosphere, together with the fact that reporting issues have become more contentious and complex over the years, necessitates a qualitative change in accounting standards ... Experience suggests that wherever there is silence, leeway, ambiguity, uncertainty and where a standard
comprises only "guidance", then management will act in a manner that best serves what they perceive to be their own purposes.

This view was both reflected and extended by Brown (1987, p.29). He argued that "bias" in financial representations "may" be a result of such situations. Conversely, it was argued by Miller (1964, p.46), that it is very unlikely that management/preparers are even in a position to bias the financial representations of their respective enterprises. They pose the question "Are audited statements really management's [representations]? No, they aren't; nor are they the CPAs, and such a condition may be the root of much of the professions difficulty with accounting principles".

3.4 MANAGEMENT/PREPARER BEHAVIOUR

The prediction of management/preparer behaviour, as preparers of accounting information, is not solely a psychological study. Neisser (1976, pp.182-183) used the analogy of a chess master to argue this point:

The prediction and control of behaviour is not primarily a psychological matter. What would we have to know to predict how a chess master would move his pieces or his eyes? His moves are based upon information he has picked up from the board so they can only be predicted by someone who has access to the same information in other words, the aspiring predictor would have to understand the position at least as well as the master does. He would have to be a chess master himself. If I play chess against a master he will always win precisely because he can predict and control my behaviour while I cannot do the reverse. To change this situation I must improve my knowledge of chess, not my knowledge of psychology.

Therefore Neisser is arguing that it takes an accountant, an analyst of management or management itself to
understand the behaviour of the preparers of accounting reports.

Managers/preparers may believe that the stock market can be misled by changes in their financial reporting techniques. The Wall Street Journal editorial on October 1, 1974 (note [1]) states that:

A lot of executives apparently believe that if they can figure out a way to boost reported earnings their stock price will go up even if the higher earnings do not represent any underlying economic change.

When analysing management/preparer behaviour it is necessary to bear in mind that they are mere human beings and as such are susceptible to behavioural influences. As argued by Chang and Campo-Flores (1980):

in decision making, managers cannot separate their feelings, emotions, and personal preferences from economic considerations. True, economic factors are considered, but simultaneously personal likes and dislikes also figure in the process.

In order to analyse the behaviour of management/preparers, as separate entities from the organization which they represent, it may be necessary to drop the organizational assumption of profit maximisation. It is widely recognised in the authoritative literature that profit maximization is frequently not a predominant goal of this group anyway. Bruns (1968) noted:

When a businessman seeks profit, he does so for many reasons. For some purposes, the profit reported by accounting is far more important to the businessman or manager than the "true" or "perfectly measured" profit. Modern business organizations have given this conception of accounting wide significance, and
the implications of this notion for accounting warrant close examination.

3.4.1 Management/Preparer Motivations

This topic was portrayed quite simply by Dermer and Siegel (1974): "Motivation is a behavioural variable".

According to the AAA (1971, p.252): "Motivation theory is concerned with understanding why individuals choose certain actions and reject others, and why they persist in a chosen action, even in the face of difficulties and obstacles".

Management/preparer motivations or goals emerge from their objectives. They can be separated from enterprise goals, which, primarily, revolve around profit maximization. Management/preparer motivations are many in number. Here, I am interested in exposing those motivations which may require management/preparers, when preparing the financial statements, to bias the resulting data. One reason for which they might do this was noted by Devine (1962a, pp.14-15) as a motivation of self interest, in order to secure their own position.

The accountant may assume that the intelligent management will intend to do those things which further it's own interest, and he may sometimes question it's intelligence. The best interest of management may not coincide with the best interests of any other group, but in most cases the traditions and standards of stewardship and fiduciary relationships influence management and help harmonize it's own interests with those of the shareholder's and other groups to whom management is responsible.

Devine (1962a, p.14) also said: "In an enterprise economy in which each person is supposed to be motivated by
what he believes is his own self interest, management finds that its own interest is furthered by paying some heed to the objectives of all other interest groups."

As a result of the financial statements appearing healthy, which may be due to management/preparer bias, shareholders will reward management, perhaps without knowledge of the real underlying events. Such a situation was commented upon by Bruns (1968): "where management is rewarded by stockholders with salary or perquisites on the basis of reported earnings or growth, the reports which result in these rewards may become more important - the goal of management decision-makers - than the long-run earnings or healthy growth which the stockholders really intend to reward."

The presentation of non-accounting information (for example in the financial statements) may be a management goal. Bruns (1968) warns that "If non-accounting information becomes a goal or is perceived as having special relevance for decisions undergoing evaluation, the impact of accounting information will be reduced". However he adds "If non-accounting information is not relevant to decisions, the effects of relevant accounting information will be enhanced".

3.4.2 Needs

'Needs' are a behavioural variable as their magnitude and meaning are decided by the person under consideration. In
this study, I wish to discuss these variables in an accounting context. The AAA (1971, p.253) reported:

the arousal of a particular set of needs depends upon the momentary physiological state, environmental situation, and perceptions of a person ... at any given time, only a particular set of needs is active in directing and sustaining behaviour.

In the present context I see 'needs' as being the equivalent of the data intended to form the contents of the financial statements.

3.4.3 Attitudes

It is an aim of this study to gain a clearer understanding of management/preparer behaviour where it, hypothetically, relates to the presentation of data in financial reports. The way in which impartial academics, standard setters, auditors and users would like to influence this behaviour is to make it neutral (that is free from bias). According to the AAA (1971, p.258):

Knowledge of the attitudes of people is an important aid in predicting and influencing their behaviour. Anyone who is seeking to affect the behaviour of others - whether these others are subordinates, superiors, or colleagues in his own organization, or those he deals with in other organizations - soon becomes aware of the importance of their attitudes.

Therefore, an understanding of the attitudes of management/preparers towards the presentation of the data in the financial statements would be an invaluable precursor to their financial representations. Shaw and Wright (1967) have defined an attitude as:

a relatively enduring system of effective, evaluative reactions based upon and reflecting the
evaluative concepts or beliefs which have been learned about the characteristics of a social object or class of objects.

According to the AAA (1971, p.258) attitudes, as psychological phenomena have three main components:

- a perceptual component which consists of the beliefs of the individual about the object of the attitude;
- a feeling component which refers to the emotions connected with the object - the extent to which the object is felt to be pleasing or displeasing, liked or disliked; and
- an action-tendency component which includes all of the behavioural intentions or readinesses associated with the attitude.

The various attitude components are illustrated in figure 3.1.

**Figure 3.1**
Attitude Components

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<tr>
<th>Attitudes</th>
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<tbody>
<tr>
<td>Perceptual Component</td>
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<td>Feeling Component</td>
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<td>Action-tendency Component</td>
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3.4.3(a) Perceptual Component

According to the AAA (1971, p.252) "Perception is important to accountants because of the impact of accounting"
processes and reports can be significantly affected by differences in perception". This attitude component is dependent upon the magnitude of a person's opinion about the object of their thought. In the context of this research the relevant 'person(s)' are preparers and the 'object' of their thought is financial reports. The magnitude of their opinion towards the financial statements refers to their opinions upon what they think ought to be portrayed by the financial statements. The AAA (1971, p.258) argued:

If an individual holds a positive attitude toward a given object, he will be disposed to help or reward or support the object; if he holds a negative attitude, he will be disposed to harm or punish or destroy the object.

Utilising the above analogies, the AAA (1971, p.250) reported:

perceptions are sometimes affected by a person's unconscious searching for objects related to strongly aroused motives. ... Thus, our motives, our attitudes, and even our social position can all affect our perceptions

3.4.3(b) Feeling Component

This attitude component relates to a person's feeling of need.

In the context of this research, again the relevant 'person(s)' are management/preparers and their feeling of 'need' applies to the definition which was discussed above. The AAA (1971, p.258) argued:

Attitudes develop in the process of need satisfaction, i.e., in response to problem situations involving attempts to satisfy specific needs.
A person's activities - which provide that person with information - impact on the attitudes that person holds. For a person to nurture a specific attitude it is useful to find a relevant information environment in which it can germinate. If this information environment is unattainable, that person has to fabricate the facts upon which that attitude is based. However the relevant information environment may be provided by an authority.

In the context of this research the 'person(s)' are management/preparers and their 'activities' are the actions undertaken related to the enterprise. The attitudes they wish to develop can either be nurtured in an environment where that attitude is rife or have to be fabricated. The attitudes by which management/preparers ought to be guided are those held by the relevant standard-setting body. The AAA (1971, p.258) argued:

The attitudes of a person are shaped by the information to which he is exposed. An individual who has strong needs that must be satisfied by the development of appropriate attitudes will undertake a wide search for the necessary information. However he may not be in a position to obtain reliable, factual information himself and, in some cases, he may have to invent facts in order to develop an important attitude. Individuals are often at the mercy of various authorities for much of the content of their attitudes. Through ignorance or intent, these authorities are sometimes unreliable.
3.4.4 Freedom from Bias

It was quoted above that it was the opinion of the AAA (1971, p.258) that "Knowledge of the attitudes of people is an important aid in predicting and influencing their behaviour". I also noted above that management behaviour may need to be influenced such that a higher degree of neutrality (freedom from bias) can be attained. Following the above argument this may be achieved by modifying management attitudes. Ritchie (1923) argued:

The term "freedom from bias" reflects the intent of "objective evidence" and provides a means for indicating the level to which subjective observations are included in accounting disclosures. Upon analysis, it appears that users want objective evidence or information free from bias on the existence, time of occurrence, description of items involved, values assigned, and independence of the activity. This can be provided by developing new operational rules, to replace the traditional ones used to ensure objectivity in the form of such methods as acquisition costing, documentary evidence, and consistency.

Another "operational rule" which could be adopted is that of statistical validation. This method utilizes carefully determined probabilities of error of measurement or observation, so allowing an 'expected' result to be determined. If the actual outcome closely corresponds with this result, minimal bias is said to have been experienced in deriving the outcome. Bedford (1973, p.98) stated that:

The statistical-validation method of minimizing bias in accounting disclosures approaches the issue in part as an aspect of the full disclosure doctrine and in part as a means of eliminating the bias in any average.
3.4.5 Personality

The personality of preparers plays a part in shaping their objectives (goals). In fact the AAA (1971, p.253) argued: "needs and goals become organised around an individual's personality". Here 'needs' (as discussed and defined above) can apply to the intended contents of the financial data in financial reports. In fact "Personality plays a crucial role in motivation - organizing the needs and goals that have to do with self enhancement and self-defence".

3.4.6 Values

Personal values become prevalent, when other channels of reasoning - for present purposes that is economic - are not utilised. On this argument it was the opinion of Chang and Campo-Flores (1980) that:

At times, managers may forgo economic reasoning and proceed with what they prefer to do, paying minimal attention to other relevant factors. The overriding consideration in this case is the manager's personal values. Values refer to a conception of what an individual or group regards as desirable. They are deeply rooted feelings about ideas and philosophy. Values result from accumulation of previous experiences, perceptions and memories; and indeed behaviour is a function of previous history. Managers may not be consciously aware of their values, yet they affect their perceptions and choices, and strategic decision making is no exception. In a sense, strategy making may be a reflection of personal values.

3.4.7 Wants

A person's wants are many in number, according to Bedford (1973, pp.10-11) they range from "basic economic values" (eg. food, clothing, shelter, transportation) to values such as knowledge, prestige, recognition. All of these values are "biological, sociological, and psychological". He
proposed that: "Accountants must keep in mind at all times that economic values alone cannot satisfy all the wants of man". He went on to say:

There are social science findings that seem to suggest that as the lower level wants of man, including certain economic wants, are satisfied, man, as the product of his biological and environmental antecedents, tends to be motivated by new stimuli and becomes sensitive to alternative wants [eg. knowledge, prestige, recognition]. ... The assumption follows that man will devise means to satisfy these alternative wants and will call for accounting disclosures to aid in this process. The point is that, conceptually, accounting disclosures must change constantly and need not be confined to the economic values of man even though there is no evidence to suggest that, in the foreseeable future, economic entities will not be motivated largely by the human desire for economic values. ... So appropriate accounting disclosures must be examined in terms of the values motivating action in a society. Broadly, actions are related to the values, in that man's wants influence his actions.

3.4.8 Selective Accounting Policy Adoption

As has been mentioned, it may be a goal of management/preparers to portray the results of their enterprise in a way which is beneficial to themselves. This is quite understandable, since, as argued by Anthony (1983, p.42):

Behavioural research clearly demonstrates that most people give optimistic reports of their own performance. For example, more than a half (some say two thirds) of college alumni will report that their grades were in the upper half of their college class. Although not all managers exhibit this behaviour, in general they are motivated to report optimistically because accounting information about the entity is one basis for judging their own performance. Also, they tend to report optimistically about short run performance, even though they know such reports will probably require a subsequent downward adjustment. Reactions to current reports will become apparent quickly, whereas much can happen that affects future reports.
Optimistic reporting can take place within the confines of generally accepted accounting principles, as was argued by Sanders, Hatfield and Moore (1938, pp.5-6):

The existence of a body of generally accepted accounting principles does not mean that there is only one proper accounting treatment for every situation with which the accountant must deal. For many such situations, there are available a number of treatments which are in accord with the generally accepted principles. But the affirmation of the general acceptance of accounting principles does mean that many and, indeed, most of the possible treatments are inappropriate.

Hawkins (1969, p.13) agreed with this proposition:

Generally accepted accounting principles can condition the decisions of managers as well as measure their performance. Unfortunately, this does not always lead to desirable results. A number of these principles have a built-in bias which motivates managers under certain circumstances to adopt them in preference to alternative principles that may better reflect the operating results and financial condition of their company. In addition, other generally accepted accounting principles may induce managers to adopt specific operating policies, even though these policies may not necessarily be the most appropriate.

Such generally accepted accounting principles may be selected so as to portray the financial results of an enterprise in a manner which is consistent with the preparers wishes (eg. smooth reported income and/or a consistent level of reported earnings per share) by using some of the following methods: smoothing of income; attentive treatment of extraordinary and exceptional items; off-balance sheet financing; the use of brands; window dressing; the selective inclusion of goodwill in financial reports; biased asset valuations and; the awarding of bonuses out of profit.
3.4.8(a) Income Smoothing

A discussion of income smoothing revolves around one of the objectives of management/preparers. That is to portray the results of a business enterprise in a manner which fulfils their objectives, in order to illustrate their stewardship favourably. Barnea et al (1976, p.110) defined income smoothing as: "the deliberate dampening of fluctuations about some level of earnings which is considered to be normal for the firm". Of course, the smoothing of income streams is consistent with preparers biasing the financial statements of an enterprise: "Managers don't have to cook the books to manipulate earnings. ... Executives rarely have to violate the law to put a gloss on dreary earnings". (Worthy [1984])

Savoie (1970) argued:

In corporate financial reporting ... the game plan is to show a steady earnings-per-share, thus stimulating investor demand for shares, with consequent rise in their price, and creating a favourable atmosphere for the issuance of new securities in case additional capital is needed.

This (the game plan) can be achieved by enhancing "the perceived reliability of the time trend of ordinary income for the purpose of predicting cash flows" (Barnea et al [1975, pp.61-62]).

Income smoothing provides an easy and effective method for management/preparers to bias the financial reports to give users a favourable impression of their performance:

the adoption of accounting practices that help to smooth out fluctuations in periodic income measures will bias users into a belief that the risk attached
to the company's operations is less than it really is. (CICA [1980, p.60])

This "risk attached to the company's operations" is smoothed, in the form of the enterprise's income, so as to trace, as closely as possible, "the trend they [preparers] believe best reflects their view of investors' expectations of the company's future performance". (Givloy and Ronen [1981, p.175])

This possible accounting discrepancy was noted by Arthur Andersen (1935, p.341):

It is equally important that the general and surplus reserves should not be used for the purpose of equalizing earnings of a corporation over a period of years. The practice of equalizing earnings is directly contrary to recognized accounting principles.

Paton and Littleton (1940, p.104), when discussing the use of the 'current net' prefix noted:

The purpose of placing current net in front of earned surplus to take the shock off losses is clear, but the practice can be defended as an accounting standard which checks the tendency of management/preparers to report losses by the backdoor route.

The AAA (1966, p.17) noted "management's desire to suppress a high rate or to inflate a low rate of reported earnings" by changing their method of accounting. For example when accounting for a merger the method of accounting may have changed from 'purchase' accounting to 'pooling of interest' accounting.
A reasonably consistent profit stream, that is one with a small variance from period to period, is generally seen as more acceptable by shareholders. According to Anthony (1983, p.157) "Reducing the peaks and valleys gives a desirable impression of stability or of steady progress". This encourages the maintenance of a steadily increasing share price, which is seen by users as more acceptable than a sharply fluctuating one. This, of course implies that management/preparers may employ the process of information engineering (see section 3.5) in order to attain and/or maintain this 'impression', as the recommendation of neutrality "doesn't keep executives from trying to purge the wiggles and spikes from the lines that chart their profits" (Worthy [1984]). Barnea et al (1976, p.110) added:

managements may attempt to smooth income numbers so as to convey their expectations of future cash flows in order to enhance the apparent reliability of predictions based on the observed smoothed series of numbers. If the variability of reported numbers around the trend believed by management to best convey their expectations of future cash flows is dampened, this would enhance prediction efficiency by users of the statements.

Barnea et al (1973, 1975, 1976) divided the possible methods which smooth reported income into two categories: classificatory and non-classificatory. In the former category they placed binary aggregates such as extraordinary and exceptional items, which are either legitimately included within the net profit figure or are not, as they have a direct impact upon the reported profit figure. In the latter category they included items which are either subject to choice for inclusion in the income statement, eg. purchases, or can be
targeted for inclusion in different periods. Eckel (1981), further segregated the later category of possible 'smoothing' into two: "real smoothing" and "artificial smoothing" (see figure 3.2). The process of "real smoothing" of income can be demonstrated by management/preparers when they choose whether to undertake a transaction based on whether it will interrupt a 'steady flow' of income; it "represents management actions undertaken to control underlying economic events" (Eckel [1981, p.29]). This type of intervention is intended to 'check' cash flow, the most fundamental example of which would be the control of expense accounts.
Figure 3.2

Smoothing of Reported Income

Smoothing of Reported Income

Smooth Income Stream

Intentionally being Smoothed by Management  Naturally Smooth

Artificial Smoothing  Real Smoothing

Source: Eckel (1981, p. 29)
Transactions which represent an easy target for "artificial income smoothing" are known as 'accounting estimates' as such a smoothing effect:

represents accounting manipulations undertaken by management to smooth income. These manipulations do not represent underlying economic events or affect cash flows, but shift costs and/or revenues from one period to another. (Eckel [1981, p.28])

Accounting estimates (eg. provisions for bad debts, stock write downs, return sales) require a high degree of subjective judgement by management as to their size, implying that the amount of income reported in a period can vary within a certain range. Extreme variations may be classified as window dressing.

Barnea et al (1973) "empirically tested and confirmed the hypothesis that management of firms behaved as if it classified items which could be labelled extraordinary so as to smooth ordinary income over time". (Barnea et al [1975, pp.61-62]) Thus they concentrated on items which are subject to classificatory smoothing, since such items are "the focus of attention of financial statement users". (Barnea et al [1975, pp.61-62])

An empirical test by Beidleman (1973, p.66), which covered both non-classified and classified accounting items, gave similar results:

The test results strongly suggest that firms employ certain devices over which they have discretion to normalize reported earnings. The evidence cannot prove that intentional or predetermined smoothing took place, but the results suggest that firms employ certain devices to counter short-run
movements in earnings that deviate from their time trend.

Ronen and Sadan (1981) undertook a similar empirical test to that by Beidleman (1973), the 'devices' (or "smoothing variables") that they tested were: choice of depreciation method, pension cost amortization, intangible asset amortization, extraordinary charges and credits, investment tax credit, purchase versus pooling inventory method, and dividend income under the cost method of reporting a subsidiary. They too found evidence to conclude that firms choose accounting polices in a fashion that smooths reported income over time.

According to Anthony (1983, pp.156-157), income smoothing behaviour can be induced by the selection of different accounting approaches.

Critics assert that the revenue/expense approach permits, or even requires, income smoothing. The possibility that it permits a reserve for self insurance, whose size is arbitrarily determined by management, is often used as an example. ... [However, in Anthony's opinion] The constraints to inhibit artificial smoothing can be just as effective under this approach as under the asset/liability approach.

The general premise of the above studies, "was that if smooth earnings resulted from the choice of a smoothing variable then income smoothing behaviour must have occurred". (Albrecht and Richardson [1990, p.713]) However Ronen and Sadan (1981) criticize the early studies, in their opinion these studies lack a behavioural model capable of explaining why smoothing behaviour occurs and predicting when it might take place.
Tweedie and Whittington (1990) report that smoothing behaviour can occur when group accounts are prepared employing the acquisition accounting method. Here there is opportunity for preparers to make provisions for 'reorganization expenses' "which can be written back in the future to smooth profits". Albrecht and Richardson (1990, p.713) argue:

Income smoothing is criticized because it may result in an inadequate disclosure of income - that is, investors do not get sufficiently accurate information about earnings to evaluate the return and variance of their portfolios if smoothing takes place.

Copeland and Licastro (1968, p.545) concluded:

Income smoothing is just not consistently one of management's goals, but rather only one of several goals which keep changing in relative importance with changes in the underlying circumstances.

