Empirical evidence of IFRS adoption: Mexican economic agent´s views of pre- and post-adoption and the effects of IFRS adoption on preparer´s decision-making

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I certify that all material in this thesis which is not my own work has been identified and that no material has previously been submitted and approved for the award of a degree by this or any other University.

Signature……………………………………………….

CONTENT

Abstract

In 2002, the Mexican Board of Financial Reporting Standards (CINIF) along with the National Banking and Securities Commission (CNBV), mandated that Mexican issuers prepare and disclose their financial information in accordance with IFRS. This situation has led Mexican economic agents (i.e., preparers, academics, auditors, analysts, and standard setters) to question whether the financial reporting quality of Mexican firms has been affected by IFRS adoption and whether this adoption has had any effect on the reporting decisions of financial executives such as controllers (or senior accountants who are responsible for financial reporting). My thesis examines these issues through three studies and contributes to the previous research on earnings management (Dechow et al. 1995; Healy and Wahlen 1999; Leuz et al. 2003; Jeanjean and Stolowy 2008; Marra et al. 2011), earnings quality (Schipper and Vincent 2003; Francis et al. 2006; Lin et al. 2006; Sun et al. 2011; Dichev et al. 2013; Dauth et al. 2017), and the effects of controllers' interactions with corporate governance counterparts such as C-suite executives, audit committees and external auditors on misreporting behaviour (Graham et al. 2012; Wolf et al. 2015; Eskenazi et al. 2016).

In Study 1, I use semi-structured interviews to gain insights into the experiences of Mexican economic agents before and after the IFRS adoption, analyse the interview narratives using accounting ecology theory (AET) as a theoretical framework and identify the costs, benefits, controversies, and challenges that Mexican economic agents encountered before and after the IFRS adoption. In Study 2, I utilize an experiment to investigate the effects of the IFRS adoption on the judgement and decision-making of preparers and contrast preparers' reporting decisions from pre- to post- IFRS adoption. The findings of Study 2 reveal that the convergence process of the Mexican Financial Reporting Standards (MFRS) into IFRS has effectively changed preparers' mindsets to the extent that Mexican preparers' reporting decisions do not differ significantly between pre- (MFRS) and post- IFRS adoption, irrespective of their financial incentives or risk-preferences. These results suggest that Mexican preparers' reporting decisions like IFRS, are principles-based. In Study 3, I use an experiment to examine the effects of organizational factors (such as audit committee expertise, audit perspective taking and close relationships with the CFO) on controllers' misreporting

behaviour. The results of Study 3 indicate that the effects of audit committee expertise and audit perspective taking on controllers' misreporting behaviour are contingent upon the perceived high or low relationship quality with their CFOs.

Collectively, this thesis contributes to prior research in three ways. First, Study 1 focuses on the framework known as accounting ecology to holistically analyse the different effects that IFRS adoption has had on the accounting profession in Mexico. Previous studies have used archival data to determine whether the Mexican IFRS adoption has brought comparability, improved accounting quality, and reduced earnings management. To my knowledge, Study 1 is the first to use a qualitative method to explore the experiences and perceptions of different Mexican economic agents regarding a change in the accounting environment. The main accounting changes identified in the interviews, which stem from the adoption of IFRS, represent different notions of what comparability means to each social actor and what it means for them to apply additional professional judgement. Second, Study 2 provides evidence on the effects that the Mexican IFRS adoption has had on preparers' reporting decisions and contributes to the debate about professional judgement related to IFRS adoption. Third, there is a scarcity of research on how the interactions amongst corporate governance actors such as CFOs, audit committees and external auditors influence controllers' reporting behaviour. The findings of Study 3 address this gap.

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List of Abbreviations

Abbreviation in English	Abbreviation in Spanish	Meaning
AET		Accounting Ecology Theory
AICPA		American Institute of Certified Public Accountants
	BIVA	Institutional Stock Exchange
	CCE	Mexican Business Council
CEO		Chief Executive Officer
CFO		Chief Financial Officer
	CNBV	Mexican National Banking and Securities Commission
	CNSF	Mexican National Insurance and Bonding Commission
	CPC	Mexican Accounting Principles Commission
EPS		Earnings Per Share
FASB		Financial Accounting Standards Board
GAAP		Generally Accepted Accounting Principles
GDP		Gross Domestic Product
IAS		International Accounting Standards
IASB		International Accounting Standards Board
IASC		International Accounting Standards Committee
IFRS	NIIF	International Financial Reporting Standards
IFRS for SME		International Financial Reporting Standards for Small and Medium Size Entities
IMF		International Monetary Fund
IOSCO		International Organization of Securities Commissions
KPIs		Key Performance Indicators
MASB	CINIF	Mexican Accounting Standards Board
MFRS	NIF	Mexican Financial Reporting Standards
MICA	IMCP	Mexican Institute of Chartered Accountants
MSE	BMV	Mexican Stock Exchange
OECD		Organisation for Economic Cooperation and Development
PPE		Property, Plant and Equipment
	SAT	Mexican Central Tax Administrator
SEC		United States Securities and Exchange Commission
	SIBOLSA	Mexican Stock Exchange Information Delivery Platform
UN		United Nations
USGAAP		United States Generally Accepted Accounting Principles
USMCA		United States – Mexico – Canada Trade Agreement
XBRL		Extensible Business Reporting Language

Introductory Chapter

Mexico is an emerging economy that is well integrated into the world economy. It is a member of the United States – Mexico – Canada Trade Agreement (USMCA), the Organization for Economic Cooperation and Development (OECD), the G20, the International Monetary Fund (IMF), and the International Organization of Securities Commissions (IOSCO) to name a few. The Mexican economy is very dependent on the United States of America (USA), which is Mexico's largest global market for exports and an important investment partner that contributes 38% of the country's foreign direct investment[1].

Mexico has two stock exchange markets, the Mexican Stock Exchange (BMV) and the Institutional Stock Exchange (BIVA), which are both regulated by the Mexican National Banking and Securities Commission (CNBV). During 2019, the BMV comprised 139[2] stock issuers and 209 debt issuers. In 2019, the capitalization value was of $7,830,632 million pesos, representing 42.21% of Mexico´s GDP[3] and 82.11% of the total capitalization value of the market. Given the relevance that equity capitalization value has in the capital market, I focus on equity issuers throughout my research to gain a better understanding of the effects of IFRS adoption.

Mexican listed companies are typically owned by a founding family. The economic growth of Mexican entities in general is linked to family ties. However, the need to diversify and access other funding sources, has forced firms to accept nonfamily shareholders and

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[1] Santander trade markets. 2020. Mexico foreign investment. Retrieved from: [https://santandertrade.com/en/portal/establish-overseas/mexico/foreign-investment]
[2] 26 (18.7%) of these represent financial and insurance issuers that were not required to adopt IFRS in 2012.
[3] BMV. 2019. Annual Report. Retrieved from: [https://www.bmv.com.mx/docs-pub/informeAnual/Informe%20Anual%202019.pdf]

comply with corporate governance regulations, to ensure transparency, and protection of minority shareholders.

Corporate governance emerged in Mexico in 1999 with the publication of the Code of Best Corporate Practices published by the Mexican Business Council (CCE). In 2018, the CCE published the third edition of the Code that incorporated new and revised best practices recommended by the OCDE and the G-20. The Mexican Code supports the institutionalization and transparency of the operations of Mexican entities and their disclosure of reliable information. It also promotes competitiveness, access to global markets, and better financing conditions[4]. Listed entities, financial institutions, insurance companies, and surety institutions must observe the respective corporate governance regulations.

While adopting these corporate governance best practices, Mexico took its first step towards IFRS adoption in 1995 by recognizing a possible supplementary application of IFRS in the Mexican Financial Reporting Standards (MFRS). In 2001, alongside the evolution of the IASB, the Mexican Accounting Standards Board (CINIF) was created, to replace the Mexican Institute of Chartered Accountants (IMCP). Since 2004, the CINIF has been harmonizing MFRS with IFRS. During that time, for some stakeholders, the CINIF´s decision to harmonize MFRS with IFRS instead of with USGAAP was unexpected because of the considerable economic dependence between Mexico and the United States. However, Mexico, being a founding member of the IASC (now the IASB), a global player in international markets, and a member of IOSCO and the OCDE, was compelled to adopt IFRS.

[4] CCE. 2018. Code of Best Corporate Practices. Retrieved from. [https://www.cce.org.mx/comite-de-mejores-practicas-de-gobierno-corporativo/]

On November 11th, 2008, the CNBV and the CINIF, announced that all non-financial[5] Mexican public entities that listed equity on the BMV would be required to adopt IFRS, starting in 2012[6]. This decision, according to the CNBV, was intended: (i) reduce the costs associated with the issuance of securities in Mexico; (ii) enhance the comparability of financial information; (iii) benefit investors, analysts, and issuers; and (iv) increase investors' market size by providing a worldwide financial information analysis of issuers, thus supporting the decision-making processes of stakeholders in Mexican capital markets.

The CNBV also listed some other benefits that Mexican financial markets and investors would receive from IFRS adoption. These benefits were that IFRS adoption would (i) enable both Mexican and foreign analysts and investors to compare the financial information provided by Mexican issuers to that provided by foreign issuers, as they would include similar information in their financial reports and prove equal parameters in the different markets around the world; (ii) eliminate the additional costs incurred when preparing financial information according to diverse accounting standards (for example, according to the standards of an issuer's country of origin and according to those of the countries where it operates); (iii) facilitate the production of consolidated financial statements under a single set of accounting standards for economic groups with a presence in the various countries already using IFRS; and (iv) promote the issuance of securities in the Mexican capital market by enabling foreign issuers to present financial statements prepared according to IFRS.

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[5] Financial Mexican public entities were excluded from the scope of the mandatory adoption because these entities follow the regulations issued by the CNBV. In Mexico, these entities are known as "regulated entities".
[6] This announcement was made in accordance with the IOSCO´s recommendation regarding its members´ adoption of IFRS.

These events made Mexico an interesting and ideal place to study IFRS adoption and its effects on different parties involved in either preparing/using financial reports or monitoring the quality of the financial reporting process. With this main goal in mind, in this thesis, I examine: 1) how different stakeholders of financial reporting perceive Mexico's IFRS adoption (pre- and post-adoption); 2) the effects of IFRS adoption on preparers' reporting decisions; and 3) the influence of the qualifications and anticipated monitoring actions of corporate governance actors on controllers' decision-making.

In Study 1, I rely on semi-structured interviews to gain insight into different economic agents' experiences before (2012) and after Mexico´s-IFRS adoption (2017). The interviewees were Mexican controllers at nonfinancial listed firms, auditors, financial analysts, and financial regulators. The participants[7] were selected based on their key roles in the adoption of IFRS in Mexico. The theoretical framework used in Study 1 is that of accounting ecology theory (AET), which served as a basis from which to identify and contrast the emerging themes of the interview narratives associated with pre- and post-IFRS adoption periods.

An analysis of the interview narratives indicates that (i) IFRS adoption brings a new way of thinking and a new accounting culture to Mexican accounting practitioners (e.g., controllers); (ii) the interviewees perceive that IFRS adoption increases comparability and improves earnings quality; (iii) the interviewees believe that IFRS requires the use of more professional judgement than MFRS; (iv) the controllers and auditors point out that IFRS adoption has increased their level of interaction with their corporate governance counterparts; (v) the controllers and auditors perceive an increased level of involvement

[7] A list of the pre-adoption and post-adoption participants can be found in Appendices II and IV.

and scrutiny from the Audit Committee members in terms of financial report monitoring, especially in terms of the effects of accounting choices on earnings quality; (vi) the controllers note that Mexico´s IFRS adoption has led CFOs to be more cautious and concerned about making reporting decisions; and (vii) the role of external auditors in enforcing IFRS has become more relevant since the IFRS adoption.

In Study 1, the interview narratives across the different groups of participants suggest that IFRS adoption does not influence preparers' judgements because of the efforts made by the CINIF to harmonize MFRS with IFRS. To empirically test this emerging theme, in Study 2, I employ a lab-controlled experiment to examine whether the controllers' reporting decisions differ between the pre-IFRS (MFRS) condition and the post-IFRS condition. More specifically, I activate the mindset of senior undergraduate students as a proxy of controllers, under MFRS and IFRS, and I investigate whether the decision to account for warranty provisions (i.e., warranty expense) differs between a deliberative mindset under MFRS and a deliberative mindset under IFRS and whether reporting decisions are influenced by financial incentives or risk preference. The results of Study 2 support the emerging theme identified in Study 1, namely, that there is no difference between the reporting decisions of the IFRS condition and those of the MFRS condition regardless of financial incentives and risk preferences.

In Study 1, the interview narratives across the different groups of participants indicate that interactions among corporate governance actors increased after Mexico´s IFRS adoption, mainly because controllers need to consult with members of their audit committee regarding decisions pertaining to IFRS implementation. Examples of these decisions relate to IFRS 1 exemptions and exceptions, Property, plant and equipment fair values, and the selection of the appropriate discount rate when determining defined benefit plans. Research has documented that the reporting decisions of controllers are biased by their close interactions with key corporate governance actors—i.e., CFOs, while they assist these individuals in monitoring the financial reporting process (Gao et al. 2019). However, it is not clear whether a controller´s perception of the expertise of audit committees and his or her anticipation of external auditor´s scrutiny concerning reporting decisions influence his or her judgement, mitigating the potential effects of a close relationship with the CFO on reporting decisions. To date, there is a scarcity of research examining the collective effects of corporate governance counterparts on controllers' reporting decisions. I address this gap in Study 3 by employing a lab-controlled experiment. The participants of Study 3 are controllers and their subordinates (i.e., managers and supervisors in controllership departments) who work at Mexican listed firms. These subordinates work closely with controllers and participate in overseeing the financial reporting process.

In Study 3, I hypothesize that the reporting behaviour of the controller participants will be influenced by their anticipation of auditor's scrutiny of their reporting decisions (PT) and by audit committees´ financial expertise (ACE). I also propose that the controllers´ perceived relationship quality with their CFOs (RQ) will moderate the effects of anticipated auditor scrutiny and audit committee financial expertise on the reporting decisions of the controller participants. The findings of Study 3 indicate that the effects of ACE and PT on the controllers' reporting decisions are contingent upon their perceived RQ with their CFOs. More specifically, in the condition of high-relationship quality with the CFO, the controllers make more aggressive reporting decisions when they perceive that the audit committee has less financial expertise and do not anticipate external auditors to scrutinize their reporting decisions. In contrast, in the condition of low-relationship quality with the CFO, the controllers make more aggressive reporting decisions when they perceive that the audit committee has more financial expertise and do not anticipate external auditors to question their reporting decisions.

Overall contributions of my thesis are twofold. The findings of Study 1 and Study 2 add to accounting ecology theory (AET) and the IFRS literature in the context of Mexico. More specifically, the findings of Study 1 reveal that external events such as IFRS adoption have a holistic effect on the Mexican accounting environment. That is, Mexican preparers (e.g., controllers) perceive that financial reporting processes and earnings quality have improved since Mexico´s IFRS adoption, especially in terms of their understanding of financial accounting. The findings of Study 2 add to the IFRS literature in the context of Mexico and show that the reporting decisions that preparers make when under the MFRS do not differ significantly from those that they make under IFRS when there is a gradual transition from one to the other—i.e., a convergence of MFRS and IFRS. The findings of Study 3 add to the corporate governance literature, particularly in the context of controllers' perceived relationships with their governance counterparts (such as CFOs, audit committees, and external auditors) and the effects of these relationships on misreporting behaviour. Despite these contributions, my results must be interpreted with caution because of the following limitations. The participants of Study 1 identified fair value, revenue recognition, deemed cost and deferred employee profit sharing as the main accounting changes that resulted from Mexico´s IFRS adoption and its related effects on preparers' decision-making. To extend this thesis, future research could employ different methodologies (e.g., the archival method) to investigate the effects of IFRS adoption on the earnings quality of Mexican listed companies.

A limitation of Study 2 and Study 3 is the operationalization of aggressive accounting behaviour that is utilized. In both studies, I used case material involving the recognition of warranty expenses. Based on this case material, the participants were considered to have engage in misreporting behaviour (aggressive accounting) if they underreported the warranty expenses. Future research could use other case materials that pertain to revenue recognition or short- or long-term liabilities. In this context, misreporting behaviour would be tied to overreporting revenues or underreporting liabilities. By using these operationalized constructs, future research could extent Study 3 to examine the effects of contextual variables (e.g., the power dynamics amongst CEOs, CFOs, and audit committees) or the influence of ethical and cultural factors on controllers' reporting decisions.

1. STUDY 1: MEXICAN EXPERIENCES OF PRE- AND POST-IFRS ADOPTION

1.1 Introduction

With the internationalization of economic trade and the globalization of financial markets and business, financial information prepared under domestic accounting standards may no longer satisfy the needs of global investors and users (Zeghal and Mhedhbi 2006). Countries around the world, especially emerging countries, are becoming more aware of the need to homologate or adopt international standards that allow their financial information to be more comparable, attract more foreign investment and allow for improved financial reporting (Barth et al. 1999; Barth et al. 2008; Davis-Friday et al. 2005). Leuz et al. (2003) suggest that strong investor protection laws and enforcement mechanisms are required to ensure high-quality accounting. Land and Lang (2002) indicate that much progress has been achieved in terms of harmonizing accounting standards in code-law countries where more international standards are adopted and where entities go beyond local requirements to attract more capital. Mexico, for example, has been identified as a code-law country (La Porta et al. 1998) with a weak legal environment and a low level of investor protection (Lang et al. 2004) that needs to attract capital from global investors.

Unlike the numerous studies that have examined the effects of adopting International Financial Reporting Standards (IFRS) in developed countries, few studies have employed qualitative rather than quantitative research methods to investigate the effects of such adoption in emerging countries. In this study, I use semi-structured interviews to better understand experiences of IFRS adoption from the perspectives of different Mexican economic agents who were directly involved in the pre- and post-adoption process. Mexico serves as a unique setting in which to study the effect of IFRS adoption on listed firms’ financial reporting quality, as the mandated adoption in 2012 was preceded by eight years of convergence that began in 2004.

1.2 Mexico’s Accounting Information System

The development of the Mexican reporting standards began with the emergence of the Mexican Institute of Chartered Accountants (IMCP) in 1924. Although the Mexican Accounting Association achieved significant progress in terms of gaining recognition for the profession within the business community, there was still the need for a set of accounting principles or general guidelines. Due to Mexico´s economic dependence on the United States of America, the IMCP developed auditing bulletins to homologate and set foundations for auditing based on those developed by the American Institute of Certified Public Accountants (AICPA). Many practitioners criticized Mexican accountants’ reliance on the U.S. Reporting Standards and called for the development of Mexican reporting standards. As a response to this constant criticism, the IMCP created the Commission of Mexican Accounting Principles (CPC) in 1965 with the aim of investigating, regulating, issuing, and approving accounting standards in Mexico. The first bulletins issued by the CPC in 1969 are known as the Blue Series. From 1974 to 2004, the CPC issued a number of reporting standards that not only reflected the economic, political, and fiscal factors affecting Mexico but also used the U.S. Standards issued by the AICPA and the Financial Accounting Standards Board (FASB) as well as the International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC) as points of reference. These standards were called the Mexican GAAP (Suh and Minaburo 2011).