3.4.8(b) The Treatment of Extraordinary and Exceptional Items

Preparers can bias financial statement data simply by changing aggregation labels between extraordinary and exceptional. These income classifications are vulnerable to bias as the objective of their use is to try to ensure that unusual material items do not obscure the overall financial picture. Exceptional items as defined by SSAP 6 refers to items "of exceptional size or incidence which derive from the ordinary activities of the business". These transactions do have an impact on the profit figure. Extraordinary items "derive from extraordinary events which are events outside the ordinary activities of the company". These transactions do not affect the reported profit figure. Nobes (1985, p.78) tried to distinguish between these two types of item:
There are, however, great problems in defining exactly what an extraordinary item is. Companies can make their earnings figure better by attempting to classify as many losses (but as few gains) as possible as extraordinary. Indeed, one UK technical partner of an accounting firm has suggested that the only workable accounting standard would be for such losses to be treated as extraordinary items and such gains to be treated as exceptional items (the latter are included in normal profit).

3.4.8(c) Off-Balance Sheet Financing

Bias can be introduced into the financial statements, by management/preparers, via 'off-balance sheet financing', which is designed to misinform users as to 'loans' undertaken. This is possible as these 'loans' are not obtained by straightforward lending, which has to be disclosed in financial statements, but by obtaining immediate artificial payments or significant increases in the length of credit periods from sources other than direct customers. Peasnell and Yaansah (1988, p.17), outlined this argument:

Misinformation is not meant to imply false information but rather 'incomplete' information which might result in actions or non-actions by investors or creditors that are different from those which might have resulted had 'complete' information been available.

Methods of off-balance sheet finance include factoring and leasing.

3.4.8(d) Brands and Goodwill

Management/preparers can bias the results portrayed in the financial statements by giving a financial value to the brands traded by the enterprise. This argument is explored more deeply by Barwise et al (1989).
Similarly the inclusion of goodwill in accounts has a distortionary affect, as noted by Damant (1990, p.90).

But why, one may ask, is company management against depreciating goodwill through the profit and loss account, one of the most likely answers to an international standardization on the goodwill question? Because, quite clearly, company management believes that reduced earnings will produce a lower share price.

This problem was noted by Sanders, Hatfield and Moore (1938, pp.68-69), they proposed the following guide-lines to reduce any distortionary effects:

(1) Goodwill, like other assets, should be shown at its bona fide cost to the owner; (2) To attribute to goodwill an excessive value, based on the par value of stock issued therefore or otherwise, is not good accounting; (3) If there is no longer valuable goodwill, or if its value has been obviously impaired, it should be written down. The resulting charge should be against capital or surplus, not against income and; (4) The regular amortization of goodwill is not considered imperative, as is the amortization of wasting assets.

The AAA (1966, p.17) noted the use by preparers of "pooling of interest" accounting instead of "purchase" accounting in mergers so that they may avoid showing purchased goodwill in the financial statements.

3.4.8(e) Window-Dressing

Management/preparers can bias financial information by 'window-dressing'. French (1985, p.297) defined this process as "Carrying out artificial transactions which will later have to be reversed, in order of improve temporarily the financial position shown by financial statements, without disclosing that the position will later be reversed". Therefore the figures in the financial statements are extensively
manipulated in the process of 'Window-dressing', as confirmed by Nobes (1985, p.166):

It rests upon the fact that there are competing conventions and choices of practice in accounting. Where extensive judgement is used, extensive manipulation is a possibility.

However, with this concept assets and liabilities as separate entities are not fabricated.

3.4.8(f) Biased Asset Valuations

In addition to the above six forms of management/preparer bias the AAA (1966, p.29) noted the existence of biased asset valuations. They noted:

the continued use of historical-cost valuations during and following periods of inflation will tend to understate assets and overstate earnings as compared with the experience of firms acquiring the same assets more recently. In such a situation, year-to-year comparisons for a single firm will tend to show improvement that may be illusory ...

They saw the use of current cost accounting contributing to a neutral solution

... particularly if accountants take responsibility for the measurement methods used in developing the accounting information. Reporting the current cost, less depreciation, of plant and equipment items, for instance, will tend to nullify the influence of "too fast" depreciation methods.

They noted a further form of representational bias: "the influence of the income tax law and general "conservatism" will often result in an understatement of assets and "premature" expense recognition".
3.4.8(g) The Awarding of Bonuses out of Profit

This represents another generally accepted accounting principle which may be selected so as to portray the financial results of an enterprise in a manner which is consistent with the preparers' wishes.

3.4.9 Functional Fixation

Management/preparers may also be selective in the adoption of an accounting policy which illustrates results in the manner in which they wish them to be seen by users, in that they can depend on the "functional fixation" of users or their lack of it.

Functional fixation refers to a decision maker (the user in this context) being unable to adjust his decision process (which in this context is financial) to a change in the process (accounting) which supplies him with decision data. It is fundamentally a psychological phenomenon popularised by Duncker (1945) and implemented into the accounting literature by Ijiri, Jaedicke and Knight (1966).

The existence or nonexistence of functional fixation may be part of the thinking of management/preparers when adopting a new accounting policy, because if they are able to almost be sure of the responsive behaviour of the majority of users, then they would easily be able to promote a good performance by the use of biased accounting information. Such prediction can be seen by the study of related research conclusions, such as that by Beaver (1972) who argued that the market was not
functionally fixated. This implies a degree of market efficiency - a full explanation of which is given by Brearly and Myers (1984).

3.4.10 Is Manipulation of Reported Earnings Per Share and Smoothing of Reported Income Common?

This topic was analyzed by Cushing (1969, p.203). He noted that the findings of his analytical study:

- do not necessarily reflect the existence among corporate managers of a motivation to manipulate reported earnings per share in order to show performance in a more favourable light, although this may have been the case in a number of these accounting policy decisions. The evidence presented here offers little insight into the motives which may have led managements to make a change in accounting policy, but the results of the study do support the notion that managements choose the period in which to implement a change so as to report favourable effects on current earnings per share.

Wilner (1982, p.46) reported that Koch (1981) found there is more smoothing in widely-held companies than there is in closely-held companies. Also that "smoothing is a form of inductance behaviour which affects the growth in the bottom line". He went on to hypothesize "if, as Koch found, it is manifested more in a widely-held firm, then it would seem that the managers of widely-held firms are more interested in bottom line effects from transactions than in economic effects".

3.4.11 Fraudulent Management/Preparer Behaviour

Not all forms of management/preparer information engineering (see section 3.5) fall within the bounds of generally accepted accounting principles. Information engineering can sometimes inflate into fraud. Fraud implies
the fabrication of one or more of assets, liabilities, income or expenditure. Fraud occurs when one or more of the aforementioned are deliberately omitted from the financial statements. Examples of frauds are given by Woolf (1976 and 1977).

3.4.12 Possible Constraints on Management/Preparer Behaviour

Burton (1976, p.630) reported that the SEC had adopted an auditing standard to "encourage the development of concept of auditor of record and the continuing involvement of the auditor in financial reporting". It was hoped that the implementation of such a requirement would "require association of the auditor on a retrospective basis with certain limited quarterly data". One of the reasons for the introduction of such a standard was to "create a greater behavioural incentive for management to produce meaningful quarterly reports".

3.5 INFORMATION ENGINEERING

In his 1987 paper, whilst discussing causes of 'creative accounting', March referred to "information engineering". Such a process is one in which the preparers of financial information may partake when making favourable representations of company performance in the financial results. Therefore information that has undergone the process of 'information engineering', by definition, is biased. This particular form of notation is therefore appropriate to my main objective in this chapter.
March (1987, p.165) fires the relevant thought processes by saying: "Thus, a system of accounts can be judged in terms of its evocativeness, its power to provide not just confirmation of familiar orders but also suggestions of alternative orders, not just communication of what is known but the transformation of what is knowable."

March (1987, p.165) went on to portray the useful analogy of information engineers as poets:

When he was a young man T. S. Eliot wrote a tribute to the complexities of ageing, called "The Love Song of J Alfred Prufrock". Later, on reading the comments of a critic (Joseph Margolis) about "Prufrock", Eliot wrote (1961, pp.125-126) that the analysis of 'Prufrock': "was an attempt to find out what the poem really meant - whether that was what I had meant it to mean or not. And for that I was grateful". To Eliot, apparently, the essence of poetry lay in providing stimuli to the elaboration of meaning, rather than in providing unequivocal texts. Toward that end, he created ambiguous, textured accounts and invited others to find greater meaning in them than he had consciously created.

3.6 THE NEED FOR SPECIFIC STANDARDS TO CONTROL MANAGEMENT/PREPARER BEHAVIOURAL/PSYCHOLOGICAL MOTIVATIONS

Paton and Littleton (1940, p.1) discussed discretionary managerial/preparer behaviour in terms of enterprises which are owned by many shareholders. As a result of this they argued:

the interests of various classes of investors may not receive the balanced consideration they deserve. In particular cases there may be a strong urge to increase immediate profits in any possible manner, or at least to report increased profits if any way to do so can be found. Similarly the group in control may under some circumstances desire to minimize, in the statements, the reported earning power of the enterprise.
The extensive impact of accounting should be considered when decisions by users and management/preparers are made. This was pointed out by Siegel and Ramanauskas-Marconi (1989, p.381):

Because of the extensive impact of accounting reports on the actions and decisions of internal and external users, on society, and the economy, behavioural accountants have an ethical obligation to communicate accounting information as effectively as possible. Behavioural accountants must understand how the structure of financial reports influences business decisions, and how the perspectives of people involved in the process of preparing information affect the structure of the published reports. Behavioural accountants must analyse accounting concepts, principles and methods of presentation in order to find any built-in biases that might induce a person to make an unsound decision.

Given an understanding of how business decisions are affected by management/preparer influence on the financial statements, the necessity for strict standards becomes clear. Tweedie and Whittington (1990, p.97) also argued this point:

The central issue in accounting standard setting (the 'disease' in our metaphor) is the market failure of all failures which make accounting standard-setting necessary. One of these failures is that company managements individually have incentives to represent their companies performance in the best possible light (eg. by creative accounting), although collectively they would like accounting practice to conform to high standards in order to inspire confidence in the markets in which they operate (ie. there is what economists call a free rider problem). A possible solution (a direct 'cure' for the 'disease') would be for management to be constrained to conform to high standards by behaviour of users, particularly suppliers of finance, and the auditors who act on their behalf. In practice, these forces are not sufficiently strong to avoid the need for standards. This is partly because auditors find it difficult to deliver a 'true and fair view' without the support of accounting and auditing standards and partly because users of accounts allow themselves to be deceived by cosmetic accounting devices.
Prakash and Rappaport (1977, p.36) presented the following question: "What is the significance of information inductance for setting financial standards?" The answer they gave was "accounting changes can bring about real (as opposed to merely descriptive) changes at the firm, the industry, and the economy level". They thought this to be so through both information use and information inductance. There qualification of information use was: "external users of the firm's reports making their decisions differently and, also such decisions affecting the outcomes of the firm's operations". Whilst their qualification of the effect of information inductance was: "management of the firm making their resource allocation decisions differently due to inductance associated with the external reporting required of the firm".

It was argued by Selto (1982, p.139) that:

Quantitative evaluation measures which are produced by an organisation's accounting system may be affected by changes in financial accounting standards for external reporting. It has been alleged that these changes may lead managers to select management action and strategies which are consistent with favourable short run evaluation measures but inconsistent with long run organisational objectives.

3.7 SUPPLEMENTARY DISCLOSURES

Bevis (1965, p.201) outlined the need for supplementary disclosures:

No matter how extensively consensus on accounting practices is established and how closely they are followed, the principle of full and fair disclosure must remain the keystone of successful corporation-stockholder and corporation-society relations. No matter how clear and complete are the balance sheet...
and statement of income and retained earnings, nor how comparable among companies the practices used in preparing them, the information in these conventional financial statements invariably needs to be supplemented. The corporation is too complex to be compressed completely into such confines. Estimated judgments, and contingencies cannot be reduced to penny-accurate amounts. It is hoped that enough specific subjects for supplementary disclosure have been mentioned to demonstrate this.

The "specific subject" that Dermer and Siegel (1974, p.97) had in mind were behavioural relationships between accounting measurements.

If behavioural scientists can establish valid relationships and reliable bases upon which accountants can base measurements, there is no reason why these measurements should not be used to supplement traditional accounting information. But until a valid behavioural foundation has been established, accountants should retain their traditional conservatism.

3.8 SUMMARY AND CONCLUSIONS

One of the main aims of this chapter was to explain the reasons for, and note the existence of, the possibility of creative accounting on the part of management/preparers by the implementation of their behavioural/psychological motivations both within and outside the confines of present generally accepted accounting principles. To achieve this end a lengthy introduction to the subject area was given by defining the aims of behavioural science, sketching the criteria that research embracing behavioural science has to fulfil, explaining the relationship and applicability of behavioural science to accounting and discussing the shortcomings in existing behavioural accounting research. The information given by this has immediate relevance to all external accounting disclosures including financial advertisements.
A link between financial reporting and behaviouralism was then established by considering the preparers and their motivational influence on the financial results. It was noted that preparers are somewhat restricted in the legitimacy of their disclosures by the accounting standard-setting body of their country. It should be noted that no such regulation exists for financial advertising.

The link between behavioural motivations and bias was then discussed, as bias can create colouration in financial information especially where management/preparer 'judgement' is used. The concept and the possibility of advantageous use of behavioural feedback was then discussed, with which a parallel to the economic consequences of accounting standards was drawn.

The generally accepted objectives of an enterprise were then considered, but separate management/preparer objectives were noted to be of greater importance to a study of financial reporting as it is them who make disclosure decisions.

This last note brings one to question management behaviour, in which role their motivations play a leading part. Several behavioural variables were noted, all of which are used in decision making, from which accounting policies can be adopted - which may lead to biased representations. The functional fixity of users is an aid to such selective accounting policy adoption, which leads to a note questioning
the frequency of its occurrence. It was then considered how management/preparer behaviour, bearing in mind its extrapolations, can be fraudulent and possible ways of constraining their behaviour.

Discussed then was the fact that transactions can invariably be hidden under the auspices of legitimate accounting transactions through the use of 'information engineering'.

Having discussed the above, the need for specific standards to control the behavioural/psychological motivations of management/preparers was considered.

Finally consideration was given to the possible need for additional disclosures.

A consideration hopefully emerging from this study was outlined by March (1987, p.165):

Imagine a day when professional students of accounting will discuss the aesthetics and evocative power of ambiguity in a proposed accounting procedure with as much fervour as they exhibit in debating its impact on tax liability.
Notes to Chapter 3

[1] Quoted from Watts and Zimmerman (1986)
CHAPTER 4

ADVERTISING DECISIONS

4.1 INTRODUCTION

The objective of this chapter is to discuss advertising as a media of communicating a financial message - in the form of accounting results.

4.1.2 Outline

The second section of this chapter will outline the objectives for placing an advertisement and the characteristics which an effective advertisement must have. It will then go on to discuss corporate/financial advertising and the importance of its presentation.

The third section will discuss advertising media, specifically newspapers and magazines, as these are the media in which reasonably detailed financial results are usually given and so are relevant to this study. A discussion of the mechanical and physical aspects of advertisements will also be undertaken.

The fourth section will outline the research hypotheses to be undertaken in this study.

4.1.3 Definition of Advertising

In order to comprehend the main thrust of this study - financial advertising - it is important to grasp the basic philosophy of advertising. This is noted below, but first it
is useful to define advertising: "Advertising is any form of nonpersonal presentation and promotion of ideas, goods or services by an identified sponsor" ((Kotler and Armstrong (1989, p.432)).

4.2 THE THEORY OF ADVERTISING

Usually, the primary objective for placing an advertisement is to communicate with as large an audience as possible in as brief a manner as possible. Broadbent (1975) stated: "Each time the decision is made to spend money on advertising it is only because the manufacturer does not know of a more efficient, more economical way to help the sale of his product". Williamson (1979, pp.121-123) argued:

The function of advertising is to present promote, and sell ideas, goods, services ... The common theme in all advertising, therefore, is that it aims to induce its audience to take some action. In so doing it may act as a medium for communication of information, but unless it makes something happen in addition, it is unlikely to provide value for money.

Longman (1971) stated: "Advertising ... attempts to inform and persuade a large number of people with a single communication".

Advertising is a form of promotion. The efficacy of promotion is a function of the quality of the marketing undertaken by the enterprise. Marketing as defined by the Chartered Institute of Marketing (1992) "is the management process for identifying, anticipating, and satisfying customer requirements profitably". This 'process' definition can be compared with Drucker's (1973) definition of marketing orientation:
Marketing is so basic that it cannot be considered a separate function on a par with others such as manufacturing or personnel. It is first a central dimension of the entire business. It is the whole business seen from the point of view of its final result, that is, from the customers point of view.

A More general model of promotion was argued by Wilson et al (1992, p.347)). Here a 'promotional mix' was illustrated. Four submixes were described as constituents, they were: Advertising; sales promotion; personal selling and; public relations. The two 'submixes' of particular interest here apart from advertising is public relations. Public relations, as defined by the Institute of Public Relations (1992), is: "the deliberate, planned and sustained effort to establish and maintain mutual understanding between an organisation and its publics".

Advertising per-se can be distinguished from other forms of promotional activity, Wilmhurst (1985, p.15) noted three ways in which such a distinction can be made:

1. Advertising presents a totally controllable message. Since the advertiser pays for the space (in newspapers, magazines, posters, etc.) or the time (radio and television) in which his advertisement appears, he has the right to insist on his message appearing exactly as he chooses, subject to the law and voluntary codes of good taste.

2. Advertising delivers messages to large numbers of people at low cost per 'contact'.

3. Advertising is a fast method of communicating with many people at the same time.

Such promotion is not necessarily of products, as argued by Wilmhurst (1985, pp.18-19):

A substantial proportion of the advertising carried out by companies is not designed directly to promote products. Rather it aims at encouraging people to have a clear understanding of what the company
stands for - its 'corporate image' as it is often called.

This argument was taken further by Wilmhurst (1984, p.178):

Advertisements can present facts about a company - its resources, its financial status, its present customers, its product range and research facilities - which will create a picture or 'image' for its potential customers of what kind of company it is.

An enterprise uses the corporate image concept to further their position in the minds of the public via its influence on their behaviour - e.g. investment behaviour (Dowling [1986]).

4.2.1 Characteristics of an Effective Advertisement

Lucas and Britt (1950, p.3) postulated: "Every advertisement should capture attention; should hold attention; and should make useful, lasting impressions".

Good advertising planning as argued by Williamson (1979, pp.122-123):

begins with the detailed specification of the characteristics of the target customer, and it is by constant reference to this specification that the quality and probable effectiveness of advertising can be judged ... the four stages through which advertising takes its prospects are: attention to the message being projected; interest in the proposition put forward; desire to enjoy the benefit offered; action to obtain that benefit.

According to Lowndes (1969, pp.1-2) total advertising expenditure in 1966 amounted to £447 million. Of this financial advertising - "the publication of company reports,
prospectuses and other financial notices" - amounted to £6 million.

4.2.2 Corporate Advertising

Corporate advertising was described by Wolfe (1983) thus:

The purpose of this communication has less to do with pushing a company's goods or its shares, than to establish or preserve an environment in which the company can go about its lawful business.

Corporate advertising can take the form of financial information, frequently together with a brief statement from the Chairman - outlining the quality of company performance as reflected in attached results. This financial information, however, may exist for some other good reason, e.g. for reasons of compliance, as was outlined by the Federation of Stock Exchanges in Great Britain and Ireland (1966, p.42)

A company having securities quoted on the Stock Exchange is required by the General Undertaking to give immediate notification of dividends, profits and issues and other changes including any information necessary to enable shareholders to appraise the position of the company and to avoid the establishment of a false market.

The current compliance guide-lines related to advertising pertaining to companies who are listed on the stock exchange are to be found in the stock exchange publication Admission of Securities to Listing (1984) - including all subsequent amendments.

Section 5, chapter 2, (paras. 8 and 23-24), of the above publication, outlines the continuing obligation of listed companies to publish or advertise half-yearly reports and
preliminary profits statements for the full year. Specifically, by the word 'publish' is meant the distribution of these reports to shareholders as well as making copies available to the public at the registered office of that company. This advertising "must be inserted in two national daily newspapers".

Paragraph 8 stipulates:

A preliminary announcement of profits or losses for any year, half-year or other period must be notified after board approval ... as soon as possible after draft accounts, even though subject to final audit, have been agreed with the auditors as the basis for completing the annual report, those accounts, adjusted to reflect any dividend decision, should be approved, in view of their price-sensitive nature, as the basis of a preliminary profits statement.

Paragraph 23, outlines the requirement:

A company must prepare a report (a "half-yearly report") on the group's activities and profit or loss during the first six months of each financial year. The half-yearly report must be either sent to the holders of listed securities or inserted as a paid advertisement in two national daily newspapers not later than four months after the period to which it relates ... A copy of the report (in English) must be sent simultaneously to the Company Announcements Office and to the competent authority of each other member state in which the company's shares are listed, not later than the time when the half-yearly report is published for the first time in a member state.

Paragraph 24 outlines the required content and format of half-yearly reports and preliminary profits statements. It stresses that they: "must consist of figures and, in the case of the half-yearly report, an explanatory statement relating to the groups activities and profit or loss during the relevant period" (Para. 24a). This paragraph then lays down,
in subsection b the exact statements that must be made by the "figures". In subsection c, the contents of the "explanatory statement" (referred to above), are qualified:

any significant information enabling investors to make an informed assessment of the trend of the group's activities and profit or loss together with an indication of any special factor which has influenced those activities and the profit or loss during the period in question, and enable a comparison to be made with the corresponding period of the preceding financial year [must be stated]. It must also, as far as possible, refer to the group's prospects in the current financial year.

Paragraphs 23.1 and 24 (d), discuss the lack of a requirement pertaining to the auditing of half-yearly reports. Their guide-lines stress:

Directors are reminded that while figures are unaudited and remain their sole responsibility, steps should be taken to ensure that the accounting policies applied to interim figures are consistent with those applied to annual accounts. ... Where the accounting information given in a half-yearly report has not been audited that fact must be stated. Reference should also be made to Section 240 of the Companies Act 1985. If the accounting information contained in a half-yearly report has been audited by the company's auditor, his report thereon including any qualifications must be set out in the half-yearly report.

Reference is made in paragraph 24 (e) to investment trusts or investment companies, it details that they must:

disclose in any half yearly report or preliminary profits statement for a financial year a division of its income between (a) dividend and interest received and (b) other forms of income (which may be income of associated companies), distinguishing where significant between underwriting income and the results of dealing by subsidiaries. Additional disclosure may be required in special circumstances.
It should be noted that the Council of the Stock Exchange state that in given circumstances a half yearly report is allowed to include:

(a) estimated figures

if the United Kingdom is the only member state in which the company is listed. In such cases the report must state that the figures are estimated (Para. 24.1);

(b) adjustments and adaptions

where the items specified in paragraph 24(b) are unsuited to the company's activities, appropriate adjustments should be made. Where the requirements of this paragraph are unsuited to the company's activities or circumstances, the council may require suitable adaptions to be made. (Para. 24.2) (which also applies to preliminary profits statements for the full year);

(c) omissions of items

if they consider that disclosure of such information would be contrary to the public interest or seriously detrimental to the company, provided that in the latter case, such omission would not be likely to mislead the public with regard to facts and circumstances, knowledge of which is essential for the assessment of the shares in question (Para. 24.3) (which also applies to preliminary profits statements for the full year).

The relative quality of such corporate/financial advertising is rather erratic - as can be inferred from Parkinson and Rowe (1979, p.142):

Judging by the limited number of companies in Europe that can articulate their communication objectives beyond a vague and very general idea that they want to improve their image, there seems to be no general appreciation of the value of setting objectives in the communications area. Yet this surely must be the starting point for more effective communication.
After all, if you do not know where you are going, any road will take you there!

It was reported by Everitt and Jones (1992, pp.31-32) that certain recommendations were made by the Cadbury Committee and endorsed by the Auditing Committee of the ICAEW about improving interim reporting by listed companies. These recommendations were that: additional balance sheet information should appear in these reports; such reports should be reviewed by auditors and; the stock exchange should revise the continuing obligations of listing.

If a company chooses to distribute its report to shareholders and also to advertise, the advertisement is viewed as being extra to the requirements of 'Admission of Securities to Listing'. Such 'promotional', "tipsheet", advertisements are not governed by the above rules (see Appendix i). Advertisements, such as these can be found in the Investors Chronicle. It is this publication from which the advertising data collected for this study are taken.

A caveat, in relation with the interim time period, to the above section 5, chapter 2, rules must be borne in mind (as argued in Appendix i).

Companies that change their year end with the result that the financial period exceeds fourteen months, have to produce a second interim statement which must either be distributed to shareholders or advertised in two national daily newspapers. This second interim must contain information up to either the previously applicable year end, or equivalent information up to the period which coincides with the beginning of the new year end. The information can be presented in either six or twelve monthly format for the previously applicable year end, but only in six monthly format for the appropriate
period from the new year end date. This information is available to shareholders so that they can appraise the performance of the company between the first interim and the issue of the annual report and accounts.

4.2.3 Presentation of Corporate/Financial Advertisements

Corporate/financial advertising cannot just be presented, it - like all other forms of advertising - has to be planned in order for it not to amount to a waste of company resources. As noted by Parkinson and Rowe (1979, pp.169-170):

In has often been said that 50 per cent of the money spent on advertising is wasted - but no one has found a way to determine which 50 per cent. In the case of corporate advertising the wastage rate is probably as high as 80 per cent - and a lot of it is fairly obvious. Remarkably little corporate advertising starts life with a specific communication objective. In fact, it very often begins with the chairman or managing director wanting some advertising around annual meeting time almost on a "keeping up with the Jones's" basis. What is produced usually winds up being an ego trip for the man at the top. If a corporate advertising campaign is lucky enough to start life with a more laudable and more precise purpose, the effect is usually dissipated by a company wanting to buy big spaces, even whole pages, to attract attention and then insisting on having its monies worth by filling the space with words and possibly a few irrelevant pictures. This happens, of course, because management wants to squeeze the maximum possible out of the original high investment, and because on an entirely false assumption that others share the same degree of interest as management in the company's activities and achievements. Corporate/institutional advertising is, however, the controlled nuclear device of communication in terms of the scale of its potential effectiveness. Properly directed and contained, it can have a most dramatic effect - especially if it is used to communicate solid demonstrable fact. The weapon is not subtle or inherently credible enough to convey nuances of meaning or opinion.

In addition to being "properly directed and contained" corporate/financial advertising cannot be expected to be readily understood, especially to the inexperienced eye. In
order to express the relative ease in which written material is expressed several 'indices of readability' have been developed: The Fog Index and the Clarity index - both indices are similarly derived. Their use produces a points system based on the average number of words in sentences and the number of words with three or more syllables. Parkinson and Rowe (1979, p.170) noted: "The system proves the law that governs most industrial communication: The more important the communication, the more complex its delivery".

4.3 ADVERTISING MEDIA

It should be noted that advertising can only be as good a source for promotion as the media on which it appears. Wilmhurst (1985, p.83) noted: "No matter how thoughtful and excellent the advertising message, it must be communicated through the right media and vehicles to the selected advertising target".

The sorts of advertising media pertinent to this study are financial journals which invariably contain reasonably detailed financial advertisements. These journals usually comprise magazines and newspapers (see table 4.1). It was noted by Lucas and Britt (1950, p.238): "An important difference between newspapers and magazines is the fact that more of the advantageous locations in a newspaper can be obtained by paying extra".
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<td></td>
<td>Copes well with detailed information</td>
<td>Basic black and white presentation the norm</td>
</tr>
<tr>
<td></td>
<td>Audience can be targeted through choices of paper</td>
<td>Demonstrations of product very difficult</td>
</tr>
<tr>
<td></td>
<td>Messages carry urgency</td>
<td>But are read hurriedly</td>
</tr>
<tr>
<td>Local\regional press</td>
<td>Strong reader loyalty</td>
<td>Complex and expensive to use on a wide scale</td>
</tr>
<tr>
<td></td>
<td>High concentration of readership in region</td>
<td>Generally poor readership data</td>
</tr>
<tr>
<td></td>
<td>Regions can be targeted</td>
<td>Relatively high cost per capita</td>
</tr>
<tr>
<td>Magazines</td>
<td>Selective readership</td>
<td>Message can take time to reach its target through sales occurring over long period</td>
</tr>
<tr>
<td></td>
<td>Interest of reader more likely, especially for enthusiast publications</td>
<td></td>
</tr>
</tbody>
</table>
4.3.1 Mechanical and Physical Aspects of Advertising

The mechanical and physical aspects of advertisements - i.e. their page location within the publication, location on a page within the publication and size - once they have a secure media placement - also has an important bearing upon the success of an advertisement. Upon this Lucas and Britt (1950, p.221) noted:

Their function is to expedite the delivery of the appeal. They have a tremendous effect upon the number and kinds of impressions delivered to the audience. Their importance is reflected not so much by their relevance as by the fact that they account for the greater share of the investment made in advertising.

4.3.1(a) Page Location Within the Publication

In the case of magazine advertisements, Lucas and Britt (1950, pp.222-223) noted:

The page location of a magazine advertisement may have more effect upon the size of its audience than does its physical design ... the outside back cover has an obvious advantage in advertising exposure [along with] the page facing the first important editorial feature.

In the case of newspapers, data from the Bureau of Advertising (1941) show that about two-thirds of the best read advertisements in tested newspapers were located beyond page seven.

4.3.1(b) Location on a Page

In the case of magazine advertisements Brandt (1941) conducted an experiment on magazine reading using an eye camera, using a 10 second exposure time noted, considering the quarters of a square area, 34.94% of observation time was
spent in the upper left quarter, 16.28% in the lower left, 32.99% in the upper right and 15.79% in the lower right.

In the case of newspapers Brenner (1935) noted that the best quarter of a newspaper page is the upper right on a right hand page; the poorest is the lower left quarter of the right-hand page. The same pattern holds on the left-hand page, but the differences are not so great. The editorial content of a page is a far more significant factor, in that the eyes remain focussed on pages of greater interest for longer.

4.3.1(c) Size

In the case of magazines, it was argued by Lucas and Britt (1950, p.251), that it is likely that the advertiser gains further through prestige which the reader may associate with large size, they went on to note: "Increases in size from a single column to the popular full page produce increases in audience not far below a direct ratio to size". Lucas (1942) performed a study, using three magazines, concerning the impact of advertisements using size as a variable, he concluded that half page advertisements were 56% as effective as their full page counterparts (see table 4.2).
### Table 4.2
Impact of Size, Lucas (1942)

<table>
<thead>
<tr>
<th>Magazine</th>
<th>Percentage of Readers Seeing Average Advertisement</th>
<th>Full Page</th>
<th>Half Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td></td>
<td>31.5</td>
<td>17.0</td>
</tr>
<tr>
<td>B</td>
<td></td>
<td>25.6</td>
<td>13.8</td>
</tr>
<tr>
<td>C</td>
<td></td>
<td>28.3</td>
<td>16.8</td>
</tr>
</tbody>
</table>
In the case of newspapers the Continuing Survey of Newspaper Reading found that larger advertisements obtained larger total audiences, but not in proportion to their size.

When discussing advertising, whilst not distinguishing between media, Hobson (1968, p.41), in addition to the two points made above - in the case of magazines - made two further points about size. Firstly a larger sized advertisement "permits the advertiser to make more selling points effectively". Secondly, "large sizes if properly used give impact".

4.3.2 General Factors Affecting Media Choice

Hobson (1968, pp.63-64) outlined six general elements which reflect the consideration possible when choosing the media in which to advertise:

a) Character: i.e., the type of medium, its geography, class of coverage, seasonal, mechanical or similar factual features.
b) Atmosphere: i.e., the subjective character of the medium; the extent to which it helps the selling, prestige, or reputation of the product; the mood in which it is read or seen.
c) Quantity: i.e., the numerical coverage offered.
d) Cost: including the costs of special positions or variations of size; and also production costs where these are of importance.
e) Size: i.e., the variety of sizes and shapes accommodated and their effects in creating a new character or atmosphere for the advertisement.
f) Position: i.e., the variety of alternative positions offered by the medium and their effects in creating a new character or atmosphere.

Referring to the above Hobson (1968, p.66-78), when considering newspapers noted:

there is little evidence that the day of the week affects the quantity of readership ... the mood of newspapers, particularly the dailies, is one of
urgency ... [whereas] ... the Sundays come nearer to magazines in their atmosphere'.

Frequently advertisers choose publications which serve a particular market e.g. Investor's Chronicle and Financial Times, whilst relying on the past sales rate of that publication. Lucas and Britt (1950, p.228) noted: "advertisers do not abandon prosperous publications in favour of those which are thinner or on the verge of failure".

Bearing in mind the six elements outlined earlier in this section, of particular note in his discussion of "specialist and trade magazines" Hobson (1968, pp.98-101) stated:

The values in using specialist papers, however, are not always a direct relation of cost and coverage. Advertisers may deem it desirable to form a direct link with special groups rather for psychological reasons, or may take advertising merely to keep in being a publication which in general terms is of value to the group business or profession.

4.4 RESEARCH HYPOTHESES

Following on from the above discussion, the research hypotheses which I intend to address in the subsequent analysis, will now be outlined.

There are three hypotheses which I seek to address:

H1) The financial advertisements published by each company contain the same financial entries.

This hypothesis follows discussion contained in Section 4.2.1. The subject of this hypothesis is broken down and analysed in terms of the 'entries' contained in section 1 of Appendix ii;
H2) Financial advertisements are of a given page size.
This hypothesis follows discussion contained in Section 4.3.1(c);

H3) No difference exists in the constitution of the financial advertisements between the two years studied.
This hypotheses seeks to compare, between the two years studied, the characteristics of the various types of financial report between the two years studied.

4.5 SUMMARY AND CONCLUSIONS

This chapter defined and outlined the theory of advertising. It then discussed the necessary characteristics of an effective advertisement, together with corporate advertising, culminating in discussion about the presentation of corporate/financial advertisements. Various advertising media were then noted. The mechanical and physical qualities of advertisements were then discussed together with factors affecting media choice. The hypotheses around which this study is based where then outlined.
CHAPTER 5

RESEARCH METHODOLOGY

5.1 INTRODUCTION

It is important to be aware of the various research methodologies, their implications, assumptions, shortcomings and the meanings of their results before undertaking the collection and subsequent analysis of data for a research project. Therefore, given the research hypotheses outlined at the end of the last chapter, this chapter outlines the best ways to test them.

5.1.1 Outline of Research Methodology

The second section will discuss qualitative and quantitative research strategies.

Possible method(s) of collecting the required data will be discussed in the third section, which includes consideration of reasons for a subject's participation in a research project, together with suggested ways in which encouragement could be given.

The fourth section will discuss content analysis in detail.

The fifth section will discuss the methods by which the data collected above could be analysed in order to give an
answer to the research hypotheses and questions (see section 6.1.1) in this study. One such method comes under the rather wide ranging banner of "content analysis" - as the name of this methodology suggests it covers data analysis but also requires given forms of data collection. Its various attributes will be considered under relevant section headings. However a general discussion of the technique will be undertaken in the fourth section.

Having pointed out the requirement for subsequent consideration of various research instruments, research strategy has, first, to be examined. Research strategy can be either qualitative or quantitative in its approach and is examined in the following section.

5.2 QUANTITATIVE AND QUALITATIVE APPROACHES TO RESEARCH

Research in social theory and social inquiry can most effectively and totally be achieved using qualitative and quantitative methods.

Qualitative research refers to the types of data collected: Detailed descriptions of events, observed behaviour or, direct quotations (Patton [1980]). Such data is likely to emanate from a small sample (Mostyn, [1985, p.117]). Lofland (1971, p.13) argued that qualitative analysis is addressed to the tasks of: Investigating the "characteristics" of a social phenomenon - "the kinds of things that are going on, the various forms of the phenomenon and, the variations found in
the phenomenon ..." and; "... delineating forms, kinds and types [of a social phenomenon]."

A "social phenomenon" can, according to Lofland (1971, pp.14-15), be translated into six specific categories:

1] Acts. Action in a situation that is temporally brief, consuming only a few seconds, minutes, or hours;
2] Activities. Action in a setting of a more major duration - days, weeks, months - constituting significant elements of persons' involvements;
3] Meanings. The verbal productions of participants that define and direct action;
4] Participation. Peoples holistic involvement in, or adaptation to, a situation or setting under study;
5] Relationships. Interrelationship among several persons considered simultaneously and;
6] Settings. The entire setting under study conceived as the unit of analysis.

Within each of these categories, analysis is performed either as a static depiction or as a report of phases/sequences through which a phenomenon passes over the course of time (Lofland [1971]). Such analysis is performed with the use of a research technique, which allows proximity to the centre of the study (Lofland, 1971) and provides a "knowledge, new insights, a representation of 'facts' and, a practical guide to action". Krippendorff (1980, p.21)

Upon collection, qualitative data, due to its nature, is unable to fall into pre-determined answer categories. Such open-ended narrative enhances subjectivity for the researcher, so that s/he can replicate the environment and analyse in depth and detail the point of view of the data source:
"documenting in loving detail the things that exist" (Lofland, [1971, p.13]).

Quantitative data, by contrast, is derived from large samples and is easily categorised. It is "objective, non-reactive, representative, and should be collected using standard measures" Stone and Harris (1984, p.7). Lofland (1971, p.13) argued that a quantitative approach to research investigates both "the causes" and "the consequences of a social phenomenon, the forms it assumes, [and] the variations it displays".

The causes and the consequences of a social phenomenon of various forms, kinds and types can be tackled by an analyst employing certain techniques which "assemble measured covariation in variables and engage in certain additional procedures of a quantitative nature". (Lofland [1971, p.14]) The aim of this is to unearth the "operational definitions" of the quantitative variables. Such "operational definitions" may take the form of either simple indices or of highly complicated scaled properties.

Some researchers, as reported by Stone and Harris (1984, p.7), draw a dichotomy between quantitative and qualitative approaches to research. The authors report: "Quantitative researchers reject qualitative research as subjective, unrepresentative, unsystematic and inconclusive ...". Qualitative researchers might counter that "... quantitative research is artificially shallow and misleadingly scientific".
also "far better an approximate answer to the right question, which is often vague, than an exact answer to the wrong question, which can always be made precise" (Tukey [1962, pp.13-14]).

A tabulated outline of the differences between the two approaches can be seen in Table 5.1.
Table 5.1  
Differences Between Quantitative and Qualitative Research.

<table>
<thead>
<tr>
<th>QUANTITATIVE RESEARCH</th>
<th>QUALITATIVE RESEARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sample Size</strong></td>
<td></td>
</tr>
<tr>
<td>Large, hundreds or thousands.</td>
<td>Small, typically less than 100.</td>
</tr>
<tr>
<td><strong>Questioning</strong></td>
<td></td>
</tr>
<tr>
<td>Follows a set format and is the same for each respondent.</td>
<td>Follows the respondent's reactions to set stimuli within a general framework.</td>
</tr>
<tr>
<td><strong>Objectives</strong></td>
<td></td>
</tr>
<tr>
<td>A refinement of existing data (How many? When? Where?)</td>
<td>An expansion of existing data.</td>
</tr>
<tr>
<td><strong>Analysis</strong></td>
<td></td>
</tr>
<tr>
<td>Statistical.</td>
<td>e.g. Content analysis.</td>
</tr>
<tr>
<td><strong>Report</strong></td>
<td></td>
</tr>
<tr>
<td>Based on statistical summaries and correlations.</td>
<td>Written for the purpose of understanding the attitudes and behaviour of respondents.</td>
</tr>
</tbody>
</table>

[Based on Mostyn (1985, p. 117)]
However, the two approaches to research can be discussed as complimentary methods by which to tackle a study, as argued by Pool (1959, p.192) "It should not be assumed that qualitative methods are insightful, and quantitative ones merely mechanical methods for checking hypotheses. The relationship is a circular one". Such circularity can be demonstrated by a primarily quantitative study in which qualitative techniques are useful for exploratory phases and/or the determination of analysis categories.

The analysis will, in order to tackle the research hypothesis effectively, be both qualitative and quantitative in nature.

5.3 THE AVAILABLE DATA COLLECTION METHODS

In Social Science research there are a number of ways in which relevant data can be collected:

a] Surveys - which embrace interviewing and postal questionnaires;

b] Observation of situations or procedures and;

c] The examination of documentary sources.

Selectivity in the adoption of appropriate method(s) is necessary in that useful data will be non-reactive in nature - the inquiries do not receive a revised response.

A non-reactive research technique is needed, as it was felt, in agreement with Krippendorff (1980, p.30), that:
undue constraints on the situation which gives rise to the data may jeopardise their validity ...[therefore, in a study of this nature, a researcher will]... wish to conceal interest in the data so as to avoid the source's instrumental use of them.

Webb et al. (1966) enumerated several ways whereby sources may react to obtrusive data collection and thus introduce errors into the data. The most pertinent of which are:

1] the awareness of being observed or tested;

2] the subject's assumed or assigned role as interviewee or respondent;

3] stereotypes and preferences in casting responses and;

4] experimenter-interviewer interaction effects on the subject.

The decision as to which collection method(s) is (are) most appropriate provider(s) of data to fulfil the objectives of this study is effectively made by weighing up the advantages and disadvantages of each.

5.3.1 Surveys

Surveys are a primarily qualitative research methodology, however questionnaires can also be quantitative. Stanley (1977, p.212) gave eight general guide-lines for conducting interviews and research by interview/questionnaire:

1. Questions on matters of a private or emotional nature should come at the end of an interview, as should complicated questions and those requiring
thought, so that the respondents interest is engaged;
2. Conversely, easy questions and those most likely to capture a respondent's interest are placed at the beginning.
3. Questions should be short, easy to understand, and phrased in colloquial language;
4. There should be no ambiguity and, 'double-barrelled' questions should be avoided ('Did you drink coffee with lunch or dinner yesterday?' comprises two questions);
5. Leading questions (i.e. where it appears obvious what answer is expected) must be avoided;
6. Questions that rely heavily on the respondent's memory (Which magazines have you read during the past six months?) must be avoided;
7. Questions must be as precise as possible. For example, in the previous point what do we mean by 'reading' a magazine? From cover to cover? A quick glance? Editorial or advertisements, or both? and;
8. There are severe limits to the length of questionnaire that will hold a respondent's interest. To go beyond them increases the risk of ill-considered or flippant answers.

5.3.1(a) Interviewing

Essentially, when collecting information, two types of interviews can be used: [a] telephone interviews and [b] personal interviews.

5.3.1(a1) Telephone Interviews/Questionnaires

Dilman (1978) pointed out that telephone interviews are a recent phenomena as a form of data collection, because previously only subjects of a certain status had telephones. This research technique has spread in popularity from its use by market researchers obtaining information from customers.

The researcher needs to pre-prepare his questions and make them clear and concise. Notifying the subject of the intended interview is also good practice, as this will identify willing subjects. A subjects anonymity is ensured with this methodology.
The main advantage of this technique is its relative speed and cost.

The main disadvantages of this technique for collecting information are: When, as is the case in this study, it is necessary to talk to a busy executive, his/her whole-hearted attention cannot be ensured and; crucial information for a study which is treated as confidential by the subject is unlikely to be discussed in this scenario.