By the end of the 20th century, companies worldwide faced a growing need and pressure to use the IAS to ensure the comparability of their financial statements and to access the global financial market (Barth et al. 1999). Mexican companies were no exception. As a response to global financing, in 2001 the Mexican Accounting Standards Board (CINIF) was created as an independent non-profit entity to consolidate the corporate financial reporting standards in Mexico, replacing the IMCP[8] as a standard setter.

The main purpose of the CINIF is to conduct research and related activities that involve setting national accounting standards in Mexico. Since its creation, the CINIF has harmonized the Mexican Financial Reporting Standards (MFRS) with IFRS. The National Banking and Securities Commission (CNBV) [9], with the support of the CINIF, mandated that nonfinancial listed companies adopt IFRS (CNBV 2008), which in turn necessitated that Mexican issuers prepare and disclose financial information in accordance with IFRS as of 2012; early adoption was allowed in 2008, 2009, 2010 and 2011. Since this IFRS adoption mandate was instituted, non-financial[10] listed Mexican companies have faced significant changes to their financial reporting processes, leading them to implement costly adoption processes that have mainly involved changes to their systems and key personnel training (Vásquez Quevedo 2010). This costly outcome has led Mexican preparers, academics, auditors, analysts, and regulators to question

[8] The Mexican Institute of Chartered Accountants (IMCP) is one of the founding members of the International Accounting Standards Committee (IASC) and the International Federation of Accountants (IFAC).
[9] The CNBV is a member of the IOSCO (International Organization of Securities Commissions), and as a response to the recommendations made with respect to transparency and market integrity, it decided to mandate IFRS adoption to secure investors´ confidence.
[10] Financial Mexican issuers (banks, leasing companies, investment funds, trusts, insurers, etc.) were not required to adopt IFRS, as they are subject to the regulations of the CNBV or the National Insurance and Bonding Commission (CNSF) as appropriate.

whether the quality of Mexican firms' financial reporting quality levels has been affected by Mexico´s IFRS adoption and whether this adoption has had any effects on the financial executives who monitor the reporting process and on their views on comparability.

1.3 Literature Review

In the existing literature in this field, multiple constructs are used to measure reporting quality, including earnings management (Jeanjean and Stolowy 2008; Zéghal et al. 2011), timely loss recognition (Barth et al. 2008; Ball and Shivakumar 2005) and value relevance (Barth et al. 2001). Numerous studies focusing on different countries have used these constructs to determine the impact of IFRS adoption on financial reporting (Ahmed et al. 2013; Alali and Cao 2010; Chan et al. 2009; Iatridis 2010; Soderstrom and Sun 2007; Chua et al. 2012; Kim and Shi 2012; Barth et al. 2008; Christensen et al. 2015; Zeghal et al. 2012) and disclosure quality (Chuk 2013; Daske and Gebhardt 2006; Hodgdon et al. 2008; Karamanou and Nishiotis 2009). To date, the evidence regarding the effects of IFRS adoption on earnings management remains mixed. A number of studies indicate that financial reporting and disclosure quality improve after IFRS adoption (Chen et al. 2010; Chua et al. 2012; Daske and Gebhardt 2006; Houqe et al. 2012; Iatridis 2008, 2010; Sun et al. 2011; Zeghal et al. 2012). Horton et al. (2013), for example, hypothesize that "the increase in forecast accuracy following mandatory IFRS is associated with increased opportunities for firms to manage earnings towards a target", but they find no evidence regarding firms engaging in earnings manipulation. Many other studies on the other hand provide evidence of earnings management following IFRS adoption (Amat et al. 2005; Leuz et al. 2003;

Jeanjean and Stolowy 2008; Marra et al. 2011; Van Tendeloo and Vanstraelen 2005; Barth et al. 2008; Zéghal et al. 2011). Similarly, a handful of studies on the effects of IFRS adoption on Mexican firms' financial reporting quality document mixed findings. Some studies indicate that Mexican firms´ financial reporting quality has improved as a result of CINIF convergence efforts (Martínez et al. 2010; Martinez 2015; Manzano and Martinez 2014; Vásquez Quevedo 2012, 2013), whereas other studies find that IFRS adoption has not led Mexican firms to improve their financial reporting quality levels (Garza Sanchez et al. 2013; Polo Jimenez et al. 2009).

In addition to IFRS adoption and convergence, different institutional factors, such as the incentives of preparers and auditors, enforcement mechanisms, ownership structures, legal and political systems and the economic development of a given country, have been identified as factors that decrease financial reporting quality (Soderstrom and Sun 2007). Manzano et al. (2005b), for example, find that the comparability among cross-listed LATAM countries (i.e., Argentina, Brazil, Chile and Mexico) is collectively influenced by the relevant accounting standards, corporate characteristics (size and profitability), local economic conditions and management incentives and that the local and domestic standards of LATAM countries are less conservative than the US GAAP. Colmenárez et al. (2013), document experiences that countries (e.g., Peru and Chile), encounter during adoption, and after implementing IFRS for SME. The authors find a lack of accounting knowledge of both standards (IFRS and IFRS for SME), a lack of policy directives that guide the process of adoption, and a lack of dissemination on needs and benefits of the adoption process outside the accounting community. Martinez (2015) investigates the effects of IFRS adoption in

Brazil, Chile, Mexico, and Peru during the pre- and post-adoption periods and shows that in all cases, value relevance declines after IFRS adoption. The author argues (p. 14):

> [a reduction in value relevance] could be a consequence not of the IFRS's quality, but of the perceptions that investors have of the ways LATAM countries have been adopted.]

He questions the benefits of using archival research to identify the factors that lead to a reduction in value relevance. Aligned with this view, prior research and predominantly archival research has not investigated how IFRS adoption influences the judgements and decisions of the key economic agents of Mexican firms such as controllers, auditors, analysts, and regulators. Moreover, many studies have shown that IFRS are applied inconsistently in countries whose accounting environments differ from those of the Anglo-American countries where IFRS were developed (Doupnik and Richter 2003, 2004).

Many theories have been used in international accounting research to explain the connections between accounting practices and their environments. For example, institutional theory (Wysocki 2011) addresses the central question of why organizations tend to look and act the same, and the main premise of contingency theory (Gerhardy 2003) is that effective management is situational, and dependent upon the unique characteristics of an given set of circumstances. Accounting ecology theory (AET), which was developed by Gernon and Wallace in 1995, provides a useful perspective for international accounting research that adopts an integrated approach rather than a unidimensional, geopolitical view of the national accounting scene, as it considers cultural and noncultural factors.

AET provides a holistic framework for analysing the accounting environment with a focus on the importance of perceptual factors. As a contingency theory, AET argues that accounting and its phenomena are a function of the environment in general and of the political environment in particular. The ecological accounting perspective enables researchers to consider the concept of “national accounting ecology” since it addresses three types of phenomena: 1) the state or perceived/actual circumstances of the accounting environment; 2) the decisions or actions of individuals, groups or institutions within environmental contexts; and 3) outcomes or the outcomes of the actions of environmental entities, emphasizing the interrelationships between the environmental factors that influence and are influenced by accounting and focusing on the importance of perceptual factors.

The AET framework has been used by a number of researchers in Indonesia (Perera and Baydoun (2007)), Jordan (Al-Htaybat (2017)), and Nepal (Poudel et al. (2014)), and these researchers provide holistic analyses of the cause and effect relationships among environmental factors and of the adoption of IFRS in their respective countries. The previous studies that have used the accounting ecology framework in broader institutional contexts to explain the relationship between IFRS adoption and the environments of emerging economies find unique influential ecological factors related to contextual differences, including unavoidable external forces and an individual internal force that drives the pursuit of personal and organizational interests (Perera and Baydoun 2007). Referring to a similar context in Asia, Poudel et al. (2014) find that the adoption of IFRS was not motivated by the needs of local people but was instead imposed by donor organizations such as the Asian Development Bank, IMF and

World Bank. Poudel et al. (2014) show that the adoption of IFRS is likely to be problematic due to countries´ contextual environments, as in many countries have a severe lack of qualified accountants and an accounting profession that is not ready for such adoption. Tsunogaya and Chand (2012) demonstrate that accounting is deeply embedded in the historical, legal, business, and economic environments of Japan and that these contextual factors cannot be ignored in the process of making significant changes to the accounting sector (e.g., accounting convergence). Their study shows that countries are not achieving de facto convergence because the optimal mechanisms of the accounting system and its surrounding infrastructures are contextual and embedded in the accounting ecologies of each country.

Building upon AET, I explore IFRS adoption in the Mexican accounting environment from different perspectives to explore the costs, benefits, controversies, perceptions, and changes that Mexican economic agents experienced before and after Mexico´s IFRS adoption. That is, I investigate the experiences and perceptions of economic agents pre- and post-IFRS adoption from the perspectives of controllers, auditors, regulators, and financial analysts. These actors' perceptions help me identify the changes that each of the five perspectives of AET have experienced through IFRS adoption.

AET helps me to understand the cause-and-effect relationships among the environmental factors in an IFRS adoption environment in the context of an emerging economy such as Mexico from a holistic perspective. Such a broad and holistic view is not considered by other theories (for example, institutional theory or contingency theory).

1.4 Research Methodology

Interviews, as a research methodology, are designed to explore the experiences of interviewees and to acquire insight into the “real-life” experiences of actors who have lived through a particular type of event (Humphrey and Lee 2008). Through the use of this method, the narratives of the social actors who lived through the pre- and post-stages of IFRS adoption (e.g., controllers, financial analysts, regulators, and auditors) can be explored and analysed to better understand these actors’ perspectives with respect to IFRS adoption. For this purpose, I interviewed controllers, external auditors, regulators, individuals at supporting institutions and financial analysts using a list of semi-structured interview questions tailored to each group of interviewees. The interview questions were focused on general and specific issues related to IFRS adoption, accounting changes, costs, benefits, preparers’ perceptions of the use of professional judgement and of the roles of corporate governance actors (e.g., external auditors and audit committee members) and other actors’ views as users (financial analysts) or regulators (individuals at supporting institutions) of financial information during the pre- and post-IFRS adoption period.

1.4.1 Pre-adoption Interviews

The main objective of the pre-adoption interviews was to document the perceptions of different economic agents and the circumstances that arose during Mexico´s IFRS adoption. These interviews were conducted before May 7th, 2012 to ensure that none of the interviewees had been influenced by public information that was published after this date. The pre-adoption interviews provided opportunities to gain insight into the interviewees’ expectations about the costs, benefits and anticipated changes associated with the adoption of IFRS 1, including the accounting policies and strategic and operational decisions that the interviewees had followed to comply with the mandatory CNBV requirements. Four different types of semi-structured interviews were used to explore general issues regarding the adoption and implementation of IFRS and the main accounting-related effects resulting from the IFRS adoption. The pre-IFRS adoption interview questionnaire used is included in Appendix I.

The participants of the pre-IFRS interviews were selected based on their key roles in the process of the IFRS adoption in Mexico. Each participant was contacted by phone or in person and received a formal letter of invitation and the interview questions by email. All the interviews were tape recorded (with each interviewee's consent) and conducted in Spanish in a controlled environment, e.g., each interviewee's office.

The interviewees were recruited based on their organization´s economic impact, and the role they played in the process of adoption. Group 1 consisted of controllers; I selected 5 of the 113 nonfinancial entities listed on the BMV based on their size and their weight in terms of the Mexican stock index price. I selected the largest Mexican diversified group (consumer division, chemical division, and automotive division), the largest Mexican entertainment group, the largest Mexican telecommunication company, the largest Mexican mining group and a unique Mexican state-owned oil and natural gas producer. Group 2 consisted of auditors and consultants; I selected the IFRS partner director of each of the five largest accounting firms in Mexico (PWC, Deloitte, KPMG, EY, and Chevez Ruiz Zamarripa). My interviews with these groups served to uncover the experiences of preparers, auditors, and advisors during Mexico´s IFRS adoption (e.g., regarding the processes, costs, benefits, accounting effects, and opportunities surrounding the IFRS adoption). Group 3 included all the Mexican regulators and supporting institutions that were involved in the decision to require Mexican organizations to adopt IFRS. These interviews explored why regulators had decided that adopting IFRS was a good choice for Mexican companies and how supporting institutions were involved in the related implementation and enforcement. Finally Group 4 included two representatives of the largest financial groups in Mexico. This group was included due to the comments of the interviewed regulators and individuals from supporting institutions that users of financial information such as equity financial analysts may not be aware of the potential effects of IFRS on financial statements.

In summary, seventeen pre-adoption interviews were conducted, and these involved five controllers, five auditors and tax consultants from Big Four Mexican public accounting firms, five regulators (from the CNBV, CINIF, IMCP, Mexican Stock Exchange (BMV), and Central Tax Administrator (SAT)), and two financial analysts (see Appendix II for a complete list of the individuals who participated in the pre-adoption interviews).

1.4.2 Post-adoption Interviews

The post-adoption interviews served not only as follow-up meetings to the pre-adoption interviews, but also as opportunities to document the actual circumstances that each Mexican economic agent had experienced over the past five years since the IFRS adoption. These interviews were conducted during June and July 2017. Four different types of semi-structured interviews were conducted to explore general issues related to the IFRS adoption, implementation issues, and major accounting effects. The post-adoption interviews were also used to document changes in the relationships between controllers, CFOs, audit committee members and external auditors because of adoption. As such, additional questions were asked to examine the dynamics among the key actors in overseeing the quality of financial reporting. The post-IFRS adoption interview questionnaire used is included in Appendix III.

The participants of the post-adoption IFRS interviews were mostly the same as those of the pre-adoption interviews (see Appendix IV for a complete list of the individuals who participated in the post-adoption interviews). However, during the pre-adoption period, C2 was the controller of an entertainment group but five years later, he was a controller of the largest medical group in Mexico. This condition did not affect my sample or results because he was still involved in the IFRS process; thus, he participated in the post-adoption interviews. C5, AC5 and R3 were not included in the post-adoption interviews because they declined to participate, so their comments only pertained to the pre-adoption interviews. A3 and A4 were included in the post-adoption interviews because it was not clear whether analysts played an important role in the IFRS adoption when the pre-adoption interviews were being planned.

For the post-adoption interviews, I applied the same methodology that I used for the pre-adoption interviews. The interviewees were allocated to four different groups. Group 1 consisted of controllers, Group 2 consisted of auditors and advisors, Group 3 comprised regulators and individuals from supporting institutions, and Group 4 comprised financial analysts. Sixteen post-adoption interviews were conducted: four controllers, four auditors and tax consultants from Big Four Mexican public accounting firms, four regulators (from the CNBV, CINIF, IMCP, and the Mexican Stock Exchange

(BMV)), and four financial analysts (see Appendix IV for a complete list of the individuals who participated in the post-adoption interviews).

1.5 Results and Analysis

1.5.1 Pre-adoption Interview Analysis

The recurring themes that emerged from the pre-adoption interviews included the interviewees' perceptions of the difficulties associated with implementing IFRS, changes in the accounting information systems and financial reporting process, and the effects of IFRS adoption on preparers' decision-making. The interviewees all anticipated that the adoption process would not be difficult due to CINIF's decision in 2004 to converge MFRS with IFRS:

> Convergence allowed Mexican firms to be more prepared to implement IFRS; it [convergence] was also useful because firms could adapt their systems, establish new internal controls, and redefine operating processes. (C1)

During the pre-adoption interviews, the interviewed controllers commented that they did not expect to encounter many differences between IFRS and the MFRS or different implications for accounting information because the MFRS are principles-based like IFRS. This expectation is consistent with the conclusions of Van der Meulen et al. (2007), who find no significant differences between the value-relevant attributes of the MFRS and those of IFRS, and with the work of Carmona and Trombetta (2008), who conclude that a principles-based approach facilitates the application of standards to countries with diverse accounting backgrounds and various economic and institutional conditions.

During the pre-adoption interviews, 60% of the participants stated that they did not believe that IFRS adoption would make information more comparable; 40% indicated that they thought that IFRS would render financial information comparable, but it would do so at an industry level for international scenarios. Their narratives echo previous studies showing mixed results with respect to such comparability levels (Barth et al. 2012; Brochet et al. 2012; Brown and Tarca 2007; Cascino 2012; De Franco et al. 2011; DeFond et al. 2011; Liao et al. 2012; Yip and Young 2012; Pope and McLeay 2011; Manzano et al. 2005a; Ball 2006).

Another important finding with respect to general issues regarding adoption concerned the process that firms follow when implementing IFRS. The CNBV required firms to adopt IFRS at the holding level so that they could employ a top-down approach. This requirement appeared to create additional costs for firms related to consolidating the financial information of all their reporting business units, potentially increasing the likelihood of unintentional misstatements. One of the controller participants, for example, explained that in his company, the board of directors' decision to adopt IFRS at the holding company level forced the company to manually integrate the disclosures and additional financial information of all their subsidiaries (between 100 and 120). This situation significantly increased the time and effort needed to implement IFRS and exposed the company to potential misstatements or gaps in the reporting process.

The main accounting changes anticipated by the individuals interviewed during the pre-adoption interviews are shown in Table 1.1.

[Insert Table 1.1 here]

Many of the accounting changes that the participants anticipated were related to the application of IFRS 1. For the participants, IFRS 1 posed a great challenge because they needed to identify the most convenient exceptions and exemptions. These alternatives, which are listed in Table 1.1, are mainly related to issues regarding fair value, disclosures, financial instruments, PPE, employee benefits and deferred employee profit sharing.

Numerous studies have been conducted on accounting changes. Most of this research focuses on the impacts of voluntary or mandatory disclosures on accounting quality (Beyer et al. 2010; Byard and Shaw 2003; Cheung and Lau 2016; Chuk 2013; Leuz and Wysocki 2006; Leuz and Wysocki 2008). Other studies have analysed the effects of certain IFRS standards on financial information related to fair value (Ball 2006, 2016; Dichev et al. 2013; Vega Castro and González Cerrud 2016; Hail 2013); property, plants and equipment (Haller et al. 2009; Hung and Subramanyam 2007; Jermakowicz and Gornik-Tomaszewski 2006); financial instruments (Cheung and Lau 2016; Larson and Street 2004; Trewavas et al. 2012); employee benefits (Trewavas et al. 2012; Chuk 2013; Larson and Street 2004); impairment (Amiraslani et al. 2013; Chalmers et al. 2012; Griffith et al. 2015; Horton and Serafeim 2010); revenue recognition (Bierstaker et al. 2016); and leasing (Collins et al. 2012).

As shown above, the findings of the literature coincide with the expectations of the participants with respect to accounting changes.

One major issue reported by the previous studies on IFRS adoption concerns the costs of adoption (Pawsey 2017; Barth et al. 1999; Christensen 2012; De George et al. 2013; Hail et al. 2010a; Hail et al. 2010b; Ramanna and Sletten 2009). The participants of the pre-adoption interviews also noted that the costs of IFRS implementation (i.e., the costs incurred by an entity adopting IFRS at the holding level or at the subsidiary and holding levels) are likely to stem from the complexity of an entity´s operations and the degree of development that it has achieved with respect to corporate governance, internal controls, and corporate communication.

The anticipated costs associated with IFRS implementation that were frequently noted by the interviewees are summarized in Table 1.2.