5.3.1(a2) Personal Interviews

This technique requires the researcher to be physically in the presence of his subject, it is important that his personal characteristics are acceptable to the subject in order to gain optimum information. Further information on the conduct of personal interviews can be found in Hyman (1954), Kahn and Cannell (1957), Richardson et al (1965) and Brenner et al (1985). Kerlinger (1986, p.379) noted: "The personal interview far overshadows other [methods of data collection] as perhaps the most powerful and useful tool of social scientific research".

In his discussion of personal interviews it was the opinion of Moser (1971) that in this situation accuracy in the interpretation of questions is ensured as is thought and attention on the part of the respondent.
The format of a personal interview depends on the specification of the information required. If similar information is required from each subject then the interview is best performed in a standardised (or structured) manner. However if conversational/background/exploratory knowledge is required then a more effective interview would be non-standardized (or unstructured) - of a conversational manner. A semi-structured interview is another popular format, clearly the specification of the resulting information is between the two extremes.

In a standardized interview the questions, and in a thoroughly prepared interview the response categories, are pre-prepared. The sequence and phrasing of these questions determines whether the standardized interview can be categorized under the banners of schedule or non-schedule.

In a schedule standardized interview the questions asked each time are identical and in the same order. The advantages of this type of interview include:

a] Relatively inexperienced interviewers can be utilized and;

b) data analysis is inherently straightforward.

Its drawbacks include:
a) Once the questions have been used on a member of the sample, alteration would be paramount to defeating the usefulness of the methodology and;

b) Information which does not fit into specific categories may be lost or modified.

In a non-schedule standardized interview the phrasing, depth and sequence in which questions are posed is left to the discretion of the interviewer. An advantage of this type of interview is that the question and answer categories are less constraining than in a schedule standardized interview. Disadvantages include data analysis being relatively complex and the necessity for the interviewer to have a thorough knowledge of the subject area.

The objective of a non-standardized interview is to allow the questions and answers to be determined by the conversation of the respondent. It is a particularly good method by which to increase understanding of a topic as due to the nature of this method the interviewer can follow up any unanticipated points which may arise.

Stanley (1977, p.220) discussed the semi-structured interview procedure as follows:

although there is not a formal question and reason type of questionnaire, the interviewer does none the less lead the interviewee through a series of set topics, whilst still allowing the comment to be free and 'unstructured'.
Though the three interview techniques have been discussed separately the researcher may find it beneficial to combine all three in his/her methodology.

An advantage of this methodology as a research methodology is that it enables thorough responses to be gained. Disadvantages include: the methodology, by its nature, is reactive (see above) and; error and bias may creep into the information gathering process via poor compilation (e.g. tape recording errors during the interview) or poor interview conduction (e.g. the use of leading questions (see above)).

To breach the enigma of the research hypotheses using solely the interviewing methodology, would require the preparers of external financial information to be interviewed. Answers to the type of questions that I would need to pose would be paramount to an admission by the interviewees that they were purposely misinforming the users of the financial information.

5.3.1(b) Mail Survey Questionnaires

This written form of questioning requiring completion and return by the respondent, represents one of the most popular and cost effective ways of obtaining information from a large and widespread sample. A good summary of the literature on the use and design of questionnaires can be found in Berdie and Anderson (1974).
To accommodate data collection the question and response categories are frequently formulated in advance by the researcher. Questions are asked in a number of ways, they may be formulated to be:

a) Dichotomous (requiring a yes or no answer);

b) multiple choice (i.e. a question with more than two stated response options);

c) fill-in-the-blank type (where the respondent has to fill in the missing word or number);

d) ranking (where the respondent has to rank various options) or;

e) open ended (requiring the respondent to use his own words).

All the above types of question, apart from e), restrict responses to pre-determined answer categories. This means the possible loss of valuable comments and opinions, along with the production of superficial answers to the questions. However, these type of questions are less time consuming to answer than open ended ones which, despite their difficulty to code into data, do provide a more interesting insight into a subject.

Advantages to a questionnaire approach to data collection, an area in which a good deal of recent work has been concentrated, are:
a] The whole sample can be posted at one time and, depending on the reliability of the respondents, should be, returned quite quickly. For example, Baur (1947) received 40% of responses to his questionnaire within eight days from its initial dispatch, also Lawson (1949) achieved a 65% response within a week.

b] The format of a well designed questionnaire enables easy coding and analysis.

c] Questionnaires can be completed at the respondents own speed and in their own time, allowing a chance for deliberation.

d] Questions are presented in a less biased way, as in an interview situation the attitudes and other behavioural variables of the interviewer are reflected in his questioning.

Disadvantages with the use of questionnaires as a method of data collection include:

a] Typically in social science research response rates are low. This leads to the problem where responses do not give an accurate view of a situation, in that only those people, or organizations, interested in the questionnaires subject matter may spend the time necessary to complete it;

b] A researcher cannot be certain as to whether his/her chosen respondent will actually fill in the questionnaire which has been sent to them, even if it is intended for a person with the appropriate knowledge and/or with the power to
delegate it and authorise its completion. This leads to problems of reliability and validity with the collected information, which is usually more acute when dealing with large organizations and;

c) The researcher cannot be sure whether respondents find that the questions lack clarity, other than by feedback. It was concluded by Ruckmick (1930) that complex questions are easily misinterpreted.

A major shortfall in this methodology in confronting the research hypothesis in this study is that one cannot be sure of a sample response which is representative of their real views. This may be because its response rate may be too low to make the resulting statistical sample significant, or because by its nature, this methodology is reactive. However, consideration of the following may go some way to negating these disadvantages.

5.3.1(b1) Reasons for a Subject's Participation in a Research Project

The size of the sample and the relative ease with which the data is collected depends on the nature of the population to be targeted in the study. Therefore, in order to try to maximise research efficiency, it is useful to outline the reasons why subjects participate in research studies:

1] Altruism; Slocum et al (1956, p.222) suggested that:

motivation to respond can be increased, if not maximised, by conscious effort on behalf of the researcher to: (1) establish an image of social utility of the survey in terms of the value system of the society, group and/or community under study,
and (2) emphasize the special role of each respondent in making possible the attainment of the maximum social utility by the survey.

2] Emotional satisfaction; presumably the main motivating force encouraging participation in this study would be provided by this. This can be concluded as emotion is a principle behavioural variable.

3] Intellectual satisfaction; would be a consideration for participation in this study as this type of satisfaction is not commercially related.

4] Perceptions of tangible rewards; enticing individuals to participate in a study with the promise of material items or long term gains from the results of the research.

5] If the subject is in need of academic help; when research is geared to a certain set of needs.

6] A wish of the respondent to increase his knowledge of a particular research project.

5.3.1(b1a) Encouragement to Participate in a Research Project

Potential respondents can be urged to participate in a research project by:

1] The use of an initial contact letter.

Such a letter may point out that a number of rivals had participated in the study. Subsequently, follow-up letters may effectively be employed. This form of encouragement may more frequently be used in conjunction with interviews, where such tactics may provoke hostility or indifference on the part of
the respondent. In this situation Richardson et al (1965, p.118) felt: "responses are likely to be of minimal quality, if not deliberately misleading".

Such a letter may inform the respondent of the intention to send him/her a postal questionnaire. Research into this area is well summarized in Jobber and Saunders (1986). Specifically slight increases in response rates where noted by Erdos (1957a+b) through the addition of a small monetary incentive and Thompson (1984) from the inclusion of a felt-tip pen.

5.3.2 Observation

This method of collecting data, which can be both qualitative and quantitative in nature, can be segmented into two main types: [a] passive observation and [b] active observation. Passive observation requires the researcher to observe the situations or procedures being studied and to record pertinent events as and when they occur. Active observation requires the researcher to employ the methods of passive observation whilst also participating in the activity.

Using observation as a method of data collection heightens the researcher's awareness and understanding of such events, whilst relieving reliance on the interpretations of others. It also means that the researcher is not dependant upon the memory or judgement of the respondent.
Passive observation can be used when subjects are themselves unable to provide the information the researcher requires, such as in the case of a behavioural study where unobtrusive data collection is necessary. Active observation cannot be used unobtrusively and requires the trust and confidence of subjects, which would take a while to achieve, especially as the appropriate environment is that of the business world. Also, a rounded study, where data from subjects who are competitors would be unacceptable to all subjects.

The major disadvantage associated with observation is that the researcher may portray situations or procedures in the particular light necessary for his/her study and/or in a manner consistent with his/her beliefs/expectations.

5.3.3 Examination of Documentary Sources

According to Holsti (1969a, p.1) "Often the only surviving artifacts that may be used to study human activity are to be found in documents".

This research technique, which can be both quantitative and qualitative in nature, can be divided into two categories:

a) Existing documents and;

b) documents produced at the behest of the researcher.

The latter category includes questionnaires, however, because this methodology is closely linked with that of
surveys (interviews) it was discussed earlier under this section heading.

5.3.3(a) Documents Produced at the Behest of the Researcher

The type of document listed below is created by the researcher but completed by the respondent basically because it has been created.

5.3.3(a1) Questionnaires (see surveys)

5.3.3(b) Existing Documents

In this study indicators from a series of documents are to be examined. In the opinion of Weber (1990, p.10) "culture indicators generated from a series of documents constitute reliable data".

5.3.3(b1) Case Studies

In the present context, case studies are treated as a source of reference to be used as a source from which inferences can be made. A case study is considered to be an effective "research method for attempting valid inferences from events outside the laboratory" Yin (1984, p.7 [Foreword by Donald T. Campbell]).

A definition of a case study was provided by Yin (1984, p.23):

A case study is an empirical enquiry that investigates a contemporary phenomenon within its real life context, when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used.
A case study represents a sound methodology to use: "when "how" or "why" questions are being posed, when the investigator has little control over events" Yin (1984, p.13).

Data is collected for a case study in the following way: (noted by Yin [1984, p.7 (Foreword by Donald T. Campbell)])

Upon the base [of evidence and/or hypothesis] other implications are made explicit ... for other available data, and [it is] report[ed as to] how these fit. It also includes seeking out rival explanations of the focal evidence and examining their plausibility. The plausibility of these rivals is usually reduced by "ramification extinction", that is, by looking at their other implications on other data sets and seeing how well these fit. How far these two potentially endless tasks are carried depends upon the scientific community of the time, and what implications and plausible rival hypotheses have been made explicit.

The major advantage with using existing case studies as a research tool is that it would provide an easy and straightforward methodology. A disadvantage with this methodology is that its contents would be orientated towards a specific case - they would not be sufficiently general.

5.3.3(b2) Content Categories (Data Collection Stages of "Content Analysis")

Data collected from existing documents can be classified into content categories - data sets with certain characteristics. Categorisation of content represents the data collection stages necessary before an analysis of content (discussed later) can be performed.
Classification into content categories, following the advice of Weber (1990), is performed by first identifying the universe from which the documentary sources are taken. Stouffer et al (1950, p.84) noted:

An attribute or item belongs to the universe by virtue of its content. The investigator indicates the content of interest by the title he chooses for the universe and all attributes with that content belong in that universe.

To reduce the size of the population contained in each universe, samples of the documents to be used will be taken. When this is the case Weber (1990, pp.42-43) noted: "to avoid reaching biased or erroneous conclusions, researchers must take into account the conditions under which the documents were produced".

The text contained in the samples is reduced in amount by its classification into categories. Context units provide the basis for this classification. Context units can be: "words with similar meanings and/or connotations" (Weber [1990, p.37]) or; more pertinently a "sentence or theme" (Holsti [1969b, p.355]). It was noted by Holsti (1969b, p.356): "it has been demonstrated that the choice of context units affects the results of content analysis; the larger the context unit that is coded, the less likely are neutral attitudes to be recorded (Geller et al [1942])".

The basic requirements of categorized content are threefold and were noted by Holsti (1969a, pp.3-5):

a] Objectivity;
b) system and;

c) generality.

5.3.3(b2a) Objectivity

Objectivity refers to decision making undertaken whilst forming the content categories. This process must be:

guided by an explicit set of rules that minimize - although probably never quite eliminate - the possibility that the findings reflect the analyst's subjective predispositions rather than the content of the documents under analysis (Holsti [1969a, p.4]).

5.3.3(b2b) System

That the study is systematic requires that when analysing the data collected for this type of analysis "the inclusion and exclusion of content or categories is done according to consistently applied rules" (Holsti [1969a, p.4]).

5.3.3(b2c) Generality

Generality requires that the findings must have theoretical relevance, because "purely descriptive information about content, unrelated to other attributes of documents or to the characteristics of the sender or recipient of the message, is of little value" (Holsti [1969a, p.5]).

The advantages of using this methodology as a research tool is that it provides a simple and effective collection method for data (especially the sort in which I am interested), which is immediately in a readily analysable form.
5.4 "CONTENT ANALYSIS" - A DISCUSSION

The objective of "content analysis" was noted by Cartwright (1966, p.435):

The objective of content analysis is to convert recorded "raw" phenomena into data which can be treated in essentially a scientific manner so that a body of knowledge may be built up. More specifically, content analysis must be conducted so as (1) to create reproducible or "objective" data, which (2) are susceptible to measurement and quantitative treatment, (3) have significance for some systematic theory, and (4) may be generalized beyond these specific set of materials analyzed.

Many definitions of "content analysis" have been proposed, some of those pertinent to the present context are:

Content analysis is any technique for making inferences by objectively and systematically identifying specific characteristics of messages (Holsti [1969a, p.14]);

current analysis is the statistical semantics of political discourse (Kaplan [1943, p.230]);

current analysis is a multi-purpose research method developed specifically for investigating any problem in which the content of communication serves as the basis of inference (Holsti [1969a, p.2]);

current analysis is a procedure whereby one makes inferences about sources and receivers from evidence in the messages they exchange (Osgood [1959, p.36]);

current analysis is a research method that uses a set of procedures to make valid inferences from text (Weber [1990, p.1]);

current analysis is a research technique for making replicative and valid inferences from the data to their context (Krippendorff [1980, p.21]);

current analysis is a research technique for the objective, systematic, and quantitative description of the manifest content of communications (Berelson and Lazarsfeld [1948, p.5]);

current analysis [refers to] the use of replicable and valid methods for making specific inferences from text to other states or properties of its source (Krippendorff [1969a, p.1]);
content analysis is a collection of techniques for providing interpretations of text and similar products (Deese [1969, p.39]);

content analysis [refers to] the use of replicable and valid methods for making specific inferences from text to other states or properties of its source (Krippendorff [1969b, p.70]);

content analysis involves attempts to score, categorize and obtain useful objective data from written material (Starkweather [1969, p.339]);

content analysis refers to the objective, systematic and quantitative description of any symbolic behaviour (Cartwright [1953, p.424]).

Once content categories have been formed criteria by which a judgement can be made as to the quality of a "content analysis" can be considered. They are outlined in figure 5.1. Essentially these criteria are:
Figure 5.1
Criteria for Judging the Quality of a "Content Analysis"

Data Oriented
- SAMPLING VALIDITY
- SEMANTICAL VALIDITY

Product Oriented
- PREDICTIVE VALIDITY
- CORRELATIONAL VALIDITY

Process Oriented
- CONSTRUCT VALIDITY

Source: Krippendorff (1980, p. 158)
1] Reliability of the categorisation and recording procedures and;

2] validity of the results derived from the content categories.

5.4.1 Reliability

Reliable results are expected and needed in all research projects. Krippendorff (1980, p.21) noted: "Any instrument of science is expected to be reliable". Kaplan and Goldsen (1965, pp.83-84), more pertinently noted:

The importance of reliability rests on the assurance it provides that data are obtained independent of the measuring event, instrument or person. Reliable data, by definition, are data that remain constant throughout variations in the measuring process.

The requirement that "content analysis" must be objective must be borne in mind when assessing the reliability of findings, as noted by Holsti (1969a, p.135):

If research is to satisfy the requirement of objectivity, measures and procedures must be reliable; i.e., repeated measures with the same instrument on a given sample of data should yield similar results. Reliability is a function of coders skill, insight and experience, clarity of categories and coding rules which guide their use; and the degree of ambiguity in the data.

Krippendorff (1980, p.129) noted: "reliability is a necessary though not a sufficient condition for validity".

5.4.2 Validity

The term validity relates to the quality of the research findings. Holsti (1969a, p.127) noted that one must consider whether the themes under investigation "actually index the variables they are intended to measure".
When discussing the validity of the results to be derived from the research, it was the opinion of Holsti (1969a, pp.142-143):

Validity is usually defined as the extent to which an instrument is measuring what it is intended to measure ... The validity of any study is also inextricably interrelated with its sampling design and reliability.

Validity is of paramount importance in research as it provides an assurance that research findings are to be taken seriously in making decisions on practical issues.

However, as can be seen from figure 5.1, validity and reliability are subject to the fulfilment of several caveats. Reliable data have to fulfil the requirements of stability, reproducibility and accuracy. These caveats of reliability appear in table 5.2.


<table>
<thead>
<tr>
<th>Types of Reliability</th>
<th>Reliability Designs</th>
<th>Errors Assessed</th>
<th>Relative Strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stability</td>
<td>test-retest</td>
<td>intra-observer inconsistencies</td>
<td>weakest</td>
</tr>
<tr>
<td>Reproducibility</td>
<td>test-test</td>
<td>intra-observer inconsistencies and inter-observer disagreements</td>
<td></td>
</tr>
<tr>
<td>Accuracy</td>
<td>test-standard</td>
<td>intra-observer inconsistencies, inter-observer disagreements and systematic deviations from a norm</td>
<td>strongest</td>
</tr>
</tbody>
</table>

Source: Krippendorff (1980, p. 131)
5.4.2(a) **Stability**

Stability refers to intra-observer inconsistencies found when data is categorized on two occasions by the same coder, but at different points in time (i.e. tested and retested). Krippendorff (1980, pp.130-131) noted that "stability is the weakest form of reliability and should not be trusted as the sole indicator of the acceptability of content analysis data for inference and analysis".

5.4.2(b) **Reproducibility**

Reproducibility is tested when two or more independent coders are given the same data to code using the same recording instructions. Any coding disagreements are then caused by intra and/or inter-observer inconsistencies. Weber (1985, p.17) noted: "high reproducibility is a minimum standard for content analysis".

5.4.2(c) **Accuracy**

This reliability criterion is designed to highlight intra-observer inconsistencies, inter-observer disagreements and any systematic deviations from a norm (a measure which is known to be correct). In order to establish accuracy, data are obtained by one coder whose results are compared with a pre-existing, correct set of categories.

According to Krippendorff (1980, pp.155-168) valid results have to possess:

a) semantical validity;

b) sampling validity;
c) correlational validity;

d) predictive validity and;

e) construct validity.

5.4.2(d) **Semantical Validity**

For data to be semantically valid it has to capture certain symbolic qualities which are consistent with their original meaning.

5.4.2(e) **Sampling Validity**

Sampling validity is established by showing how well the subject matter about which conclusions are to be drawn is sampled.

5.4.2(f) **Correlational and Predictive Validity**

These two types of validity are similar, but a clear distinction can be drawn between them: Correlations assess strength of association, they cannot predict events or phenomena with certainty.

Correlational validity represents the degree to which findings obtained by one method relate to findings obtained by another.

Predictive validity represents the degree of agreement between methodological predictions and observed facts.
5.4.2(g) Construct Validity

The degree to which an analytical procedure models, mimics or functionally represents relations in the context of data is assessed by construct validity.

5.4.3 "Content Analysis - Marks of Distinction"

Krippendorff (1980, pp.9-10) noted that content analysis has "three marks of distinction": it "is fundamentally empirical in orientation, exploratory, concerned with real phenomena, and predictive in intent ..."; it "... transcends conventional notions of content as an object of concern and is intricately linked to more recent conceptions of symbolic phenomena ..." and; "... it is developing a methodology of its own that enables the researcher to plan, to communicate, and to critically evaluate a research design independently of its results".

5.4.3(a) Uses of "Content Analysis"

It was noted by Holsti (1969b, p.355) that: "Among the basic problems for which content analysis has been used is that of inferring authors' [preparers'] attitudes from the messages they produce".

Well known accounting studies that have used "content analysis" research methods include: Govindarajin (1980), Day (1986) and MacArthur (1988). Cushing and Loebbecke (1986) also used a form of "content analysis".
5.5 DATA ANALYSIS METHODS

In order to promote and maintain the academic value of derived data, an appropriate and well considered form of analysis must be applied to it. Coombs (1966, p.495) noted:

The method of collecting data determines what information they contain, but the method of analysis defines this information ... the method of analysis selected may permit the discovery of the properties of the information or may also define the properties. In the latter case, the experimenter is concerned only with the inter-relations.

Again methods of analysis will be chosen by weighing up the advantages and disadvantages of each method discussed.

5.5.1 Analysis of Content (Analysis Stage of "Content Analysis")

Holsti (1969a) and Janis (1965) treat data as a media of communication between sender and receiver, which is in a similar context to financial accounting data - which is central to this study. They see ensuing content analysis in terms of three purposes:

1] describing characteristics of communication - asking what, how and to whom something is said;

2] making inferences as to the antecedents of communication - asking why something is said and;

3] making inferences as to the effects of communication - asking with what effects something is said.

Holsti (1969a, p.127) argued: "The goal of content analysis research is to present a systematic and objective
description of the attributes of communication. Such a goal highlights that:

to justify any inferences from data, some hard knowledge, some empirical evidence about the connections between data and what is to be inferred from them, is essential. It is this knowledge that enables the researcher to place his data in a suitable context, to render them indicative of phenomena outside of themselves, and thus provides him with a logical bridge for making inferences. In this search, the content analyst becomes a consumer of knowledge... In most content analyses, control over the process of collecting data is limited. There are usually good reasons why some data are made more readily available to the analyst than others (Krippendorff [1980, p.172]).

Once this goal has been met, Krippendorff (1980, p.169) argued: "a good content analysis will answer some questions, it is also expected to pose new ones".

The next stage to be considered in a "content analysis" is to outline a method in which the characteristics of the content of a piece of text can be measured.

5.5.1(a) System of Enumeration

The measurement method(s), or system(s) of enumeration, most frequently employed in "content analysis" is, as noted by Holsti (1969, p.122), "frequency, in which every occurrence of a given attribute is tallied".

When frequency measures are used, two caveats must be observed: Each unit of content should be given equal weight and; the frequency with which an attribute is encountered in a piece of text is a valid indicator of the importance and emphasis that should be placed upon it.
Some of the advantages of using content analysis as a form of data analysis are:

1] It provides a straightforward analytical basis from which to perform statistical tests.

2] It provides immediately meaningful results.

3] It provides diverse and comprehensive results.

Two systems of enumeration were used in the collection of data. They were the frequency method and the scaling method.

5.5.2 Comparison

This method is used for analysing data provided by existing documents. This data is then compared with data analysed using alternative methods.

The advantages and disadvantages of this method lie in its simplicity.

5.5.3 Statistical Methods

Other forms of analysis include statistical operations. A small portion of these (which the researcher sees as relevant) include:

[a] Frequency distribution;

[b] Chart illustrating the frequency distribution;

[c] Test to demonstrate significant relationships between various samples and/or populations;
[d] Crosstabulation of the data.

[e] Test to demonstrate the independence between samples/distributions.

[f] Linear Regression/Correlation.

5.5.3(a) Frequency Distribution

A frequency distribution is a tabular representation which presents the number of occurrences of an event. At the same time it presents a comparison outlining other occurrences of that same event.

The advantages of this method lie in its simplicity, its informativeness and its immediate applicability.

A disadvantage of this method is that the resulting figures can bewilder the reader.

5.5.3(b) Illustrative Chart

This analytical method is most effectively used in parallel with a frequency distribution to describe the derivation of the chart. The rationale of using a chart is that it provides a clear, concise and accurate pictorial representation of a frequency distribution.

The advantages of this method of analysis lie in its ease to understand and its effectiveness.

Its only disadvantages lie in its inability to be used alone.
There are several different types of illustrative chart:

a) **pie diagram** - a 360 degree sectoral graphical representation of numerical data.

b) **bar chart** - graphical presentation of data which describes the magnitude of each item, or group of items, in terms of the height of a bar.

5.5.3(c) *Significance Test*

A significance test hypothetically unravels the contribution of a single factor to an underlying, on-going process. For example: the contribution of the per-capita consumption of a certain type of dietary fat on the incidence of mammary and colon cancer in humans.

An advantage of this analytical technique is that it makes possible the drawing of statistical inferences whilst providing some statistical evidence. The main disadvantage of this technique is that the statistical inferences drawn balance on assumption, sample size and sample/population parameters - which are estimates anyway.

There are two types of significance test - parametric and non-parametric. Non-parametric tests are less powerful than their parametric counterparts because:

1] Parametric test uses hypotheses which relate to parameters of the population, whereas non-parametric tests
only answer hypotheses relating to the similarity of the two distributions.

2] The level of measurement required for a parametric method to be an appropriate form of analysis is great. Levels of measurement used to generate data, in increasing order of complexity, are: nominal, ordinal, interval, ratio. Non-parametric procedures require data to be only of the first two levels.

3] When using a parametric method, restrictive assumptions about the data under consideration are required. Such assumptions require the populations to be normally distributed and for both variances to be equal. Whereas a non-parametric method requires only that both samples be independent and random.

[a] The parametric T test

This test approximates similarity by comparing the means of two populations. It does this through the application of a statistical formula which assesses the observed significance level. This statistic is the observed difference between the two sample means (samples are derived from the population) when the two population means are equal. If this statistic is of a smaller magnitude than a pre-determined significance level then the hypothesis relating the two populations is rejected.

The advantages and disadvantages of this significance testing method are contained in the above.
[b] The non-parametric Mann Whitney U Test

To perform the test, observations from both populations are ranked in ascending order of magnitude. The statistic for testing the hypothesis that the two distributions are equal is the observed significance level of the sum of the ranks of the populations (two tailed p). This is found by transforming the sum of the ranks to a standard normal deviate (z). If the populations have the same distribution, the resulting 2-tailed p value is large (i.e. greater than 0.1).

The advantages and disadvantages of this significance testing method are contained in the above.

5.5.3(d) Crosstabulation

This is a method of producing tables showing the joint distribution of two sets of variables that each have a limited number of distinct values. These variables are either dependant or independent.

An independent variable is one which is under experimental control. In turn it affects the magnitude of the dependent variable.

Several entries are given in each cell of the table that is produced. These cell entries provide information about relationships between the variables. These include:

a) The frequency of cases in that cell;
b) the percentage of all cases of one of the variables that fall into a particular cell - a measure which is variable upon the differing values of both the dependent and independent variables;

c) the percentage of the total number of cases in the experiment which fall into each cell.

In addition 'marginals' are given which represent counts and percentages for entire row and column variables taken separately.

The advantages of this technique lie in its ability to draw a number of statistical inferences from more than one variable at a time. The disadvantages of the technique lie in its requirement for a great deal of detailed information.

5.5.3(e) Independence Test

Statistically independent samples are those "selected from two (or more) populations where the elements making up one sample are chosen independently of the elements making up the other sample(s)" (Anderson, Sweeney and Williams (1987, p.352).

The chi-square test statistically determines the existence of independence between samples. It shows that the elements in each sample were chosen without reference to the other samples.
Considering the scope of this study, the main advantage of this test is that it enables the independence of non-parametric data to be tested.

A disadvantage of this technique is that the result that it produces can suffer in its refinement due to an inadequate sample size.

5.5.3(f) Linear Regression/Correlation

Many relationships between two variables have, to a differing degree, a relationship which when graphed is a virtual straight line. The differing degree of this linearity can be reflected by the use of some statistics.

Scatterplots represent the graphical relationship between two variables. They are a crucial first step in assessing such association. This association can take many forms. These forms are not all linear and more pertinently not linear along the whole length of the association.

In order to mathematically derive a straight line which best describes the relationship between two variables - the regression line - a procedure known as least squares can be used. This method results in a line which minimizes the sum of squared vertical distances from the data points to the line.

This line assumes the usual mathematical form \( y = mx + c \). Where \( y \) is the dependant variable, \( x \) is the independent
variable, \( c \) is the value of \( y \) when \( x \) is zero and \( m \) is the change in \( y \) per unit change in \( x \) - the gradient of the line.

In order to approximate how well a line derived as above fits the data, goodness of fit indexes are used. One such statistic is the Pearson correlation coefficient - \( R \). This, when squared, represents the inverse of the residual from the regression plus the variation explained by the regression all divided by the variation explained by the regression. These two forms of observed variation represent, respectively: the sum of the squared distances between the observed \( y \) value and the predicted \( y \) value and; the sum of the squared distances between the predicted \( y \) value and the mean \( y \) value.

If no linear association exists then \( R \) squared is zero since the predicted values are just the mean of the dependant variable and the regression sum of squares is zero. If \( y \) and \( x \) are perfectly linearly related, the residual sum of squares is zero and \( R \) squared is 1. The Pearson correlation coefficient, \( R \), can vary in value between -1 and +1 depending on the magnitude of the slope of the regression line. The higher its magnitude, whether positive or negative, the better the correlation.

It is important to examine correlation coefficients together with scatterplots since the same coefficient can result from very different scatterplots. Also, it must be noted that correlation does not imply causation, since other
factors may also affect the value of a variable being considered.

The main disadvantage of such a technique for this study is its reliance on continuous data.

5.6 SUMMARY

The methods chosen for the collection and analysis of the data for this study will be discussed below. The statistical analysis for this study was performed via an SPSS/PC+ V4.0 package, following the instructions of Norusis (1988).

5.6.1 Chosen methods of data collection

The approach to information collection decided upon was Existing documents (which allow content data, discussed above, to be categorized).

5.6.1(a) Existing documents

The documents from which data will be collected are company financial advertisements in the Investors Chronicle. These advertisements highlight the periodic financial performance of companies.

On the basis of the above discussions about content categories and content analysis, the technique appears to represent a sufficiently comprehensive framework within which to collect and analyse a portion of the data to be used in and to emerge from this study.
Specifically this technique will be adopted because:

1] It provides "... an unobtrusive and non-reactive research technique" (Krippendorff [1980, pp.29-30]);

2] the nature of the data to be collected for this study is likely to be both quantitative and qualitative in nature, but at the same time symbolic. Krippendorff (1980, p.30) noted: "content analysis is context sensitive and thereby able to process symbolic forms";

3] a reasonably large amount of data is likely to be necessary for this study, therefore a collection method capable of coping with such large quantities of data - which will redily allow categorisation into a form where its reliability, comparability and significance can be tested - is required. This need was recognised by Krippendorff (1980, p.31): "Content analysis can cope with large volumes of data". Comparability of data is an important assumption in the use of "content analysis", as noted by Holsti (1969a, p.5) "a datum about communication content is meaningless until it is related to at least one other datum" and;

4] it "... may be helpful in any search for fuller or more specialized types of significance than can be obtained by other methods alone" (Gerbner et al [1969, preface]). The best way to achieve this is for: "the content analyst to use qualitative and quantitative methods to supplement each other" Holsti (1969a, p.11). This opinion was also held by Weber (1990, p.10): "The best content-analytic studies use both qualitative and quantitative operations on texts. Thus content
analysis methods combine what are usually thought to be antithetical modes of analysis".

5.6.2 Choice of Analysis Methods

The methods chosen to analyse the resulting data, referring to the outlined advantages and disadvantages, were:

[a] The frequency method of content analysis;

[b] A frequency distribution plus illustrative charts (bar charts);

[c] Crosstabulations and;

[d] Chi-square tests.

5.6.3 Conclusions

The above methods of data collection and analysis will be used in the following chapter.
CHAPTER 6

DATA COLLECTION AND ANALYSIS

6.1 INTRODUCTION

This chapter addresses the ways in which the various methods of analysis were arrived at and presents chosen analytical results.

The analysis performed on the data collected is intended to show the various attributes of financial advertisements and any changes in them over time.

6.1.1 Outline

In order to structure such a study, it is necessary to substantiate the above controversy with the research hypotheses outlined in Section 4.4. In order to reenforce these hypotheses various relevant questions were also addressed:

Qa1) Did the same number of advertisements appear in both years studied? And if not, why not?

H1) The financial advertisements published by each company contain the same financial entries.

Qb1) What proportion of advertisements did "Additional Results" appear in?
Qb2) Do "Comparative Figures" frequently appear in financial advertisements?

Qb3) What is the specified audit status of the financial results under consideration?

Qb4) Does a "Chairman's Statement" entry frequently appear in financial advertisements?

Qb5) Does a "Discussion of the Past" entry frequently appear in financial advertisements?

Qb6) Does an "Explanatory Statement" entry - at least outlining current prospects - frequently appear in financial advertisements?

Qb7) Does an "Outlook/New Markets" entry frequently appear in financial advertisements?

Qb8) Do Slogan entries - of some description - frequently appear in financial advertisements?

Qb9) How many financial advertisements mention the products, or line of business, in which the enterprise trades?

Qb10) How many financial advertisements contain geographical analyses of the different market places in which the enterprise under consideration trades?

H2) Financial advertisements are of a given page size.

Qcl) Do the number of entries contained in a financial advertisement increase along with its page size?
H3) No difference exists in the constitution of the financial advertisements between the two years studied.

Qd1) Do financial advertisements reflecting an enterprise's financial performance for various intervals differ, between the years studied, in the number of financial entries which they exhibit?

Qd2) Do the various types of advertised financial reports appear with equal frequency in both years studied?

In order to address these hypotheses and questions a content analysis was performed upon the financial advertisements contained in copies of two complete years of the Investors Chronicle. The content analysis was performed by the use of a Coding Sheet (Appendix ii), the results of which appear in the second section of this chapter.

The structure of the analysis is divided into four sub-sections:

6.2.1 The importance placed upon financial advertisements by advertisers;

6.2.2 The importance placed on particular financial entries;

6.2.3 Page size as a factor in financial advertising and;

6.2.4 The constitution of financial advertisements.
6.2 CONTENT ANALYSIS

The two years copies from which the advertisements were extracted had to fulfil various criteria. In order to be interesting and immediately relevant the advertisements needed to be from periods which were fairly recent and at the same time provide the widest possible differentiation in results. It therefore appeared that the two most interesting years to compare, for this study, would be provided by a non-recessionary year and a recessionary year - specifically 1987 and 1991.

In order to structure the Coding Sheet a sample of 52 advertisements were taken from the Investors Chronicle in order to ascertain a representative and relevant collection of entries (see Appendix ii).

The only objective responses to the entries in the Coding Sheet unable to take a binary format (1 marks the existence of the entry in the advertisement, whilst 0 marks its absence) are: the first entry in the introduction section (size of advertisement), which can take any decimal number and; the four entries in the introduction section of the sheet which take one of a given choice of numbers.

The various financial entries listed on the Coding Sheet appear under one of four headings which were appropriate proposals made in the discussion paper Making Corporate Reports Valuable (ICAS [1988]). This paper is the only CF which deals with specific characteristics of accounting
entries as opposed to general qualitative characteristics of accounting information. It applied techniques used in prior research based on those proposals (e.g. Collins, Davie and Weetman [1992]). This approach was thought to be best so as to: avoid criticism of circular reasoning, as the Coding Sheet was derived from advertisements for the purpose of analysing other advertisements and; adopt a more authoritative format.

These four headings are: Section 1 - Introduction - which underlines the initial eye-catching characteristics of the advertisements; Section 2 - Liquidity and Capital Resources - which refers to balance sheet items; Section 3 - Operations - which refers to profit and Loss account items; and Section 4 - Other Items - which tabulates any additional results and the monetary rewards for shareholders. The author accepts that the forms of financial representation used in sections 2 and 3 are outdated when considered alone - since the emergence of FRSs - but the advertisements take this format.

The first entry box on the Coding Sheet has been inserted so as to facilitate easy reference for data collection purposes. This entry - 'Code Number' - refers to a ten figure Coding Sheet number. The first two digits of this number increase by 1 as each new quarterly volume of the Investors Chronicle is analysed. The following four digits of this entry will increase by 1 as each new weekly issue of this journal is encountered. The next three digits refer to the page number of the journal on which the advertisement appears.
The magnitude of the final digit depends on the number of advertisements which appear on a single journal page (as counted from the upper left corner). This number lies between 0 and 9 and is determined as follows:

a] "1" means only one advertisement appears on a page;

b] "2" means the first of two advertisements on a page is being referred to;

c] "3" means the second of two advertisements on a page is being referred to;

d] "4" means the first of three advertisements on a page is being referred to;

e] "5" means the second of three advertisements on a page is being referred to;

f] "6" means the third of three advertisements on a page is being referred to;

g] "7" means the first of four advertisements on a page is being referred to;

h] "8" means the second of four advertisements on a page is being referred to;

i] "9" means the third of four advertisements on a page is being referred to and;

j] "0" means the fourth of four advertisements on a page is being referred to.
No Coding Sheet entries were assumed, therefore if any advertisement did not clearly state the existence of an entry, the researcher was objective and inserted a zero.

6.2.1 Analysing the Content data

The first thing that ought to be noticed from the data is that by nature it is qualitative, since "it is simply a label used to identify an item" (Anderson, Sweeney and Williams [1987, p. 14]). Neither is it continuous.

To make the analysis more thorough several statistical procedures will be applied to the content categories collected. These procedures were discussed and outlined in Chapter 5.

The 1987 and 1991 populations contained 530 and 193 advertisements respectively (see Question Qa1). These two populations were used as the data base for the following analysis. Both of these populations, aggregated, were also used to provide an approximate 'average' for the analysis of each hypothesis and question (Apart from Question Qa1). All of the hypotheses and questions apply to company advertisements rather than listed public company advertisements with appropriate financial entries - as discussed in the London Stock Exchange publication Admission of Securities to Listing, (1984). A distinction can be made between these two types of advertisement as discussed in Appendix i.
Hypotheses H1) and H3) will be considered using sample data from the two populations. The samples contain the majority of the data from the populations. The data that these samples do not contain is that produced by banks, building societies and investment companies. The reason for the exclusion of these three types of enterprise is that the hypotheses which the samples are used to address relate to general financial information. Some of this information exists in a different format for the above three types of enterprise (eg. the turnover of these enterprises cannot be measured in a directly comparable way - as for say a manufacturing company because there is nothing to 'turn over').

Hypothesis H3) uses the samples outlined above, but the incidence of three entries is subtracted from them. These entries are "Investment Earnings", "Underwriting Income" and "Subsidiary's Income". These entries were excluded in order to maintain a more financial as opposed to legal facade to the arguments posed. It was considered they carry legal as opposed to direct financial implications because they are fundamentally concerned with company structure and not directly with its "Operations".

In hypotheses H1) and H3) financial entries are to be considered. These entries are those from sections 2, 3 and the first four from section 4 of the Content Sheet. This is because these sections contain balance sheet information, profit and loss account information and dividend information respectively.
6.2.1(a) The Importance Placed on Financial Advertisements

The logical place to start an analysis such as this is to ask a question which will demonstrate the importance placed on financial advertisements by advertisers:

Qa1) Did the same number of advertisements appear in both years studied? And if not, why not?

Where these questions are concerned, neutrality becomes an issue in the consideration of the latter.

In the 1987 sample 530 advertisements appeared, whereas in 1991 193 existed.

It was thought that this question was most appropriately substantiated by writing a letter to the journal in which the advertisements appeared - Investors Chronicle. This letter (see Appendix iii) simply asked why the trend which emerged from the data - a substantial decrease in the number of advertisements appearing - had occurred.

Their reply (see Appendix iv) assured the author that the "drop in expenditure in the press has been caused purely by the oft quoted recession ... In the circumstances prevailing at the time, they [potential clients - companies] did not feel disposed to spend shareholders funds publicising a dismal years trading".

Here, the question of neutrality - a factor affected by the change in the popularity of the media of financial
advertising - revolves around the economic issue of the recession and the disposition of companies re. funds. The former point is an economic reality beyond discussion here. However the disposition of companies is a behavioural issue (see Section 3.1.2), as such the relative neutrality of there communications may be affected.

6.2.1(a) Summary

A sizeable difference can be noted in the number of advertisements which appear in each period. This perhaps demonstrated the changing importance placed on financial advertisements by advertisers.

6.2.1(b) The Importance Placed on Specific Results in a Financial Advertisement

An interesting topic of questioning that can be considered when studying a financial advertisement is that of the frequency of appearance of financial results, i.e. the stress (implying importance) placed upon them.

Preparers/management may stress the importance of certain financial results (entries, as in Appendix ii) in that they maybe repeated in other advertisements. Such stressed representations can reduce the neutrality of the financial advertisement to the point of the introduction of bias, making the stress - neutrality relationship inverse. The amount of 'stress' in each question/hypothesis is numerically outlined in the corresponding Appendix.
My initial hypothesis concerns the frequency with which entries are repeated in advertisements. This hypothesis and ten related questions are addressed below:

**H1) The financial advertisements published by each company contain the same financial entries.**

The hypothesis is initially considered using bar charts showing the frequency distributions of the financial entries considered. Illustrated are the two samples aggregated, the 1987 sample and the 1991 sample (Appendices v(b + c)). The related frequency distributions appear in Appendix v(a).

It can be seen from Appendix v(a):

i) For the aggregated populations the single most frequently appearing financial result was Profit Before Tax (559), which appeared on 86.3% of the advertisements studied. This was closely followed by Earnings Per Share (549 - 84.7%) and Proposed Dividend Per Share (523 - 80.7%).

ii) The 1987 population portrayed a similar picture with Profit Before Tax (405) - with an appearance rate of 86.7% in this year, Earnings Per Share (401 - 85.9%) and Proposed Dividend Per Share (365 - 78.2%). However, the situation in the 1991 population was different. The most frequently appearing financial result was Proposed Dividend Per Share (158) - which appeared 87.3% of the time in this population, followed by Profit Before Tax (154 - 85.1%) and Earnings Per Share (148 - 81.8%).
However Proposed Dividend Per Share represents only one of the quoted results referring to dividends, another being Paid Dividends Per Share (in my analysis this figure refers to quoted dividend per share which had been decided upon at the board meeting but not necessarily paid). This result was quoted 35 times (aggregated), 29 times (1987) and 6 times (1991). This makes a total quotation, for Dividend per share, of 558 (aggregated), 394 (1987) and 164 (1991). This total can be further increased by considering Total Dividends which was quoted 64 times (aggregated populations), 43 times (1987 population) and 21 times (1991 population). This result, however, was frequently quoted along with a dividend per share measure. Thus totalling the "Dividends" measures can make it the most frequently quoted financial result in the 1987 population as well as the 1991 population.

Every other financial result, apart from Turnover (469 [72.4%] - aggregated, 343 [73.4%] - 1987 and 126 [69.6%] - 1991), was not frequently quoted. The frequently quoted financial results outlined can be interpreted as stressed.

The chi-square calculation which appears in Appendix v(a) shows that the quoted financial entries are not statistically independent of the year in which they appear.

In their advertisements some enterprises quote financial results which do not appear on the Content Sheet (see Appendix ii), these entries can be termed "Additional Results". Such
entries appeared with reasonable frequency - therefore following on from H1) the following question may be posed:

Qb1) What proportion of advertisements did "Additional Results" appear in?

The quantitative results to this question appear in Appendix vi - which demonstrates:

i) In the aggregated populations 23.1% (167) of advertisements contained additional results.

ii) This proportion increased to 23.8% (126) in 1987, but reduced to 21.2% (41) in 1991.