[Insert Table 1.2 here]

As shown in Table 1.2, all or most of the interviewees were primarily concerned about changes to and adaptations of IT systems, and this was followed by concerns regarding training and advisory fees. Indeed, some authors have documented that IT systems and training represent important costs of IFRS implementation (Bierstaker et al. 2016; Carmona and Trombetta 2008; Elbannan 2011; Joshi et al. 2016; Patiño-Jacinto and Vásquez-Quevedo 2013; Pawsey 2017; Sucher and Jindrichovska 2004; Steinbach and Tang 2014; Vásquez Quevedo 2010). The participants also noted that the parameterization and adjustment of ERP systems pose great challenges:

> For us, adoption was a major challenge because we needed to address many technical issues [information systems like ERP modules] and apply good practices [corporate governance]. (S2)

Another cost that previous studies have anticipated to increase during such pre-adoption periods is auditors’ service fees (De George et al. 2013; Kim et al. 2012; Nurunnabi 2017). According to the interviewees, audit fees were substantially more during the pre-adoption period than they were during prior years due to the implementation of IFRS 1, which requires firms and auditors to identify the exceptions and exemptions suitable to each firm and the appropriate advisory services provided by Big Four teams.

The interviews with the regulators and the individuals from supporting institutions revealed that language is of great concern. All the participants agreed that listed companies should use the English version of IFRS. This preference for the English version over the Spanish version is due to errors in the Spanish version that can distort the application of the standards. Consistent with this finding, Huerta et al. (2013) examine the Spanish translation of IFRS and conclude that variations emerge when translating accounting-specific phrases. Doupnik and Richter (2003) also find significant differences among the translations of IFRS across countries concerning contingencies or uncertainties. As S1 explains:

> There are some words that are translated to Spanish that are not relevant to our economic environment. For example, 'goodwill' is translated in the IFRS Spanish version as '*llave en mano'* or '*plusvalia'*, but in the Mexican context, goodwill has always been related to '*crédito mercantil'*. The accounting regulator [CINIF] has developed a comparative table that identifies the differences that arise because of translation. Another example is the term 'probable'. The term 'probable' in Spanish is translated as '*probable'* but it does not have the same interpretation [probability or uncertainty percentage] as is applied in IFRS.

The additional costs identified are those related to the implementation of IFRS culture in all areas of operations and finance. The acceptance of the IFRS mindset at different firm levels was identified as a barrier during the pre-adoption period. The individuals from supporting institutions noted that firms must understand that accounting changes affect many firms´ operating and control activities and that extraordinary efforts are made to spread IFRS culture through all the operating areas of forms to achieve satisfactory adoption programmes. C5 stated that many people at his firm were reluctant to accept the IFRS vision:

> Some collaborators do not understand why they need to change when things were always done well and when no one had made any complaints with respect their ways of reporting or their ways of dealing with employees, clients, or suppliers.

The auditors and consultants also noted that IFRS adoption should not merely involve paperwork but should instead change the ways in which people think. This change must be executed in the areas of operations, finance, and accounting:

> Adapting your accounting policies to the IFRS way of thinking and culture is difficult. When firms realize that their accounting systems are changing and that this change implies a change in operations and processes, resistance to change is not easy to manage. People also thought that with this accounting change, internal control implementations would be applied not as a benefit but as a liability. (AC3)

In addition to comparability, an increased opportunity to issue debt or stocks in international markets was a benefit anticipated by the interviewees. This coincides with the findings of Chen et al. (2015), who find that firms exhibit higher levels of cross-listing propensity and intensity following IFRS adoption. According to Controllers C3 and C4, the need to issue debt or stocks on international markets underscores the need to pursue early adoption. The controllers and auditors indicated that they do not need to prepare reconciliation disclosures from MFRS to US GAAP, as the SEC allows foreign issuers to present 20-F under IFRS, which in turn saves time and simplifies the reporting process.

An important issue that emerged from the interviews concerns how some IFRS may be unsuitable to the Mexican business environment:

> In general, all IFRS can be applied in Mexico, but some situations are going to present great challenges in their application, as in the case of fair value. In Mexico, we only have one market, and it is not considered an active market, as it is too small and unrepresentative of the financial conditions of the economy. So, the information generated by applying IFRS 13 will be presented with these local restrictions. Another situation could concern discount rates; for example, for IAS 19, according to which we need to define whether the Mexican market is a deep market or not, we must choose the appropriate discount rate. (R1)

When asked about which IFRS standards they perceived to be more difficult to implement, 60% of the interviewees responded that they expected the financial instruments (IFRS 9) standards to be the most difficult to implement due to their complexities related to risk management, valuation, hedging, derivatives, embedded derivatives, the determination of expected losses, etc. Table 1.3 presents the IFRS that interviewees considered to be the most difficult to implement.

[Insert Table 1.3 here]

Following IFRS 9, the standard regarding fair value is the second most difficult standard to implement. The participants commented on their concerns about the application of this standard, as Mexico's economic and financial system does not generate enough robustness and objectivity in terms of financial indicators to implement this standard. They argued that when using the 3-level fair value hierarchy, Mexican entities should comply with disclosure requirements very carefully while detailing any assumptions made.

Under IFRS, restatement due to inflation is not necessarily implemented until inflation levels reach “hyperinflation” (IAS 29). In 2012, major effects of related to the discontinuation of inflation accounting according to the IFRS criteria were anticipated[11]. The interviewees were asked to discuss this process and all of them concluded that the discontinuation of inflation accounting did not create conflicts with the IFRS adoption. In contrast, the controllers and auditors explained that no longer recognizing inflation created less work and simplified the reporting process. Nevertheless, when asked whether the discontinuation of inflation accounting had reduced the amount of relevant information available, all the interviewees agreed that the available financial information had lost a certain level of relevance:

> Now, after five years of not recognizing inflation effects, information has lost a certain degree of relevance, as inflation always has a distorting effect on the numbers presented. In emerging economies, inflation is always an issue that needs to be measured and controlled. So, if our duty is to present information that represents the actual situation of a firm, without inflation accounting, we cannot fulfil this obligation. (C1)

The pre-adoption narratives generally centred on uncertainties regarding changes in accounting policies; the effects of adoption; the benefits of the adoption (e.g., comparability); and the significant amount of work and costs related to changes in IT systems, training, advisory fees, the valuation of assets, and language skills. The controllers and auditors noted that they had been very pressured to successfully achieve the IFRS adoption. They also discussed the need to develop the technical skills

[11] In Mexico, inflation accounting is regulated by MFRS B-10, a unique Mexican standard. This standard identifies two economic scenarios. Under the inflationary scenario, inflation accounting must be applied when the average inflation rate of the last three years exceeds 26%, and under the non-inflationary scenario, inflation accounting must be discontinued when the average inflation rate over the last three years does not exceed 26%.

necessary to address different situations related to their operations and noted that they needed to learn to manage an IFRS culture and a different way of making accounting decisions. The regulators, on the other hand, noted that they had been in a more relaxed position because they merely waited for the results of the adoption to be provided through financial statements, meaning much of the responsibility was placed on controllers and auditors. The individuals from supporting institutions, appeared to be most concerned about the amount of work needed to adapt all of their accounting information systems (e.g., enterprise resource planning systems) to IFRS, change their chart of accounts in the “SIBOLSA” platform, and improve their servers’ capacity to process the additional information required for disclosures, which is a major intermediary cost. Finally, the financial analysts did not seem to express concern about pre-adoption effects, as they lacked an understanding of the impacts of the IFRS adoption on financial information and argued that they expected to find minimal or no pre-adoption effects related to their analyses and recommendations.

1.5.2 Post-adoption interview Analysis

After the five-year adoption period, the participants´ perceptions of uncertainty regarding IFRS adoption appeared to decline in some areas (e.g., costs of adoption, adoption effects, earnings management, and ways in which people had altered their thinking in accordance with IFRS). However, the interview results revealed increased perceptions of uncertainty in other areas (e.g., benefits of adoption, accounting effects of the new standards, comparability levels, enforcement mechanisms, and professional decisions). The participants seemed to be more familiar with IFRS but more concerned with the benefits of the IFRS adoption.

The controllers explained that the IFRS adoption had brought specialization and professionalization to Mexico's accounting community. They also argued that the CINIF had been effective prior to the IFRS adoption, as the convergence project that it commenced in 2004 facilitated this adoption. The accountants generally noted that private entities should also receive training on IFRS because they were not required by the CINIF to implement IFRS. This situation was viewed by AC2 and C4 as a weakness, as accountants in Mexico are classified according to two tiers: tier one accountants, who are involved in IFRS and considered to have more knowledge and expertise regarding accounting, and tier two accountants, who apply the MFRS:

> IFRS allow us to have more professionalized and institutionalized accountants. We, as representatives of the profession, must support all entities to get on the train of adoption, as all of the benefits that I am seeing are not shared by private entities because they still report under MFRS. (AC2)

All the participants of the post-adoption interviews claimed that an important benefit of IFRS adoption concerned the different ways of thinking and new culture created by IFRS, which permeated different levels of their firms. Pastor (2012) also concludes that in Argentina, IFRS spurred a deep change in people´s ways of thinking and in accounting for economic events or transactions. This is explained in the excerpt below:

> One of the main things that IFRS adoption leaves us with is a change in accounting practices that my staff and I must adopt; we need to think in a different way, and we need to shift our accounting practices from those of the MFRS to those of IFRS. In the end, this [adoption] has been an enriching experience because we have all learned a different way of analysing transactions and of making accounting decisions. (C3)

The auditors and consultants commented that IFRS adoption had been a positive experience for firms, entities, auditors, analysts, and academics. One of the benefits that was frequently mentioned concerned language, as IFRS adoption enabled these individuals to speak the same language as that of their international counterparts:

> IFRS adoption offers Mexican accounting professionals the opportunity to speak the same language; IFRS represent the global language of business. (AC1)

Regardless of the similarities between IFRS and MFRS (principles-based standards), all the interviewees noted that they applied more professional judgement with IFRS than MFRS and that firms must define or create policies to document all such judgement. These narratives echoed Marden and Brackney (2009), who indicate that when applying IFRS, preparers must be aware of documenting the professional judgement that they make when applying certain standards; they also note that auditors must review the assertions made by management teams to limit audit risks. The interviewees noted that professional judgement based on IFRS must be applied in relation to share-based payments, provisions, fair value (level 3), noncurrent assets held for sale, discontinued operations, consolidation, leases, financial instruments, uncollectible accounts, deferred taxes, and impairment. These areas are consistent with the key accounting issues identified by Marden and Brackney (2009), as requiring more professional judgement when reporting under IFRS.