A rationalization for these findings can be that the 1987 population, compared to the 1991 population, is bigger by a factor of (530/193 = 2.74). In 1987 there existed 2.649 times as many financial entries (2665 in 1987 and 1006 in 1991). Per advertisement, on average, there existed 5.03 - 2665/530 - (1987) and 5.212 - 1006/193 - (1991) entries. Clearly, therefore, specific financial entries and additional results are interchangeable.

This entry cannot be interpreted as stressed since it does not regularly appear.

The chi-square calculation which appears in Appendix vi shows that the existence of an additional results entry is not statistically independent of the year in which it appears.
Equivalent financial results from the previous period can provide a useful yardstick for monitoring an enterprises financial progress. The Content Sheet (Appendix ii) termed the existence of such financial results "Comparative Figures". Therefore it is useful to ask the question:

Qb2) Do "Comparative Figures" frequently appear in financial advertisements?

Appendix vii shows:

i) For the aggregated populations it can be seen that a large proportion, 90.2% (652 cases), of the studied advertisements contain comparative figures whereas 71 (9.8%) do not.

ii) The proportion of advertisements with comparative figures was relatively higher in the 1987 population, at 93% (493 advertisements), than in the 1991 population, 82.4% (159 advertisements).

A plausible explanation for these findings is that in the boom year of 1987 most comparative figures would indicate the existence of better results for the period under consideration. Whereas in the recessionary year of 1991 most comparative figures would indicate the opposite. Nevertheless, judging by its frequent appearance, this entry can be termed "stressed".
The chi-square calculation which appears in Appendix vii shows that the existence of a comparative figures entry is not statistically independent of the year in which it appears.

The following questions still fall under the 'banner' of Hypothesis H1) in that they similarly refer to financial entries and the importance placed upon them. However they do not directly represent financial results, but related aspects.

As the advertisements considered in this study are promotional (see Appendix i) and so not subject to the guidelines imposed by the Stock Exchange (see section 4.2.2), a statement of audit status is not necessary. However the absence of such a disclosure (entry) can be considered to be rather misleading. Therefore it is useful to address the question:

Qb3) **What is the specified audit status of the financial results under consideration?**

Quantification of this question appears in Appendix viii - which demonstrates:

i) In the two aggregated populations 70.8% (512) of advertisements made no mention of their audit status. 22% (159) declared that the results remained unaudited and 7.2% (52) declared audit status.

ii) The distribution in the 1987 population consisted of 72.6% (385) of advertisements making no mention of their audit status, 20.6% (109) declaring that the results remained
unaudited and 6.8% (36) declaring audit status. In the 1991 population 65.8% (127) of advertisements made no mention of their audit status, 25.9% (50) declared that the results remained unaudited whilst 8.3% (16) declared audit status.

The number of companies declaring their audit status changed by a small enough proportion between the two years populations to achieve statistical independence.

A declaration of audit status per se is clearly not a "financial result", but the above figures do imply a lack of stress on this important area - which is a good indicator of neutrality since audited figures have to undergo stringent justification.

Frequently financial advertisements contain Chairman's statements which give a commented review, or at least a lengthy comment, about the company's financial results for the period which the advertisement represents. This can be interpreted as providing an important entry in a financial advertisement in that it gives a relevant and respected view of the state of the enterprise. On the other hand Parkinson and Rowe (1979, p.169) saw such a representation simply as "an ego trip for the man at the top" (see Section 4.2.3). It is therefore interesting to ask:

Qb4) Does a "Chairman's Statement" entry frequently appear in financial advertisements?
The relevant data appear in Appendix ix, which demonstrates:

i) In these populations 385 (53.3% of the two aggregated populations) advertisements did not contain a Chairman's Statement whereas 338 (46.7% of the two aggregated populations) did.

ii) In the 1987 population 296 (55.8% of the population) advertisements did not contain a Chairman's Statement whereas 234 (44.2% of the population) did.

iii) When considering the 1991 population it is noticeable that the trend reflected above is reversed as 104 (53.9% of the population) advertisements did contain a Chairman's Statement whereas 89 (46.1% of the population) did not.

Roughly half of the advertisements sampled contained Chairman's Statements. This proportion was clearly not bigger because many advertisements simply were not big enough (see Section 4.3.1). The numerical implication is therefore that this entry is not stressed.

The chi-square calculation which appears in Appendix ix shows that the existence of a Chairman's Statement entry is not statistically independent of the year in which it appears.

Some financial advertisements contain a short comment explaining past performances - from period(s) prior to that
which is represented by the advertisement - and/or rationale for them. Such passages were entered in the Content Sheet (Appendix ii) as a "Discussion of the Past".

Qb5) Does a "Discussion of the Past" entry frequently appear in financial advertisements?

Quantitative figures relating to this question appear in Appendix x. They demonstrate:

i) In the two aggregated populations a minority of financial advertisements (2.9% - 21 advertisements) contained discussions of the past.

ii) In the 1987 population 1.1% (6 advertisements) contained discussions of the past, whereas in the 1991 population 7.8% (15 advertisements) contained discussions of the past.

A reason for these findings may be that this financial advertising constituent is not widely seen as important. Also the larger mean length of advertisements in 1991 (see Hypothesis H2) may have been influenced by the appearance of a greater number (15 - 7.8%) of discussions of the past.

The chi-square calculation which appears in Appendix x shows that the existence of a discussion of the past entry is not statistically independent of the year in which it appears.

On the whole, numerically, this entry was not stressed as it did not appear very often.
A short passage explaining the quality of the financial performance of the enterprise under consideration during the period under consideration sometimes appeared. To find out whether or not it was stressed the following question was considered:

Qb6) Does an "Explanatory Statement" entry - at least outlining current prospects - frequently appear in financial advertisements?

Quantification of this question appears in Appendix xi - which demonstrates:

i) In the aggregated populations roughly half (49.1% - 355) of the advertisements studied contained an Explanatory Statement.

ii) In the 1987 population slightly more of the advertisements contained an Explanatory Statement (292 - 55.1%).

iii) This trend was reversed in the 1991 population with 32.6% (63) of the advertisements containing an Explanatory Statement.

Such a reversal in trends between years is possibly due to a lack of advertising space because of the existence of a greater number of entries such as: Chairman's Statements (see Question b4); Discussions of the Past (see Question b5); Outlook/New Markets (see Question b7) and; Geographical Analyses/Market (see Question b10).
If this reason is valid a slight alteration in advertising information transmitting priorities may have taken place. Numerically speaking it can be concluded that this entry was not stressed.

The chi-square calculation which appears in Appendix xi shows that the existence of an explanatory statement entry is not statistically independent of the year in which it appears.

A Content Sheet entry existed which outlined, in a short statement, the quality of desired future intentions and/or financial prospects of the enterprise under consideration. This entry was labelled "Outlook/New Markets". To question whether or not it was stressed the following question must be answered:

Qb7) Does an "Outlook/New Markets" entry frequently appear in financial advertisements?

Quantification of this question appears in Appendix xii - which demonstrates:

i) Of the aggregated populations only 11.6% (84) of financial advertisements contained an Outlook/New Markets entry.

ii) In the 1987 population only 9.8% (52) advertisements contained such an entry.

iii) However the 1991 population contained 16.6% (32) such entries.
Qualification of these findings imply that an Outlook/New markets discussion may have appeared more frequently in 1991 due to more advertising space existing in this year (see Hypothesis H2).

The chi-square calculation which appears in Appendix xii shows that the existence of an outlook/new markets entry is not statistically independent of the year in which it appears.

Numerically, it would be incorrect to conclude that this result was generally stressed.

A slogan was a reasonably common phenomenon in financial advertisements. It was taken to be a comment of one word or more, often in extraordinarily larger letters, which did not have to be directly financially relevant to the advertisement. To investigate the exact frequency of appearance of this phenomena the following question was addressed:

Qb8) Do Slogan entries - of some description - frequently appear in financial advertisements?

Quantification of this question appears in Appendix xiii - which demonstrates:

i) 55.9% (404) of the advertisements in the two aggregated populations were appended with at least one slogan.

ii) In the 1991 population this proportion of advertisements decreased to 40.9% (79) from 61.3% (325) in the 1987 population.
It can be concluded that the above was found because due to the 1987 economic boom, companies generally were more confident and so prepared to use slogans like "Excellent years trading". Whereas during the slump of 1991 companies used slogans to a lesser extent, since they had less good news with which to bolster their image and probably did not wish to diminish it by drawing attention to unimpressive results. However, numerically speaking, it would be inaccurate to label this a stressed item.

The chi-square calculation which appears in Appendix xiii shows that the existence of a slogan entry is not statistically independent of the year in which it appears.

It was established that another worthy Content Sheet entry would be "Mention of Products". In order to cumulate positive entries for this category specific descriptions of the function of a company's trade was not required - generalizations, such as "Builders" were acceptable. A relevant question with which to highlight "stress" would therefore be:

Qb9) How many financial advertisements mention the products, or line of business, in which the enterprise trades?

Quantification of this question appears in Appendix xiv - which demonstrates:

i) In both populations, aggregated, 70.7% (511) of the enterprises mentioned their line of business.
ii) In the 1987 population slightly less than the above "average" proportion of enterprises - 68.9% (365) - stated their line of business. Whereas in 1991 this proportion increased to 75.6% (146).

Possible reasons for this trend were:

a) A mention of products is usually made at the top or bottom of an advertisement - together with and often replacing a slogan. Bearing in mind the distribution of slogans (see Appendix xiii) and that they are often replaced by mentions of products a possible explanation of the above trend emerges.

b) The mean length of advertisements (see Appendix v(a)) was greater in 1991.

This entry appears fairly regularly therefore, numerically speaking, it could be termed stressed.

The chi-square calculation which appears in Appendix xiv shows that the existence of a mention of products entry is statistically independent of the year in which it appears.

An advertisement may also mention that the enterprise trades in more than one geographical market. The relevant Coding Sheet entry was "Geographical Analysis/Market" and was interpreted to mean the presence of at least one financial entry deriving from trade in at least two different countries or market places. The following question was asked:
Qb10) How many financial advertisements contain geographical analyses of the different market places in which the enterprise under consideration trades?

Quantification of this question appears in Appendix xv - which demonstrates:

i) In the aggregated populations 8.2% (59) of advertisements contained a geographical analysis/market entry.

ii) This proportion reduced to 7.5% (40) in 1987, but increased to 9.8% (19) in 1991.

As this entry may be space consuming, depending on its level of detail, the above trend can be qualified with reference to Hypothesis H2 which states that the mean length of financial advertisements was higher in the 1991 population than in the 1987 population. Judging by the above frequencies this entry was not generally stressed.

The chi-square calculation which appears in Appendix xv shows that the existence of a geographical analysis/market entry is statistically independent of the year in which it appears.

6.2.1(b1) Summary

The relative significance of 'stress' in each question/hypothesis was judged with reference to the tabulated statistics. These produced varying results.

Roughly half of the advertisements sampled stressed the existence of: Chairman's Statements; Explanatory Statements -
at least outlining current prospects - and; Slogans. Comparative Figures were stressed in the majority of advertisements along with a mention of the products entry. Financial advertisements do not stress: the audited/unaudited status of results; discussions of the past; outlooks of various descriptions; additional results or; geographical analyses of the various market places in which the enterprise trades.

6.2.1(c) Page Size as a Factor in Financial Advertisements

Selection of page size, as discussed in section 4.3, is of upmost importance when considering the impact for the placing of advertisements. This was evidenced in a study performed by Lucas (1942) - using three magazines. In this study page size was used as the variable. He concluded that half page advertisements were 56% as effective as their full page counterparts (see table 4.2).

Page size can affect the neutrality of a representation. Because, generally, one can hypothesize that larger sized advertisements positively reflect the attention placed on their contents by management/preparers and the attention hoped to be paid to the advertisement by consumers. The neutrality of each result is also affected by the number of results given in each advertisement (see section 6.2.1(b)), because fewer results imply greater stress.

It is therefore relevant to study, with the aid of a hypothesis and a question, the various page sizes - and their
frequencies - in financial advertisements. Ten page sizes were apparent from studying the content data: 0.2 of a page; 0.25 of a page; 0.33 of a page; 0.5 of a page; 0.66 of a page; 1 page; 1.33 pages; 1.5 pages; 2 pages and; 4 pages.

H2) Financial advertisements are of a given page size.

This analysis was performed by considering Appendix xvi(a) and two bar charts Appendices xvi(b + c) - the first of which illustrates the results for the aggregated populations and the second illustrates the comparative results for both populations.

The Appendices show:

i) In the case of the two aggregated populations, full page advertisements were the most frequently occurring size at 388 (53.7% of both populations). Other page sizes with notable frequencies were 1/3 of a page (frequency = 117 [16.2% of both populations]) and 1/2 of a page (frequency = 122 [16.9% of both populations]). The only other material page size frequency was 1/4 of a page (frequency = 45 [6.2% of both populations]).

ii) In 1987 full page advertisements predominated with a frequency of 267 (50.4% of the population). The other two page sizes with notable frequencies were 1/3 of a page (frequency = 95 [17.9% of the population]) and 1/2 of a page (frequency = 96 [18.1% of the population]).

iii) In 1991 full page advertisements once again predominated with a frequency of 121 (62.7% of the
population). Again the other two page sizes with notable frequencies were 1/3 of a page (frequency = 22 [11.4% of the population]) and 1/2 of a page (frequency = 26 [13.5% of the population]).

iii) The mean size for a financial advertisement for the aggregated populations was 0.772 of a page. In 1987 it was 0.753 and in 1991 it was 0.822 of a page.

This demonstrates that in 1991, compared to 1987, advertisers chose the single page format at the expense of that of 1/3 and 1/2 of a page.

In order to calculate a chi-square value from the statistics which appear in Appendix xvi(a) it was necessary to 'Group' them into four categories (discussed further in the Appendix). The resulting chi-square calculation was made via Minitab, which calculated a value of 11.06. This value was greater than the critical value of 7.81 thus the distribution of page size was not statistically independent of the year in which it appears.

Generally it is shown that multi-page advertisements were not used, implying more neutral representations.

Having considered the typical page size of financial advertisements, it is interesting to go on and study the effect of this upon the number of entries contained in a financial advertisement. This should help to expose how
comprehensive a typical financial advertisement is. Such an inquiry can be answered along with the following question:

Qc1) Do the number of entries contained in a financial advertisement increase along with its page size?

This question was answered by considering crosstabulations of page size and relevant content sheet entries for each year and for the two populations aggregated. This appears in Appendices xvii(a, b + c).

The samples used for the crosstabulations were the original populations with the incidence of four entries subtracted:

a] Size of advertisement, this entry was not used because it was the other dimension of the crosstabulation;

b] Final/Interim/Prelim. entry was not used as it has no direct financial relevance;

c] 6 months/12 months/Other entry was not used for the reason stated in [b] and;

d] Group/Subsidiary/Other entry was not used for the reason stated in [b].

From the Appendices it can be seen that the following number of financial entries were quoted for each of the ten page sizes.

i) In 1987: 21 - 0.2 of a page; 236 - 0.25 of a page; 753 - 0.33 of a page; 820 - 0.5 of a page; 210 - 0.66 of a
page; 2375 - 1 page; 16 - 1.33 pages; 0 - 1.5 pages; 171 - 2 pages and; 14 - 4 pages.

ii) In 1991: 5 - 0.2 of a page; 94 - 0.25 of a page; 164 - 0.33 of a page; 205 - 0.5 of a page; 30 - 0.66 of a page; 1103 - 1 page; 0 - 1.33 pages; 33 - 1.5 pages; 37 - 2 pages and; 18 - 4 pages.

iii) For the aggregated populations: 26 - 0.2 of a page; 330 - 0.25 of a page; 917 - 0.33 of a page; 1025 - 0.5 of a page; 240 - 0.66 of a page; 3478 - 1 page; 16 - 1.33 pages; 33 - 1.5 pages; 208 - 2 pages and; 34 - 4 pages.

The average number of entries contained in a financial advertisement of each page size (also see Appendix xvi(a)) in:

a) 1987 was 5.25 (0.2 of a page); 7.61 (0.25 of a page); 7.92 (0.33 of a page); 8.54 (0.5 of a page); 9.13 (0.66 of a page); 8.89 (1 page); 16 (1.33 pages); 14.25 (2 pages) and; 14 (4 pages).

b) 1991 was 5 (0.2 of a page); 6.71 (0.25 of a page); 7.45 (0.33 of a page); 7.88 (0.5 of a page); 7.5 (0.66 of a page); 9.11 (1 page); 16.5 (1.5 pages); 18.5 (2 pages) and; 18 (4 pages).

c) The aggregated populations was 5.2 (0.2 of a page); 7.33 (0.25 of a page); 7.83 (0.33 of a page); 8.4 (0.5 of a page); 8.88 (0.66 of a page); 8.96 (1 page); 16 (1.33 pages); 16.5 (1.5 pages); 14.85 (2 pages) and; 17 (4 pages).
When considered just for a limited range of page sizes the answer to the question becomes increasingly affirmative. Specifically the upper cut-off values for the page sizes which produce the most positive answers to the question are: less than and including 0.66 in the case of the 1987 population; less than and including 0.5 in the case of the 1991 population and; less than and including 1.5 in the case of the aggregated populations.

Considering the above it is also interesting to note the answer to the question: Are the number of entries contained in a financial advertisement of each page size independent of the year in which it appears? This can be answered by the performance of a chi-square test with reference to the above numbers which represent the number of financial entries quoted for each of the ten page sizes in each year. The 'Grouping' method was utilised, since two of the statistics had values of less than five - this time nine categories were used implying eight degrees of freedom. The resulting chi-square calculation was made via Minitab, which calculated a value of 193.73. This value was greater than the critical value, where alpha=0.05 of 15.51 thus the number of entries contained in a financial advertisement of each page size was not statistically independent of the year in which it appears.

Considering both populations; the reason that the larger page size advertisements contain irregular numbers of financial entries may be that most larger size advertisements have reports/statements/commentaries of varying lengths.
6.2.1(c1) Summary

The importance of page size as a variable in the advertisement presentation/impact decision was considered. It was noted that page size increased in the recessionary year compared to the boom year, but the distribution of page size was not statistically independent of the year in which it appeared. Further the number of entries contained in a financial advertisement approximately increased along with its page size, but the number of entries contained in a financial advertisement of each page size was not statistically independent of the year in which it appears.

6.2.1(d) The Constitution of Financial Advertisements

A relevant consideration when hypothesizing a lack of neutrality in this study is the consistency of appearance of constituent entries in promotional financial reports between the two economically contrasting years. This is interesting because by such examination one can unearth the main thrust, in terms of the financial results reported, applied by the enterprises and whether it has changed. It is such a change in information transmitting priorities that affects neutrality. Such a line of inquiry can be addressed by the following hypothesis and two related questions:

H3) No difference exists in the constitution of the financial advertisements between the two years studied.

This hypothesis is to be analysed by crosstabulating the distributions of each of the two years financial representations and performing a chi-square test on the
tabulated results in order to check whether the results appearing in each of the two years studied are independent.

It was decided that all three tests would suffer from irrelevant results due to there being a difference in the total magnitude of each entry - brought about by the size difference of the two populations (see Question Q1 and Hypothesis H1). To remedy this problem two contingencies were used for the statistical tests as well as the untainted distribution. These two contingent solutions superficially equalise the frequencies with which the financial entries appear in each of the two years studied.

One contingency was to taint the frequency of financial entries in the 1991 population by multiplying them by a factor of \(\frac{467}{181}\) - the proportional difference in the number of advertisements between samples). The rationale of this was to increase the statistical number of advertisements to 477 - an equal number to the 1987 population - thereby increasing the magnitude of the frequency of each entry, to a level comparable with those in the 1987 population. Doing this increases the frequency of the quoted entries whilst retaining both the difference between the total number of financial entries, and the difference quoted in the Content Sheet between individual frequencies, in each year.

The second contingency was to multiply the entries in the 1991 population by a factor of \(\frac{2359}{934}\) - the proportional difference in the number of entries between
populations). The rationale of this was to increase the statistical number of entries to 2359 - an equal number to the 1987 population. Its effect on the frequencies is to equalise their total magnitude whilst retaining the difference quoted in the Content Sheet between individual frequencies.

A crosstabulation is made up of cells. Each of these cells contains four statistics. A different cell content will be used in conjunction with each crosstabulated contingency, as this will provide better insights into the data and provide clearer answers to the questions posed by the hypothesis. The other cell contents and marginals will either lack meaning or be useless.

The crosstabulation using the unadulterated data was considered using Row Percentages, which demonstrate the percentage of entries for each respective year that fall under a particular financial label. This particular cell content was chosen for this contingency as it highlights a population percentage for each financial entry. The results of this which appear in Appendix xviii show:

i) In 1991 all but one of the section 2 entries (Minority Interests) was more frequently present than in 1987.

ii) For the section 3 entries plus the section 4 dividend definitions (which were averaged) and Additional Results entries, in 1987 just over half (8/14) were more frequently quoted than in 1991.
The crosstabulation of the data adulterated by the first contingency was analysed using Column Percentages. These demonstrate the percentage of occurrence of each financial entry in respective years. This particular cell content was chosen for this contingency as it highlights percentage yearly content of each entry had there been an equal number of advertisements in each population. The results of this appear in Appendix xviii, which shows:

i) In the adulterated 1991 population a larger number of entries (2410) existed, implying that in the unadulterated population more financial entries per case (advertisement) existed.

ii) In the adulterated 1991 population all but one of the section 2 entries (Minority Interests) had a larger percentage presence than in 1987.

iii) For the section 3 entries plus the section 4 dividend definitions (which were averaged) and Additional Results entries, in 1987 just over half 9/14 showed more regular presence than in 1991.