The regulators and individuals from financial institutions shared similar views as the abovementioned authors. For example, S1 explained the following:

> Firms must be more sensible on their reporting decisions. They need to anticipate the market impacts of what they are disclosing in their financial statements, as the market is very sensitive to any changes in

> financial statements or in the tendencies of certain KPIs. Documentation of judgement and decisions must be made and incorporated into financial statements.

When asked about issues of comparability emerging after IFRS adoption, the interviewees’ responses were significantly different from their pre-adoption responses. All the controller participants stated that IFRS rendered information more comparable. However, they also made specific comments on comparability. One controller noted that he was convinced that information prepared under IFRS was more comparable, transparent, precise, reliable, consistent, and useful for users. The controllers also stated that comparability was constrained by the alternative approaches permitted under IFRS. This conception of comparability is a typical representation of the Mexican view that “whatever is done outside of Mexico is of better quality”.

The post-adoption interviews with the auditors and consultants revealed views of comparability that were similar to those of the controller participants, but they also revealed other attributes of comparability. In some cases, these attributes were related to financial information comparability, transparency, and certainty, but in other cases they were related to issues of standardization and uniformity. The analysts agreed that the IFRS adoption rendered Mexican financial information more comparable. A1, A2, and A3 all noted the following:

> With IFRS we now achieve more comparability at international levels; we can make benchmarks easily.

The findings on comparability agree with those of previous research. For example, Byard et al. (2011) examine the effects of IFRS implementation on financial analysts’ information and find that the number of forecast errors and dispersion levels decrease after such implementation. Tan et al. (2011) find that mandatory IFRS adoption enhances the usefulness of accounting data for financial analysts.

The main accounting changes identified by the interviewees in the post-adoption interviews are shown in Table 1.4.

[Insert Table 1.4 here]

The financial analysts indicated that IFRS adoption benefited them as users of financial information, as firms were required to disclose more under IFRS than under MFRS, and they viewed estimations and recommendations to be more credible when detailed IFRS disclosures were used rather than MFRS disclosures. In general, they thought the decision to adopt was a good decision because it offered more transparency for global investors. This comment was consistent with the previous research findings (Bushee (2004); Hail et al. (2010b); Verrecchia (2001)) showing that corporate disclosures mitigate information asymmetries and increase market liquidity levels. The financial analysts noted that their jobs had become easier upon using financial information prepared in accordance with IFRS rather than MFRS:

> The willingness of companies to disclose information is central to developing better quality financial information. This willingness has a strong effect on us, as our work consists mainly of adjusting information to apply our methodologies and creating scenarios to make recommendations, so IFRS encourage more disclosure, allowing us to make better and more precise adjustments. With IFRS, we do not need to adjust accounting information. Our predictions are easier to make, and we can adjust numbers more precisely because IFRS mandate the delivery of more information. We now have more standardized information, which affords us more credibility and more precise indicators and multiples. (A2)

> IFRS mandate that firms disclose large volumes of information, and having access to more information is good, as this helps us make more precise breakdowns to build our systems, models, and platforms. (A3)

The post-adoption costs associated with IFRS implementation are shown in Table 1.5. the pre- and post-adoption costs are not considerably different, as training is the most important post-adoption change followed by IT systems and the need to permeate all areas of firms´ operations with IFRS culture.

[Insert Table 1.5 here]

As shown by the pre-adoption interview results, standards related to financial instruments (IFRS 9) are the most difficult to implement due to the associated complexities. Table 1.6 presents the different facets of IFRS that interviewees considered to be the most difficult to implement:

[Insert Table 1.6 here]

Revenue recognition and leases are identified as the second most difficult areas of IFRS implementation, as the related standards force firms to change the ways they engage in business. Consistent with this view, the controllers and auditors indicated that the standards on revenue recognition, leases, and financial instruments changed the policies and internal controls within firms, particularly altering financial reporting decision-making (valuation (fair value), disclosures, and the XBRL implementation that the CNBV mandated beginning in 2016). The regulators and individuals from supporting institutions also explained that the IFRS adoption will drive firms to change the ways that they engage in business when the new standards (IFRS 15 and IFRS16) become effective in 2018 and 2019, respectively:

> There are going to be important changes in the business landscape when IFRS 15 and IFRS 16 come into force. These two standards are going to force firms to make changes in the ways that they operate, negotiate contracts, and finance their operating activities. The impact of these standards on key performance indicators and covenants should be analysed carefully by controllers and managers. (R1)

> Besides the changes expected in operating activities with the application of IFRS 15 and IFRS 16, IFRS 9 is going to represent another important change in the way firms define their financing alternatives and hedging needs. (S2)

A central issue raised by the individuals from supporting institutions concerned the types of enforcement mechanisms that Mexican authorities have implemented to reduce misreporting behaviour (Steinbach and Tang 2014; Christensen et al. 2013; Preiato et al. 2010; Carneiro et al. 2017). The auditors noted the following:

> The role of the CNBV was initially too passive; they were not concerned about changes or the effects of financial information on adoption. Additionally, five years later, they have not yet developed a monitoring system or review model allowing users to ensure the correct application of IFRS. The people in charge [of the enforcement of IFRS] lacked technical expertise on the application of IFRS.

Th Mexican market regulators mainly assigned the relevant enforcement responsibilities to auditors. It was argued that the IFRS adoption involved many changes to systems and processes and that people working in corresponding areas needed to be trained on IFRS issues; with the budgets assigned for IFRS adoption enforcement, the efforts related to this issue exceed expectations. Auditors have thus played an important role:

> Auditors serve as a very good monitoring mechanism; they often function as 'regulators' or they do the work of a regulator. They know whether firms are manipulating judgement or misreporting. Historically, the CNBV has relied on auditors to perform enforcement tasks. (S2)

One issue extensively documented by previous studies concerns IFRS adoption and its effects on earnings management (Tsipouridou and Spathis 2012; Dechow et al. 2012; Zéghal et al. 2011; Marra et al. 2011; Jeanjean and Stolowy 2008; Capkun et al. 2008; Van Tendeloo and Vanstraelen 2005; Manzano and Martinez 2014). On this issue, the financial analysts commented that they expected to observe less earnings management behaviour under IFRS than under MFRS:

> I thought less earnings management was going to occur, as firms need to document and justify all the decisions that they make with respect to financial statements [more disclosure], and so flexibility and non-disclosure are not permitted. Also, under IFRS, transparency is going to be enhanced, so less earnings management is expected. (A1)

In the post-adoption interviews, the interviewees were questioned on their views about the relationships between controllers, audit committee members and external auditors following IFRS adoption. This was asked in the post-adoption interviews to identify the possible changes in the behavioural patterns among corporate governance members resulting from the adoption (Verriest et al. 2013; Marra et al. 2011; Lin et al. 2006; Gramling et al. 2004; DeZoort and Salterio 2001; Agoglia et al. 2011; Marden and Brackney 2009). I focus on controllers, CFOs, audit committee members and external auditors because they assume different roles in overseeing the quality of financial reporting.

When asked about their disagreements with their CFOs on financial reporting issues, two of the controllers (C1 and C3) indicated that they had not experienced any disagreements because their CFOs were more involved in the reporting process during and after the IFRS implementation than they had been before. The other controllers explained that during the early stages of IFRS implementation, their relationships with their CFOs were more intense because they were not aware of the accounting needs and potential ramifications of IFRS related to the reporting process. The regulators and individuals from supporting institutions stated that the relationship between CFOs and controllers had become more dynamic, as CFOs were more involved in overseeing the financial reporting process than they had been before. In their view, this closer relationship between CFOs and controllers was justified because accounting policies and decisions can shape a firm's risk appetite and business strategies. In a similar vein, the interviews showed that the participants perceived the relationship between audit committees and external auditors to be more intense during and after the IFRS implementation, mainly due to the impacts of IFRS 1 on financial statements.

Interactions between controllers and external auditors had also become more intensive:

> External auditors' monitoring roles have become more intense since adoption; they now ask us for more information with respect to our judgement decisions and disclosure content. Auditors are now requesting documentation on judgements and accounting decisions. Finally, they are also more aware of our future accounting decisions, like, for example with the application of IFRS 15 in 2018 and IFRS 16 in 2019. (C1)

C2, C3 and C4 explained that they had experienced disagreements with auditors in their five years of implementing IFRS and that these disagreements were related to issues of consolidation, fair value, employee benefits, estimations, the determination of useful lives, uncollectible accounts, discount rates, exploration costs and discontinued operations. They also explained that when disagreements arose, they prepared evidence that supported their points of view and interpretations of the contested standards. In most cases, they achieved a consensus with the auditors, and these agreements were documented to prevent future disagreements.

With respect to audit committee relationships, the controllers, regulators, and individuals from supporting institutions agreed that audit committee members had become more involved in monitoring financial reporting and were interested in the impacts of the technical issues associated with IFRS and upcoming IFRS issues. The auditors stated that their relationships with audit committee members had become more intense during the period of the IFRS adoption, as the committee members were concerned with the impacts of the exceptions and exemptions of IFRS1. They also explained that they had not experienced any disagreements with audit committee members because before any disagreements could occur, the controllers anticipated any doubts or technical issues that could affect their firms and presented the relevant audit committee members with action proposals that considered all the alternatives and situations that could affect the financial performance of their firms.