The crosstabulation of the data adulterated by the second contingency was analysed using Table Percentages. These demonstrate the number of entries corresponding with each financial label in each year expressed as a percentage of the total number of entries in the table. This particular cell content was chosen for this contingency as it highlights percentage content of each entry for each year had there been
an equal number of entries in each population. The results of this appear in Appendix xviii, they show:

i) In the adulterated 1991 population all but one of the section 2 entries (Minority Interests) was more frequently quoted, out of the two aggregated 'populations', than in 1987. However, there also existed two entries which took equal aggregated 'population' percentages to each other, they were Net Assets per Share and Net Assets.

iii) For the section 3 entries plus the section 4 dividend definitions (which were averaged) and Additional Results entries, in 1987 just over half 8/14 were more frequently quoted than in 1991. Also, here, the Operating Profits entry was of an equal magnitude in both years.

These findings show that the section 3 and 4 entries were proportionally, as well as absolutely, more frequently entered in 1987 as opposed to 1991 advertisements and the opposite for section 2 entries. Such a turn-around in transmitted information perhaps reveals unwillingness to highlight certain areas of a businesses operations and simultaneously demonstrates a lack of neutrality.

The results of the chi-square test show that:

a) In the case of the unadulterated data, a chi-square value of 42.34, calculated using SPSS, is more than an upper-tail critical chi-square value - where alpha=0.05 and there exists 23 degrees of freedom - of 35.17. Thus the distribution
of the financial representations is not independent of the year in which they appear.

It must also be noted that four of the forty eight expected frequency entry values had a magnitude of less than five - rendering the population size (which cannot be altered) inadequate. In such a case one would usually use the statistical technique of grouping. However, the data are already in distinct groups and to merge them would result in a loss of identity.

b) For the data adulterated by the first contingency, a chi-square value of 67.04 is more than an upper-tail critical chi-square value - where alpha=0.05 and there exists 23 degrees of freedom - of 35.17. Thus the distribution of the financial representations is not independent of the year in which they appear.

c) For the data adulterated by the second contingency, a chi-square value of 66.48 is more than an upper-tail critical chi-square value - where alpha=0.05 and there exists 23 degrees of freedom - of 35.17. Thus the distribution of the financial representations is not independent of the year in which they appear.

The above statistical dependence mirrors the fact that, when considered in a general manner, financial advertisements were of a different format in each year.
In addition to studying changing financial entries between the two years, investigated will be the various periods which the advertisements represent in each population studied and the number of financial entries which they exhibit will be compared. This would provide further insight into the comprehensiveness of financial advertisements between periods which they represent. A relevant question may be:

Qd1) Do financial advertisements reflecting an enterprise's financial performance for various intervals differ, between the years studied, in the number of financial entries which they exhibit?

When completing the Content Sheet (Appendix ii), four subsections were considered when coding the time period to which a set of results related in the advertisement under consideration:

a) 0 signified that no time period was specified;

b) 1 represented a time period of 6 months;

c) 2 represented a twelve month time period and;

d) 3 represented that the time period was more or less than six months but less than twelve.

Appendix xix(a) shows:

i) for the two aggregated populations 0.8% (6) advertisements related to an undisclosed time period, 29.7% (215) related to a six month time period, 66.5% (481) to twelve months and 2.9% (21) were of an "other" time period;
ii) for the 1987 population 0.8% (4) advertisements related to an undisclosed time period and 1% (2) did in 1991, 30% (159) related to 6 months whereas 29% (56) did in 1991, 67% (355) related to 12 months compared to 65.3% (126) in 1991 and 2.3% (12) related to an "other" time period compared to 4.7% (9) in 1991.

The above findings evidence that the period to which financial advertisements relate was approximately proportionally similar for both populations.

The chi-square calculation which appears in Appendix xix(a) is, theoretically, of little value at first sight. This is because two of the eight observed (and by implication expected) frequency values have magnitudes of less than five - implying that the size of the population (which cannot be changed) is inadequate. However the calculated value is much smaller than the critical value and so has clearly not been inflated by the categories with small expected values. Therefore the distribution of the period to which an advertisement relates is statistically independent of the year in which this entry appears.

Appendices xix(b + c) shows crosstabulations of the number of financial entries relating to each of the time periods in the above four subsections. These three crosstabulations refer to the two aggregated populations, the 1987 population and the 1991 population respectively.
The first of these shows that the number of financial entries quoted for:

i) period "0" was 16 (0.4%);

ii) period "1" was 1216 (33.1%);

iii) period "2" was 2326 (63.4%) and;

iv) period "3" was 111 (3%).

The number of financial entries quoted in the crosstabulation for the 1987 population for:

i) period "0" was 10 (0.4%);

ii) period "1" was 874 (32.8%);

iii) period "2" was 1714 (64.3%) and;

iv) period "3" was 66 (2.5%).

The number of financial entries quoted in the crosstabulation for the 1991 population for:

i) period "0" was 6 (0.6%);

ii) period "1" was 342 (34%);

iii) period "2" was 612 (60.8%) and;

iv) period "3" was 46 (4.6%).

A chi-square test was performed to evidence the dependence between the period to which financial advertisements relate and the number of financial entries they
 contained in each year. However it must also be noted that one of the eight expected frequency entry values had a magnitude of less than five - rendering the population size (which cannot be altered) inadequate. In such a case one would usually use the statistical technique of grouping. However, the data are already in distinct groups and to merge them would result in a loss of identity.

Disregarding this fact, a chi-square value of 13.04 was calculated using SPSS. This is more than an upper-tail critical chi-square value - where alpha=0.05 and there exists 3 degrees of freedom - of 7.81. Thus for this case the variables outlined are not independent of each other.

Another aspect of the constitution of financial advertisements is to study the types of representation being presented in each of the two years studied - eg. a period of one year can be represented either by a final or a preliminary report. The other 'type' of financial report contained in the populations was an interim report. The interest here is to investigate another constitutional aspect over time. The relevant question to address is:

Qd2) *Do the various types of advertised financial reports appear with equal frequency in both years studied?*

The various types of advertised financial reports refers to whether the results contained are those of: a final report, an interim report, or a preliminary report.
A "final" report was interpreted as one for which the financial results had been approved at the annual general meeting. An "interim" report was interpreted as one for which the financial results related to a period of less than a year (i.e. 6 months or "other" - in the Coding Sheet). A "preliminary" report was interpreted as one for which the financial results were not finalised and related to a period of 12 months or "other" - in the Coding Sheet. A "0" Coding Sheet entry refers to an advertising report which did not make its status clear and so may relate to a period of 6 months, 12 months or "other".

Appendix xx shows:

i) For the aggregated populations 51.2% (370) advertisements did not make their status clear, 5.9% (43) advertisements were "final", 31.4% (227) related to "interim" advertisements and 11.5% (83) to "preliminary".

ii) In the 1987 population 51.7% (274) advertisements did not make their status clear, this proportion fell very slightly in the 1991 population to 49.7% (96). The proportion of "final" report advertisements fell to 2.1% (4) in 1991 from 7.4% (39) in 1987. "Interim" advertisements rose proportionally in 1991 to 33.2% (64) from 30.8% (163) in 1987. The proportion of "preliminary" advertisements was 10.2% (54) in 1987 and 15% (29) in 1991.

These findings show that the incidence of "interim" and "preliminary" advertising reports rose in 1991 over 1987 at
roughly the sole expense of "final". This may have been because the 1991 population contained a larger number of ex-nationalised industries. These enterprises, it appeared upon collection, released a larger number of advertisements containing "interim" and "preliminary" results. Also this constitutional change may imply a lack of neutrality.

The chi-square calculation which appears in Appendix xx shows that the existence of an entry showing the status of advertised financial results is not statistically independent of the year in which it appears.

6.2.1(d1) Summary

It was demonstrated by statistical testing that the constitution of financial advertisements changed between the two economically contrasting years. 'Operating' results predominated in the boom year and 'liquidity and capital resources' information predominated in the economic slump. These findings perhaps demonstrated a changing rationale behind placing an advertisement.

Evidence was given that the period to which financial advertisements relate was approximately proportionally similar for both populations. It was found to be untrue that the status of advertised financial results appeared with equal proportion in both years studied.

6.3 CONCLUDING NOTE

This analysis has highlighted changes in financial advertising reporting over an economically turbulent four year
period - boom to recession. This will assist future prediction in the trend of such reporting, as well as expose the mental track of preparers (management) of these reports. The findings have been analysed and a synthesis also included in each section.
SUMMARY AND CONCLUSIONS

7.1 SUMMARY

The objective of this study, as stated in section 1.1, was to examine the extremely under-researched area of financial advertising. The study also examined: official financial representations, which arguably should be constrained by a conceptual framework (chapter 2); the behavioral/psychological motivations of preparers/management (chapter 3) and; promotional representations, i.e. financial advertisements (chapter 4).

The thesis sought to raise awareness of neutrality as an underlying factor in financial representations and to assess the frequency of occurrence of this factor in financial advertisements. The main issues investigated when analysing the advertisements were: The importance placed on financial advertisements by advertisers; the importance placed on particular financial entries; page size as a factor in financial advertising and; the constitution of financial advertisements.

The research approach was to analyse the contents of 723 promotional financial advertisements with the use of a content sheet (Appendix.ii) prepared specifically with the detection
of what, as noted throughout the thesis, amount to less than neutral representations.

This chapter presents the conclusions and implications of the study, notes its limitations and suggests areas for further research.

7.2 CONCLUSIONS AND IMPLICATIONS

This study concludes that when financial advertisements are viewed from a critical angle less than neutral representations can be noticed. This conclusion of course depends on the individuals definition of neutrality, however the researchers definition is founded from the extensive bibliography to this study.

7.2.1 The importance placed on financial advertisements by advertisers

Here importance was measured in terms of the frequency with which advertisements were placed, it is assumed to be a positive relationship. The neutrality of these representations was argued in Section 6.2.1(a) to rest upon such importance.

A substantial decrease was noted in the appearance of advertisements in the recessionary year as opposed to the boom year.

The above finding leads one to question whether, due to the scale of the two populations, there has occurred a changing importance placed on financial advertisements by advertisers. However, the official reason for this finding, in
the words of a representative of the Investors Chronicle (Appendix iv) was "the drop in expenditure in the press has been caused purely by the oft quoted recession ... In the circumstances prevailing at the time, they [potential clients - companies] did not feel disposed to spend shareholders funds publicising a dismal years trading".

Whether a problem of changing importance or a problem of company disposition such a problem can be tackled with a policy requiring a bi-annual frequency of appearance.

7.2.2 The importance placed on particular financial entries

The importance placed on particular financial entries in the analysis was referred to as 'stress'. This was measured by evidencing the existence of each entry in successive advertisements. Stressed results it was argued, reduce the neutrality of financial representations to the point of the introduction of bias (see section 6.2.1(b)).

This investigation produced varying evidence; some results were shown to be stressed whilst others were not. This problem can be addressed by a policy outlining: relevant financial results which can be used; their consistent use and; the regularity of advertisements.

7.2.3 Page size as a factor in financial advertising

Page size, it was argued in Section 6.2.1(c) and evidenced in Section 4.3, can positively affect the impact and negatively affect the neutrality of financial representations.
It was noted that page size increased in the recessionary year compared to the boom year, but the distribution of page size was not statistically independent of the year in which it appeared.

The number of entries contained in a financial advertisement positively affects the neutrality of representations as argued in Section 6.2.1(c). This variable approximately increased along with page size, but the number of entries contained in a financial advertisement of each page size was not statistically independent of the year in which it appears.

Therefore in 1991 - the recessionary year - both page size and number of entries per page increased. In 1987 the opposite occurred. These two conflicting affects on neutrality give net affects which varied between individual advertisements.

To alter such a situation requires a policy ensuring that advertisements contain a consistent number of entries and are of a given page size.

7.2.4 The Constitution of Financial Advertisements

By considering the consistency of appearance of constituent entries in promotional financial advertisements between the two economically contrasting years, any changes in presentation which may affect neutrality, can be noted.
The constitution of financial advertisements was found to have changed between the two years. These findings perhaps demonstrated a changing rationale behind placing an advertisement.

Evidence was given that the period to which financial advertisements relate was approximately proportionally similar for both populations. It was found to be untrue that the status of advertised financial results appeared with equal proportion in both years studied.

To remedy this situation requires a policy stipulating the number of entries which must appear, the constitutional contents and a consistent frequency of appearance of financial advertisements - thereby maintaining uniformity in the period to which they relate.

7.2.5 Further issues

The solutions to the points researched above can easily be postulated upon but not directly addressed with reference to behavioural issues discussed in chapter three.

However, this study recommends the merits of a conceptual framework to regulate financial advertising - the likes of which were discussed with reference to formal financial statements in chapter two. Such a framework should contain the policies outlined in the four subsections above, it would regulate presentations at the same time as preserving their neutrality.
7.2.5(a) A Conceptual Framework for Financial Advertising

This study recommends three main policies, raised in sections 7.2.1 - 7.2.4, which must be addressed if financial advertising is to be deemed neutral. Virtually all of the issues tackled in these four sub-sections have relevance to policies outlined in the other three. The policies recommended are listed below:

a) Bi-annual frequency of appearance;

b) Relevant financial results to be outlined and;

c) Advertisements to be of a given page size.

7.2.5(a1) Bi-Annual Frequency of Appearance

Such a policy would demand advertisements to be placed consistently both in terms of regularity of appearance and interval between successive placements. This will thereby ensure the homogeneous status of advertised financial results, as argued in Section 6.2.1(d and a).

7.2.5(a2) Relevant Financial Results to be Outlined

This policy would outline a number of financial results. These results would represent the only ones which could be used and those which have to be used. Such stipulation of the number of entries positively affects the neutrality of representations as argued in Section 6.2.1(b). Also consistently employed entries show no changes in information transmitting priorities, which also affects neutrality of a representation positively.
7.2.5(a3) Advertisements To Be of a Given Page Size

A policy such as this renders unchanged the neutrality of financial representations re. page size, as argued in Section 6.2.1(c).

7.3 LIMITATIONS OF THIS STUDY

This study has provided evidence and recommended guidelines for an extremely under-researched area of financial reporting.

A limitation of this and any study which uses samples is their limited applicability, because any results are approximations.

Another limitation was that only one journal containing promotional financial advertisements - Investors Chronicle - was used. This was chosen as a widely used journal that excluded officially required announcements and therefore demonstrated the scope of voluntary disclosures.

7.4 SUGGESTIONS FOR FURTHER RESEARCH

When collecting the data it was thought unnecessary to further segment the data into industry categories, due to time constraints. Subsequent analysis based upon such data may be interesting.

'Official' as opposed to 'promotional' advertisements be used. In order to clarify this terminology see Appendix i and Stock Exchange (1984, section 5, chapter 2, paras 23 & 24).
7.5 FINAL REMARK

This study has shown that there is considerable diversity in the presentation of financial advertisements. It is suggested that an agreed code of practice might enhance the usefulness of this form of communication.
29th June 1993

J. Challinor Esq,
Bungalow 7,
The Towers,
Loughborough University,
Leics.
LE11 STU.

Dear Mr Challinor,

With reference to your letter dated 7th June 1993 requesting clarification of certain requirements made in the Admission of Securities to Listing ("the Yellow Book"). In your letter you highlight three areas of concern and I will deal with each area respectively.

With regard to your first point concerning the advertisement of annual accounts by listed companies, it is first necessary to explain the legal background to this area before addressing the relevant requirements within the Yellow Book. All companies that maintain a register of members and loan stock holders are obliged to send a copy of their accounts to the aforesaid members and holders under Section 240 of the Companies Act 1985. The Yellow Book as a consequence makes no reference to the advertisement of accounts within Section 5, because shareholders and debenture holders will receive a copy under the statute.

The only reference within the Yellow Book which specifically applies to the advertisement of accounts is paragraph 17(f), Chapter 3 of Section 8. This states that, "if documents of title to any listed security in bearer or quasi-bearer form, an advertisement must be inserted in two daily newspapers published in the United Kingdom stating the time and place in the City of London, or such other place......at which copies of such report and accounts and auditors' report thereon may be obtained without charge". This requirement is specific to secondary listed foreign companies, there is no such similar requirement for bearer stock issued by UK companies.

Paragraph 23, Chapter 2 of Section 5 of the Yellow Book normally only applies to the first six months of the financial year. However, there is an exception to this rule: Companies that change their year end with the result that the financial period exceeds fourteen months, have to produce a second interim statement which must either be distributed to shareholders or advertised in two national daily newspapers. This second
interim must contain information up to either the previously applicable year end, or equivalent information up to the period that coincides with the beginning of the new year end. The information can be presented in either six or twelve monthly format for the previously applicable year end, but only in six monthly format for the appropriate period from the new year end date. This information is made available to shareholders so that they can appraise the performance of the company between the “first” interim and the issue of the annual report and accounts.

With reference to your last point, if a company distributes its interim report to shareholders and makes copies available to the public at its registered office then there is no requirement to advertise the interim report. If a company chooses to distribute its report to shareholders and also to advertise, the advert is viewed as being extra to the requirements of the Yellow Book and as such is seen as being “promotional”. These “promotional” adverts are only monitored by the Stock Exchange if they contain information that is different from the interim report distributed to shareholders.

Finally, the "Investors Chronicle" will only contain "promotional" adverts rather than adverts that fully comply with paragraph 24 of Section 5 because it is a “tipsheet” (and thus authorised by the SFA) and not a daily newspaper.

I hope this letter has helped clarify the areas raised in your letter. If you require any further assistance do not hesitate to contact us.

Yours sincerely

Graham Walker
Regulatory Adviser- Continuing Regulations
Direct Line 071-797-3868
## Appendix ii
Content Analysis Coding Sheet

### Code Number

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### 1) Introduction

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<td>Chairman's Statement</td>
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<tr>
<td>Comparative Figures [x]</td>
</tr>
<tr>
<td>Final(1)/Interim(2)/Prelim.(3)</td>
</tr>
<tr>
<td>6 Months(1)/12 Months(2)/Other(3)</td>
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<td>Group(1)/Subsidiary(2)/Other(3)</td>
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### Discussion of the Past

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<tr>
<td>Outlook/New Markets</td>
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<td>Slogans</td>
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<td>Geographical Analysis/Market</td>
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### 2) Liquidity & Capital Resources

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<tr>
<td>Net Assets per Share</td>
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<tr>
<td>Net Assets</td>
</tr>
<tr>
<td>Capital Investment Expenditure</td>
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</table>

| Gearing                                        |
| Cash                                           |
| Share Capital and Reserves                     |
| Minority Interests [iv]                        |

### 3) Operations

| Turnover/Sales [i]                            |
| Profit before Extraordinary Items            |
| Profit before Tax [ii]                        |
| Taxation [iii]                                |
| Profit after Tax [iii]                        |
| Profit Attrib. to Shareholders before Extraordinary Items [v] |
| Extraordinary Items (Net of Taxation) [vi]    |
| Retained Profits                              |
| Operating Profits                             |

| Dividend and Interest Rec. [e]                |
| Investment Earnings (Incl. Associated Companies) - |
| 1) Underwriting Income                        |
| 2) Subsidiary's Income [e]                    |
| Earnings (total)                              |
| Earnings per Share (after tax) [ix]           |

### 4) Other Items

| Dividend per Share (Paid) [viii] (Proposed)   |
| Dividend (total)                              |
| Additional Results                            |
Appendix iii

Financial Advertisement Department
Investors Chronicle
Greystoke Place
Fetter Lane
London EC4A 1ND

Bungalow 7
Towers Hall
Loughborough University
Leics LE11 3TU

7/6/93

Dear Sir/Madam

I am a research student. As part of my thesis I recently conducted a study which required me to analyse all of the financial result and chairman's statement advertisements in the 1987 and 1991 editions of the Investors Chronicle.

Whilst carrying out this study, a striking fact was that the 1991 editions contained less than a third of the total number of financial result and chairman's statement advertisements than did those of 1987.

Please could you write back to me telling me the reasons for this finding as I want to avoid drawing unsubstantiated conclusions. This answer will be very important to my research as the reasons for the existence of the financial advertisements consumes an area of substantial importance.

Yours sincerely,

Justin Challinor.
10th June 1993

Justin Challinor
Bungalow 7
Towers Hall
Loughborough University
Leicestershire LE11 3TU

Dear Mr Challinor

Thank you for your letter of 7 June regarding your Thesis. I am interested to learn that you have noticed the downturn in the Companies that advertise their trading results in the Investors Chronicle, between the year 1987 and 1991.

This drop in expenditure in the Press has been caused purely by the oft quoted recession. Many of those Public Companies that advertised their trading results in 1987 suffered a drop in trading profits, or, in many cases, announced a loss for the year.

In the circumstances prevailing at the time, they did not feel disposed to spend shareholders funds publicising a dismal years trading.

Hence the drop in numbers of publicly quoted Companies that felt able to continue this type of promotional expenditure.