When asked about any areas of disagreement with CFOs or controllers, the auditors and consultants indicated that they had not experienced disagreements but that they had experienced more intense interactions with CFOs and controllers regarding all the changes and effects associated with IFRS. The following excerpts describe these interactions:

> Relations have been closer because now you need to speak with managers not only about financial statements but also about strategic decisions. (AC3)

> There have been more discussions and comments on topics that require more judgement or where there is more subjectivity (e.g., discount rates, volatility, and provisions). We have worked closely with managers with respect to the documentation of the judgement applied. CFOs must understand that they are now designers and not only information receivers. (AC4)

The auditors and consultants noted that their relationships with audit committee members and controllers improved after the IFRS adoption:

> The relationships are more intense, as auditors are mandated to report to audit committee members on any accounting changes that could affect or impact the financial performance of a firm. They must also report on significant professional judgements and critical accounting policies. (AC1)

With the IFRS adoption, auditors had to implement changes through testing, increase their level of scrutiny concerning disclosure and financial statement presentation and become more rigorous in terms of materiality testing:

> Our questioning of controllers has become more pronounced. Our relations have been more proactive. The relationship between controllers and auditors is more mature; they now no longer wait until an audit arrives to make clarifications on financial reporting. With this attitude our work and their work have become easier, and when any disagreements occur, we analyse them together and make a favourable decision for the firm (while always ensuring compliance with standards and policies). (AC4)

> Our materiality tests have become more frequent because IFRS are more complex, and their application is more detailed. We are asking firms for more information on judgements applied in their accounting decisions. Such standards, for which judgements must be applied in a more intensive way include those regarding employee benefits, discount rates, contingencies, impairment, and provisions. (AC2)

The relationships between external auditors and audit committee members have also changed. The external auditors and individuals from supporting institutions argued that audit committee members had become more involved in accounting decisions and more concerned with the possible effects that the new standards could have on financial information:

> Audit committee members are mainly more involved when a new standard arrives and must be applied. They are more aware of a new IFRS issued by the IASB regardless of when the date of application is; they want to measure the effects of its promulgation. (AC1)

The analysts argued that their relationships with controllers had intensified. They had begun maintaining more regular contact with them to address issues, and firms had become more open to providing information under IFRS than under MFRS:

> Since the IFRS adoption, controllers have been more willing to share information, and so this year we have implemented a policy that involves maintaining intense contact with them. So, every three months we schedule visits to the firms' facilities, and they give us a brief presentation on their quarterly results with a focus on important changes. With this information we can make better recommendations to our clients. It is a win-win situation! (A3)

1.6 Conclusion and Discussion

The purpose of Study 1 was to provide insight into the experiences of Mexican economic agents during the pre- and post-IFRS adoption periods using the accounting ecology framework developed by Gernon and Wallace (1995). This framework was used to support a holistic analysis of the accounting environment while focusing on the importance of perceptual factors. Specifically, I sought to better understand the general and implementation issues of the IFRS adoption in Mexico by examining the perceptions of controllers, auditors, advisors, analysts, regulators and individuals from supporting institutions on the impacts of the IFRS adoption and their views on comparability; accounting reporting system changes; costs and benefits; enforcement mechanisms; the quality of financial information; opportunities for earnings management; and changes in the relationships between controllers, CFOs, audit committee members and external auditors of Mexican public entities.

In general, before adoption, all Mexican economic agents experienced considerable levels of uncertainty and possessed limited knowledge of and experience with IFRS standards; in turn, they needed to adapt to an accounting environment that they were generally reluctant to adopt. After adoption, these uncertainties were mitigated, leaving everyone involved with a sense of understanding and experience (controllers, auditors, regulators, members of supporting institutions and financial analysts).

During the pre-adoption period, not all the participants were convinced of the benefits that IFRS adoption could bring. Overall, 40% of them thought that IFRS would not bring comparability to financial information, mainly due to the different alternatives that IFRS allowed for and the different paths that accountants and auditors could choose to adopt in making their decisions. After the adoption, all the interviewees believed that financial information prepared according to IFRS was comparable to that of their international counterparts around the world. They also stated that because of this comparability, their financial statements were of better quality under IFRS than under MFRS.

The results of this study support an increase in the comparability and accounting quality of the financial information of Mexican listed entities that can be attributable to the convergence process initiated by CINIF, controllers' commitment to the adoption process, and external auditors' technical knowledge of and experience with international standards. In comparing the pre-adoption responses of the controllers to their post-adoption responses, I find changes in their commitment and knowledge levels and in their views regarding the benefits that IFRS offer firms. The controllers' experiences regarding the adoption, costs incurred, accounting changes, professional judgement changes and new ways of thinking represent the most important challenges faced during this time.

The financial analysts, who held an indifferent position during the pre-adoption period, had recognized by the post-adoption period that financial information prepared according to IFRS was more useful than that prepared according to MFRS. They also identified the amount of information available from the financial statements in disclosures as the most significant benefit stemming from the IFRS adoption. They indicated that the additional disclosures allowed them to offer better adjustments, analyses, and investment recommendations. For controllers and auditors, the number of disclosures required represents an important cost due to the changes that they must make to adjust their systems and reporting processes accordingly. The regulators and individuals from supporting institutions agreed that, despite the difficulties that some IFRS requirements created during implementation, controllers and auditors were often able to adopt the best options for their firms and the best processes by which to apply the corresponding settings to systems and internal controls.

At the beginning of this study, I anticipated that firms would experience a strong impact on their financial information from inflation accounting. However, when asked about the possible effects of inflation, all the interviewees agreed that inflation accounting did not necessitate major adjustments due to the CINIF's decision to discontinue inflation accounting in 2007.

During the post-adoption interviews, the controllers and auditors often noted the complexity encountered when applying IFRS to certain areas such as financial instruments, fair value, revenue recognition, leases, provisions, and impairment, as well as the major changes that the related IFRS would likely bring to business communities when the new standards on revenue recognition and leases became effective in 2018 and 2019, respectively. Another important issue raised during the interviews concerned the need to apply more professional judgement than was previously necessary under MFRS to certain areas of IFRS. The controllers, auditors and regulators commented that the difficulties associated with professional judgement concern documentation, which represents a major cost to firms but significantly benefits financial statement users.

Based on the results reported in the previous section, the interviewees also recognized the costs and benefits related to IFRS adoption. They identified training as the most important cost and comparability as the most important benefit. Both training and comparability were considered strong means by which to achieve better financial reporting quality than had been obtainable under MFRS. They also indicated that under IFRS, opportunities to engage in earnings management are more limited. The changes that affected the reporting process were not only structural but also cultural, as the accountants commented that they shaped their decision-making based on IFRS and shifted their mindsets and reporting decisions. These changes also spurred great shifts in the accounting profession; indeed, the interviewed participants believed that IFRS had rendered the accounting profession highly institutionalized and professionalized, improving Mexican financial accounting to the level of international standards. According to the interviewees in this study, the IFRS adoption represented a competitive advantage for firms that were required to adopt new ways of thinking and organizational decision-making cultures associated with the process of implementing IFRS. Finally, the relationships between controllers, CFOs, audit committee members and external auditors benefited from the IFRS adoption, as closer ties emerged amongst these parties. Audit committee members became more closely involved in strategizing and decision making, and CFOs became more concerned with accounting decisions and their effects. External auditors played an important role, as they offered support to firms and regulators related to the enforcement and enhancement of IFRS.

The accounting phenomena related to the IFRS adoption in Mexico were analysed through interviews based on the accounting ecology framework while considering the perceptions of controllers, auditors, regulators, and financial analysts and emphasizing the environmental factors that influence how this adoption affected accounting in Mexico. The five perspectives of the accounting ecology framework can be identified in the pre- and post-adoption interviews as follows: 1) from a societal perspective, the adoption brought about new opportunities to accounting firms, improving their knowledge of and experiences with IFRS and augmenting the previous role of MFRS; 2) from an organizational perspective, firms made major changes to their accounting reporting systems so that their financial information would be considered to be of better quality and less exposed to misreporting; 3) from a professional perspective, the role that controllers and auditors play in the accounting profession became more sophisticated, and auditors became the regulatory arm of the CNBV; 4) from an individual perspective, as professional judgements are more intensely employed under IFRS, accountants were required to make more sophisticated choices that affected financial information; and finally, 5) from an accounting perspective, IFRS shaped how the CINIF shifted from the use of MFRS to the use of IFRS, increasing the level of similarity between the Mexican accounting standards and international standards.

This study contributes to the existing body of studies on IFRS adoption in Mexico and other emerging economies based on the framework of accounting ecology. This framework allowed me to holistically analyse the changes observed in the Mexican accounting environment before and after Mexico´s IFRS adoption while focusing on the importance of the perceptions of controllers, auditors, regulators, and financial analysts. The previous studies focusing on archival models have endeavoured to identify whether the IFRS adoption in Mexico has introduced higher levels of comparability, improved accounting quality, and limited earnings management requirements (Garza Sanchez et al. 2013; Martínez et al. 2010; Garza Sánchez et al. 2017; Rodríguez García et al. 2017; Vásquez Quevedo 2012, 2013). To my knowledge, this is the first study to qualitatively document the perceptions of different actors in response to a change in the accounting environment while providing rich and detailed descriptions of how this IFRS adoption unfolded from the perspectives of individuals who play major roles in the Mexican accounting profession (Big Four partners, regulators and supporting institutions, major analysts, and controllers of the largest groups in Mexico).