Yours sincerely

Samantha Blackley
Appendix v(a) - NUMBER (AND PERCENTAGE) OF OCCURANCES OF
SECTION 2, SECTION 3 AND DIVIDEND ENTRIES

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POPULATION(S) SIZE 648 467 181

=> CHI-SQUARE CALCULATED USING SPSS = 43.38
UPPER-TAIL CRITICAL CHI-SQUARE VALUE WHERE ALPHA=0.05 AND THERE EXISTS 26 DEGREES OF FREEDOM IS 38.9
THE CHI-SQUARE VALUE ABOVE IS GREATER THAN THE CRITICAL VALUE, THUS THE EXISTANCE OF THE ABOVE ENTRIES IS NOT INDEPENDENT OF THE YEAR IN WHICH IT APPEARS.
Appendix vi - DISTRIBUTION SHOWING THE FREQUENCY WITH WHICH THE "ADDITIONAL RESULTS" ENTRY APPEARS

AGGREGATED POPULATIONS

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1987 POPULATION

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1991 POPULATION

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OBSERVED ENTRY

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EXPECTED ENTRY

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</table>

TOTAL 578 145 723

= CHI-SQUARE= 0.92 + 3.65 + 2.52 + 10.03 = 17.12

UPPER-TAIL CRITICAL CHI-SQUARE VALUE WHERE ALPHA=0.05 AND THERE EXISTS 1 DEGREE OF FREEDOM IS 3.84

THE CHI-SQUARE VALUE ABOVE IS GREATER THAN THE CRITICAL VALUE, THUS THE EXISTANCE OF AN "ADDITIONAL RESULTS" ENTRY IS NOT INDEPENDENT OF THE YEAR IN WHICH IT APPEARS.
Appendix vii - Distribution showing the existence of a "Comparative Figures" entry

AGGREGATED POPULATIONS

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=> CHI-SQUARE= 4.33 + 0.47 + 11.84 + 1.29 = 17.9

Upper-tail critical Chi-square value where alpha=0.05 and there exists 1 degree of freedom is 3.84

The Chi-square value above is greater than the critical value, thus the existence of a Comparative Figures entry is not independent of the year in which it appears.
Appendix viii - DISTRIBUTION SHOWING THE EXISTANCE OF AN ENTRY GIVING A DECLARATION OF AUDIT STATUS

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1991 POPULATION

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<td>36</td>
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EXPECTED ENTRY

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=> CHI-SQUARE = 0.25 + 0.69 + 0.12 + 0.32 + 0.5 + 1.36 = 3.24
UPPER-TAIL CRITICAL CHI-SQUARE VALUE WHERE ALPHA=0.05 AND THERE EXISTS 2 DEGREES OF FREEDOM IS 5.99
THE CHI-SQUARE VALUE ABOVE IS LESS THAN THE CRITICAL VALUE, THUS THE EXISTANCE OF A DECLARATION OF AUDIT STATUS ENTRY IS INDEPENDENT OF THE YEAR IN WHICH IT APPEARS.
Appendix ix - DISTRIBUTION SHOWING THE EXISTANCE OF A "CHAIRMANS STATEMENT" ENTRY

AGGREGATED POPULATIONS

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1987 POPULATION

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1991 POPULATION

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=> CHI-SQUARE = 0.67 + 0.77 + 1.85 + 2.11 = 5.4

UPPER-TAIL CRITICAL CHI-SQUARE VALUE WHERE ALPHA=0.05 AND THERE EXISTS 1 DEGREE OF FREEDOM IS 3.84
THE CHI-SQUARE VALUE ABOVE IS GREATER THAN THE CRITICAL VALUE, THUS THE EXISTANCE OF A CHAIRMAN'S STATEMENT ENTRY IS NOT INDEPENDENT OF THE YEAR IN WHICH IT APPEARS.
Appendix x - DISTRIBUTION SHOWING THE EXISTANCE OF A "DISCUSSION OF THE PAST" ENTRY

AGGREGATED POPULATIONS

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1987 POPULATION

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1991 POPULATION

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OBSERVED ENTRY    EXPECTED ENTRY

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=> CHI-SQUARE = 0.17 + 5.74 + 0.47 + 15.78 = 22.16

UPPER-TAIL CRITICAL CHI-SQUARE VALUE WHERE ALPHA=0.05 AND THERE EXISTS 1 DEGREE OF FREEDOM IS 3.84

THE CHI-SQUARE VALUE ABOVE IS GREATER THAN THE CRITICAL VALUE, THUS THE EXISTANCE OF A DISCUSSION OF THE PAST ENTRY IS NOT INDEPENDENT OF THE YEAR IN WHICH IT APPEARS.
Appendix xi - DISTRIBUTION SHOWING THE EXISTANCE OF AN "EXPLANATORY STATEMENT" ENTRY

AGGREGATED POPULATIONS

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=> CHI-SQUARE= 3.75 + 3.89 + 10.3 + 10.67 = 28.61
UPPER-TAIL CRITICAL CHI-SQUARE VALUE WHERE ALPHA=0.05 AND THERE EXISTS 1 DEGREE OF FREEDOM IS 3.84
THE CHI-SQUARE VALUE ABOVE IS GREATER THAN THE CRITICAL VALUE, THUS THE EXISTANCE OF AN EXPLANATORY STATEMENT ENTRY IS NOT INDEPENDENT OF THE YEAR IN WHICH IT APPEARS.
Appendix xii - DISTRIBUTION SHOWING THE EXISTANCE OF AN "OUTLOOK/NEW MARKETS" ENTRY

AGGREGATED POPULATIONS

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1991 POPULATION

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=> CHI-SQUARE= 0.2 + 0.54 + 1.5 + 4.11 = 6.3
UPPER-TAIL CRITICAL CHI-SQUARE VALUE WHERE ALPHA=0.05 AND THERE EXISTS 1 DEGREE OF FREEDOM IS 3.84
THE CHI-SQUARE VALUE ABOVE IS GREATER THAN THE CRITICAL VALUE, THUS THE EXISTANCE OF AN OUTLOOK/NEW MARKETS ENTRY IS NOT INDEPENDENT OF THE YEAR IN WHICH IT APPEARS.
Appendix xiii - DISTRIBUTION SHOWING THE EXISTANCE OF A SLOGAN

AGGREGATED POPULATIONS

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1987 POPULATION

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1991 POPULATION

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<tr>
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<td>193</td>
<td>100.0</td>
</tr>
</tbody>
</table>

OBSERVED ENTRY

<table>
<thead>
<tr>
<th>YEAR</th>
<th>0</th>
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<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>205</td>
<td>325</td>
<td>530</td>
</tr>
<tr>
<td>1991</td>
<td>114</td>
<td>79</td>
<td>193</td>
</tr>
</tbody>
</table>

EXPECTED ENTRY

<table>
<thead>
<tr>
<th>YEAR</th>
<th>0</th>
<th>1</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>233.8</td>
<td>296.2</td>
<td>530</td>
</tr>
<tr>
<td>1991</td>
<td>85.2</td>
<td>107.8</td>
<td>193</td>
</tr>
</tbody>
</table>

TOTAL 319 404 723

=> CHI-SQUARE= 3.55 + 2.8 + 9.74 + 7.69 = 23.78

UPPER-TAIL CRITICAL CHI-SQUARE VALUE WHERE ALPHA=0.05 AND THERE EXISTS 1 DEGREE OF FREEDOM IS 3.84

THE CHI-SQUARE VALUE ABOVE IS GREATER THAN THE CRITICAL VALUE, THUS THE EXISTANCE OF A SLOGAN ENTRY IS NOT INDEPENDENT OF THE YEAR IN WHICH IT APPEARS.
Appendix xiv - DISTRIBUTION SHOWING THE EXISTANCE OF A CATEGORICAL MAKING A MENTION OF PRODUCTS

AGGREGATED POPULATIONS

<table>
<thead>
<tr>
<th>VALUE</th>
<th>FREQUENCY</th>
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</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>212</td>
<td>29.3</td>
</tr>
<tr>
<td>1</td>
<td>511</td>
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<td>100.0</td>
</tr>
</tbody>
</table>

1987 POPULATION

<table>
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<tr>
<th>VALUE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
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<tbody>
<tr>
<td>0</td>
<td>165</td>
<td>31.1</td>
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<tr>
<td>1</td>
<td>365</td>
<td>68.9</td>
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<tr>
<td>TOTAL</td>
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</table>

1991 POPULATION

<table>
<thead>
<tr>
<th>VALUE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>47</td>
<td>24.4</td>
</tr>
<tr>
<td>1</td>
<td>146</td>
<td>75.6</td>
</tr>
<tr>
<td>TOTAL</td>
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<td>100.0</td>
</tr>
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</table>

OBSERVED ENTRY

<table>
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<th>TOTAL</th>
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<td>365</td>
<td>530</td>
</tr>
<tr>
<td>1991</td>
<td>47</td>
<td>146</td>
<td>193</td>
</tr>
</tbody>
</table>

EXPECTED ENTRY

<table>
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<th>1</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>155.4</td>
<td>374.6</td>
<td>530</td>
</tr>
<tr>
<td>1991</td>
<td>56.6</td>
<td>136.4</td>
<td>193</td>
</tr>
</tbody>
</table>

TOTAL 212 511 723

TOTAL

<table>
<thead>
<tr>
<th>YEAR</th>
<th>0</th>
<th>1</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>155.4</td>
<td>374.6</td>
<td>530</td>
</tr>
<tr>
<td>1991</td>
<td>56.6</td>
<td>136.4</td>
<td>193</td>
</tr>
</tbody>
</table>

= CHI-SQUARE = 0.59 + 1.63 + 0.25 + 0.68 = 3.15
UPPER-TAIL CRITICAL CHI-SQUARE VALUE WHERE ALPHA=0.05 AND THERE EXISTS 1 DEGREE OF FREEDOM IS 3.84
THE CHI-SQUARE VALUE ABOVE IS LESS THAN THE CRITICAL VALUE, THUS THE EXISTANCE OF A MENTION OF PRODUCTS ENTRY IS INDEPENDENT OF THE YEAR IN WHICH IT APPEARS.
Appendix xv - Distribution showing the existence of a "geographical analysis/market" entry

### Aggregated Populations

<table>
<thead>
<tr>
<th>Value</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>664</td>
<td>91.8</td>
</tr>
<tr>
<td>1</td>
<td>59</td>
<td>8.2</td>
</tr>
<tr>
<td>Total</td>
<td>723</td>
<td>100.0</td>
</tr>
</tbody>
</table>

#### 1987 Population

<table>
<thead>
<tr>
<th>Value</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>490</td>
<td>92.5</td>
</tr>
<tr>
<td>1</td>
<td>40</td>
<td>7.5</td>
</tr>
<tr>
<td>Total</td>
<td>530</td>
<td>100.0</td>
</tr>
</tbody>
</table>

#### 1991 Population

<table>
<thead>
<tr>
<th>Value</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>174</td>
<td>90.2</td>
</tr>
<tr>
<td>1</td>
<td>19</td>
<td>9.8</td>
</tr>
<tr>
<td>Total</td>
<td>193</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Observed Entry</th>
<th>Expected Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>0</td>
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<tr>
<td>1987</td>
<td>490</td>
</tr>
<tr>
<td>1991</td>
<td>174</td>
</tr>
<tr>
<td>Total</td>
<td>664</td>
</tr>
</tbody>
</table>

| Year    | 0   | 1  | Total |
| 1987    | 486.7 | 43.3 | 530   |
| 1991    | 177.3 | 15.7 | 193   |
| Total   | 664 | 59 | 723   |

$=>$ CHI-SQUARE $= 0.02 + 0.06 + 0.25 + 0.73 = 1.06$

Upper-tail critical CHI-SQUARE value where $\alpha=0.05$ and there exists 1 degree of freedom is 3.84

The CHI-SQUARE value above is less than the critical value, thus the existence of a geographical analysis/market entry is independent of the year in which it appears.
Appendix xvi(a) - DISTRIBUTION OF PAGE SIZE

### AGGREGATED POPULATIONS

<table>
<thead>
<tr>
<th>VALUE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
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</thead>
<tbody>
<tr>
<td>0.20</td>
<td>5</td>
<td>0.7</td>
</tr>
<tr>
<td>0.25</td>
<td>45</td>
<td>6.2</td>
</tr>
<tr>
<td>0.33</td>
<td>117</td>
<td>16.2</td>
</tr>
<tr>
<td>0.50</td>
<td>122</td>
<td>16.9</td>
</tr>
<tr>
<td>0.66</td>
<td>27</td>
<td>3.7</td>
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<tr>
<td>1.00</td>
<td>388</td>
<td>53.7</td>
</tr>
<tr>
<td>1.33</td>
<td>1</td>
<td>0.1</td>
</tr>
<tr>
<td>1.50</td>
<td>2</td>
<td>0.3</td>
</tr>
<tr>
<td>2.00</td>
<td>14</td>
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<tr>
<td>4.00</td>
<td>2</td>
<td>0.3</td>
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<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>723</strong></td>
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</tbody>
</table>

**MEAN=0.772**

### 1987 POPULATION

<table>
<thead>
<tr>
<th>VALUE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.20</td>
<td>4</td>
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</tr>
<tr>
<td>0.25</td>
<td>31</td>
<td>5.8</td>
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<tr>
<td>0.33</td>
<td>95</td>
<td>17.9</td>
</tr>
<tr>
<td>0.50</td>
<td>96</td>
<td>18.1</td>
</tr>
<tr>
<td>0.66</td>
<td>23</td>
<td>4.3</td>
</tr>
<tr>
<td>1.00</td>
<td>267</td>
<td>50.4</td>
</tr>
<tr>
<td>1.33</td>
<td>1</td>
<td>0.2</td>
</tr>
<tr>
<td>1.50</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2.00</td>
<td>12</td>
<td>2.3</td>
</tr>
<tr>
<td>4.00</td>
<td>1</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>530</strong></td>
</tr>
</tbody>
</table>

**MEAN=0.753**

### 1991 POPULATION

<table>
<thead>
<tr>
<th>VALUE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.20</td>
<td>1</td>
<td>0.5</td>
</tr>
<tr>
<td>0.25</td>
<td>14</td>
<td>7.3</td>
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<tr>
<td>0.33</td>
<td>22</td>
<td>11.4</td>
</tr>
<tr>
<td>0.50</td>
<td>26</td>
<td>13.5</td>
</tr>
<tr>
<td>0.66</td>
<td>4</td>
<td>2.1</td>
</tr>
<tr>
<td>1.00</td>
<td>121</td>
<td>62.7</td>
</tr>
<tr>
<td>1.33</td>
<td>0</td>
<td>0</td>
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<tr>
<td>1.50</td>
<td>2</td>
<td>1.0</td>
</tr>
<tr>
<td>2.00</td>
<td>2</td>
<td>1.0</td>
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<tr>
<td>4.00</td>
<td>1</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>193</strong></td>
</tr>
</tbody>
</table>

**MEAN=0.822**

> NINE OF THE TWENTY OBSERVED FREQUENCY ENTRY VALUES HAD A MAGNITUDE OF LESS THAN FIVE, THEREFORE IT CAN BE ASSUMED THAT THE CORRESPONDING EXPECTED FREQUENCY VALUES WOULD BE SIMILAR, IMPLYING THAT THE SIZE OF THE POPULATION IS INADEQUATE FOR AN EXACT CHI-SQUARE STATISTIC TO RESULT FROM SUCH A CALCULATION. THEREFORE THE FREQUENCIES WERE GROUPED INTO FOUR CATEGORIES, UPON WHICH A CHI-SQUARE CALCULATION WAS MADE VIA MINITAB. CHI-SQUARE CALCULATED USING MINITAB = 11.06

**UPPER-TAIL CRITICAL CHI-SQUARE VALUE WHERE ALPHA=0.05 AND THERE EXISTS 3 DEGREES OF FREEDOM IS 7.81**

> THE CALCULATED CHI-SQUARE VALUE ABOVE IS GREATER THAN THE CRITICAL VALUE, THUS THE DISTRIBUTION OF PAGE SIZE IS NOT INDEPENDENT OF THE YEAR IN WHICH IT APPEARS.
Appendix xix(a) - DISTRIBUTION SHOWING THE RELATIONSHIP BETWEEN THE PERIOD TO WHICH AN ADVERTISEMENT RELATES AND THE FREQUENCY WITH WHICH THOSE ADVERTISEMENTS OCCUR

AGGRAEGATED POPULATIONS

<table>
<thead>
<tr>
<th>VALUE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO MENTION MADE</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>6 MONTHS</td>
<td>1</td>
<td>215</td>
</tr>
<tr>
<td>12 MONTHS</td>
<td>2</td>
<td>481</td>
</tr>
<tr>
<td>OTHER</td>
<td>3</td>
<td>21</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>723</td>
</tr>
</tbody>
</table>

1987 POPULATION

<table>
<thead>
<tr>
<th>VALUE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
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<tr>
<td>NO MENTION MADE</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>6 MONTHS</td>
<td>1</td>
<td>159</td>
</tr>
<tr>
<td>12 MONTHS</td>
<td>2</td>
<td>355</td>
</tr>
<tr>
<td>OTHER</td>
<td>3</td>
<td>12</td>
</tr>
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<td>530</td>
</tr>
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</table>

1991 POPULATION

<table>
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<th>VALUE</th>
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</thead>
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<tr>
<td>NO MENTION MADE</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>6 MONTHS</td>
<td>1</td>
<td>56</td>
</tr>
<tr>
<td>12 MONTHS</td>
<td>2</td>
<td>126</td>
</tr>
<tr>
<td>OTHER</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>193</td>
</tr>
</tbody>
</table>

=> CHI-SQUARE CALCULATED USING SPSS = 3.05

UPPER-TAIL CRITICAL CHI-SQUARE VALUE WHERE ALPHA=0.05 AND THERE EXISTS 3 DEGREES OF FREEDOM IS 7.81. TWO OF THE EIGHT OBSERVED FREQUENCY ENTRY VALUES HAD A MAGNITUDE OF LESS THAN FIVE, THEREFORE IT CAN BE ASSUMED THAT THE CORRESPONDING EXPECTED FREQUENCY VALUES WOULD BE SIMILAR, IMPLYING THAT THE SIZE OF THE POPULATION IS INADEQUATE FOR AN EXACT CHI-SQUARE STATISTIC TO RESULT FROM SUCH A CALCULATION. HOWEVER, THE CHI-SQUARE VALUE ABOVE IS LESS THAN THE CRITICAL VALUE AND HAS CLEARLY NOT BEEN INFLATED BY THE CATEGORIES WITH SMALL EXPECTED VALUES. THUS THE DISTRIBUTION OF THE PERIOD TO WHICH AN ADVERTISEMENT RELATES IS INDEPENDENT OF THE YEAR IN WHICH IT APPEARS.
<table>
<thead>
<tr>
<th>Commodity</th>
<th>X</th>
</tr>
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<tbody>
<tr>
<td>Count X</td>
<td>6</td>
</tr>
<tr>
<td>Month X</td>
<td>7</td>
</tr>
<tr>
<td>Season X</td>
<td>8</td>
</tr>
<tr>
<td>Year X</td>
<td>9</td>
</tr>
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</table>

**Table: Aggregate Populations**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>X</th>
<th>X</th>
<th>X</th>
<th>X</th>
<th>X</th>
<th>X</th>
<th>X</th>
<th>X</th>
<th>X</th>
<th>X</th>
<th>X</th>
</tr>
</thead>
<tbody>
<tr>
<td>Storm X</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>13</td>
<td>14</td>
<td>15</td>
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<td>17</td>
<td>18</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>Month X</td>
<td>21</td>
<td>22</td>
<td>23</td>
<td>24</td>
<td>25</td>
<td>26</td>
<td>27</td>
<td>28</td>
<td>29</td>
<td>30</td>
<td>31</td>
</tr>
<tr>
<td>Season X</td>
<td>32</td>
<td>33</td>
<td>34</td>
<td>35</td>
<td>36</td>
<td>37</td>
<td>38</td>
<td>39</td>
<td>40</td>
<td>41</td>
<td>42</td>
</tr>
<tr>
<td>Year X</td>
<td>43</td>
<td>44</td>
<td>45</td>
<td>46</td>
<td>47</td>
<td>48</td>
<td>49</td>
<td>50</td>
<td>51</td>
<td>52</td>
<td>53</td>
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</tbody>
</table>

**Note:** The table above provides an aggregation of populations across different time frames (storm, month, season, and year) for various commodities (X). The counts are provided for each category, and the total count across all categories is also indicated.
Appendix xx - DISTRIBUTION SHOWING THE STATUS OF ADVERTISED FINANCIAL RESULTS

AGGREGATED POPULATIONS

<table>
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<th>VALUE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO MENTION MADE</td>
<td>0</td>
<td>370</td>
</tr>
<tr>
<td>FINAL</td>
<td>1</td>
<td>43</td>
</tr>
<tr>
<td>INTERIM</td>
<td>2</td>
<td>227</td>
</tr>
<tr>
<td>PRELIMINARY</td>
<td>3</td>
<td>83</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>723</td>
</tr>
</tbody>
</table>

1987 POPULATION

<table>
<thead>
<tr>
<th>VALUE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO MENTION MADE</td>
<td>0</td>
<td>274</td>
</tr>
<tr>
<td>FINAL</td>
<td>1</td>
<td>39</td>
</tr>
<tr>
<td>INTERIM</td>
<td>2</td>
<td>163</td>
</tr>
<tr>
<td>PRELIMINARY</td>
<td>3</td>
<td>54</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>530</td>
</tr>
</tbody>
</table>

1991 POPULATION

<table>
<thead>
<tr>
<th>VALUE</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO MENTION MADE</td>
<td>0</td>
<td>96</td>
</tr>
<tr>
<td>FINAL</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>INTERIM</td>
<td>2</td>
<td>64</td>
</tr>
<tr>
<td>PRELIMINARY</td>
<td>3</td>
<td>29</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>193</td>
</tr>
</tbody>
</table>

=> CHI-SQUARE CALCULATED USING SPSS = 9.9
UPPER-TAIL CRITICAL CHI-SQUARE VALUE WHERE ALPHA=0.05 AND THERE EXISTS 3 DEGREES OF FREEDOM IS 7.81.
THE CHI-SQUARE VALUE ABOVE IS GREATER THAN THE CRITICAL VALUE, THUS THE DISTRIBUTION OF THE STATUS OF ADVERTISED FINANCIAL RESULTS IS NOT INDEPENDENT OF THE YEAR IN WHICH IT APPEARS.
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