1.7 Tables of Study 1

Table 1.1
Main accounting changes
Pre-adoption interviews

	Percentage
Fair Value	80.00%
Disclosures	66.67%
Financial Instruments	60.00%
Property, Plant & Equipment (deemed cost, revaluation, identification of items)	60.00%
Employee Benefits (discount rates, employee termination liability, corridor approach)	53.33%
Deferred Employee Profit Sharing	53.33%
Impairment	40.00%
Covenants (KPI´s)	40.00%
Provisions	26.67%
Revenue Recognition	20.00%
Foreign Currency Translation (functional currency, cumulative translation adjustment)	20.00%
Leases	13.33%
Deferred taxes	13.33%

Table 1.2
Implementation costs
Pre-adoption interviews

	Percentage
IT systems	93.33%
Training	86.67%
Advisory fees	66.67%
Valuation	40.00%
English skills	40.00%
Permeating IFRS culture	33.33%
Trace historic information	26.67%
Legal advisory	6.67%

Table 1.3
The standards most difficult to implement
Pre-adoption interviews

	Percentage
Financial Instruments	60.00%
Fair Value	60.00%
Revenue Recognition	33.33%
Provisions	33.33%
PPE	33.33%
Impairment	26.67%
Deferred Taxes	13.33%
Consolidation	13.33%
Foreign Currency Translation	13.33%
Employee Benefits	13.33%
Leases	6.67%

Table 1.4
Main accounting changes
Post-adoption interviews

	Percentage
Disclosures	91.67%
Fair Value	58.33%
Financial Instruments	58.33%
Revenue Recognition	50.00%
Leases	50.00%
Employee Benefits (discount rates, employee termination liability, corridor approach)	33.33%
Property, Plant & Equipment (deemed cost, revaluation, identification of items)	25.00%
Impairment	16.67%
Foreign Currency Translation (functional currency, cumulative translation adjustment)	8.33%
Deferred taxes	8.33%
Covenants (KPIs)	0.00%
Provisions	0.00%
Deferred Employee Profit Sharing	0.00%

Table 1.5
Implementation costs
Post-adoption interviews

	Percentage
Training	80.00%
IT systems	66.67%
Permeate IFRS culture	46.67%
Advisory fees	26.67%
Valuation	20.00%
English skills	6.67%
Trace historic information	0.00%
Legal advisory	0.00%

Table 1.6
The most difficult standards to implement
Post-adoption interviews

	Percentage
Financial Instruments	91.67%
Revenue Recognition	83.33%
Leases	83.33%
Fair Value	66.67%
Provisions	25.00%
Impairment	25.00%
PPE	8.33%
Deferred Taxes	8.33%
Consolidation	0.00%
Foreign Currency Translation	0.00%
Employee Benefits	0.00%

2. *STUDY 2: PREPARER´S DECISION-MAKING PRE- AND POST-IFRS ADOPTION*

2.1 The Convergence Process

Before the creation of the CINIF, MFRS were similar to US GAAP given the economic dependence of Mexico on the US and its need to prepare financial information in accordance with US GAAP. Since 2004, the CINIF has harmonized MFRS with IFRS, minimizing any differences between MFRS and IFRS. This has led the Mexican standards to be more principle-based than rules-based. In 2012, when Mexican non-financial listed entities were required to adopt IFRS, many entities noted in their progress reports submitted to the CNBV that the accounting policies that they had to implement were nearly the same or similar to those of IFRS and that they did not incur many significant changes or costs in the process of implementing these policies.

For example, before the IFRS adoption, provisions were defined under Bulletin C-9[12] as liabilities of an uncertain amount or maturity. In circumstances where there is doubt with respect to the existence of a present obligation, a preparer had to apply his or her professional judgement to determine, according to the available evidence, if it was more likely than not that a present obligation existed; if so, he would recognize a provision on the balance sheet. The calculation of the corresponding amount was based on a weighted average of the different possible outcomes and probabilities of occurrence. Recently, Bulletin C-9 evolved to MFRS C-9[13]. This new standard is in full convergence with IAS 37, "Provisions", so the circumstances and situations with respect to uncertainty, probabilities and the best estimate methodology are the same. In

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[12] Bulletin C-9 was issued in 2003 and is titled: Liabilities, Provisions, Contingent Assets and Liabilities and Commitments.
[13] MFRS C-9 was issued in 2015 and is titled: Provisions, Contingencies and Commitments. It was effective from January 2018.

Appendix D of this standard, we find an example of the application of this rule in the case of a product warranty; this example is similar to the one that can be found in Appendix C of IAS 37. The accounting treatment for provisions in the context of Bulletin C-9, MRFS C-9 and IAS 37 is nearly the same and depends heavily on the professional judgement of preparers. Thus, it is not clear whether the financial reporting decisions of Mexican preparers change when they are instructed to use IFRS rather than MFRS. An additional question is whether the use of professional judgement is likely to lead Mexican preparers to make more aggressive reporting decisions (e.g., under-report expenses or over-report revenues) when complying with IFRS condition than when complying with MFRS. In this study, I address these issues.

2.2 Activation of Mindset

A mindset is a set of cognitive processes and procedures that yields a disposition or readiness to respond in a certain manner (Gollwitzer 1990; Hamilton et al. 2011; Griffith et al. 2015). There are different types of mindsets: deliberative, implemental, actional, and evaluative (Gollwitzer 1990). For example, a deliberative mindset prompts an individual to engage in an informed and careful analysis to determine which alternative is best before taking action (Fujita et al. 2007). An implemental mindset induces a decision maker to plan how, rather than whether, he or she will execute a task or reach a goal (Griffith et al. 2015). An actional mindset primes an individual to act towards a goal, and an evaluative mindset requires an individual to be concerned with the quality of outcomes and their consequences (Gollwitzer 1990).

Once activated, a mindset persists for some time and influences a decision maker´s behaviour regarding subsequent tasks without his or her conscious awareness

(Gollwitzer 1990; Wyer and Xu 2010), allowing a researcher to test such decisions after they occur (Wyer and Xu 2010). Few studies have used activation mindsets to induce sceptical mindset and examine their effects on auditors' judgements. The findings of previous studies indicate that instructing auditors to maintain a mindset of presumptive doubt does not improve their hypothesis-testing task performance (Peytcheva 2014); additionally, instructing them to critically question the validity of audit evidence (through a task instruction) does not improve their sceptical judgements and actions except for in the context of fraud explanations and fraud risk assessments (Grenier 2011). A handful of studies find that activating a deliberative mindset (Griffith et al. 2015), making intrinsic motivations salient (Kadous and Zhou 2016) and priming auditors' mindsets with a sceptical metaphor (Parlee et al. 2014) prior to their audit tasks significantly improves their sceptical judgements and sceptical actions.[14] These interventions prime auditors' mindsets non-consciously, demanding little or no cognitive effort and mental resources when they complete a subsequent task (Parlee et al. 2014).

Building upon the evidence regarding mindset activation, I expect that inducing preparers to consider the pros and cons of MFRS or IFRS will activate their mindsets according to MFRS or IFRS. Mindset activation affects all the stages of decision making beyond the initial step by determining the ways in which problems are represented, information is searched for or processed and evaluated, and judgements or decisions are made, thereby influencing subsequent tasks (Gollwitzer 1990; Griffith et al. 2015; Hamilton et al. 2011). Instructing the participants to deliberately weigh the pros or cons

[14] Griffith et al. (2015) asked auditors to consider the pros and cons of doing an international rotation (a deliberative mindset manipulation) and Kadous and Zhou (2016) instructed auditors to list their intrinsic motivations for job performance in order of importance (an intrinsic motivation manipulation) before asking them to evaluate the fair values used for impairment valuation. On the other hand, Parlee et al. (2014) primed auditors' mindsets with a self-sceptical metaphor or client-sceptical metaphor before instructing them to perform analytical procedures.

of MFRS or IFRS will prime their decision-making in the subsequent task, where they will be asked to account for a provision of an estimate. As noted above, the accounting standards regarding provisions are not different between MFRS and IFRS. As such, I propose that preparers' decisions to account for the provision of the estimate will not be different when instructed to weigh the pros and cons of using MFRS (the MFRS deliberative mindset condition) than when instructed to weigh the pros or cons of using IFRS (the IFRS deliberative mindset condition). This discussion leads to the following hypothesis:

> **H1:** The reporting decisions of the preparers in the MFRS mindset condition will not be different from the reporting decisions of the preparers in the IFRS mindset condition.

2.3 Monetary Incentives

Monetary incentives are known to influence the judgement and decision-making of individuals in different contexts, such as in the contexts of contracts for short- and long-term employees, surveys with pre-payment cash incentives, lottery prizes, ethical decisions, and health/medical issues (Chi et al. 2019; Warriner et al. 1996; Bentley and Thacker 2004; Camerer and Hogarth 1999; Bereby-Meyer et al. 2013). In accounting and auditing contexts, some studies indicate that financial incentives do not improve manager's reporting decisions (Bonner and Sprinkle 2002; Bonner et al. 2000; Young and Lewis 1995). Others show that financial incentives elicit more aggressive reporting decisions in the context of rules-based accounting standards than in that of principles-based accounting standards (Kang & Lin, 2011) and that individuals with financial incentives spend significantly more time on tasks than those without financial incentives, resulting in increased time ((Awasthi and Pratt 1990)). Building upon these studies, I propose that the preparers' decisions to account for provisions will be different when there is an incentive for them to participate in a raffle (i.e., win a pair of headphones worth $300 U.S. dollars) from when there is no incentive for them to participate in a raffle. This discussion leads to the following non-directional hypothesis:

> **H2:** The preparers' reporting decisions will differ when there is a financial incentive to participate in a raffle from when there is no financial incentive to participate in a raffle.

2.4 Research Methodology

This study employed a 2 x 2 between-subjects randomized experiment to investigate the effects of the MFRS and IFRS Deliberative Mindsets (*Mindset Condition*) and the presence or absence of monetary incentives (*Incentives*) on the examined preparers' financial reporting decisions involving accounting estimates.

2.4.1 Participants

The study participants were undergraduate accounting senior students who were used as proxies of controllers. These students responded to a modified version of the instrument developed by Brown (2014) in the context of the periods before and after IFRS adoption. Students are widely used in business settings as proxies for investors (Elliott et al. 2007; Elliott et al. 2004; Hirst et al. 1995; Maines and McDaniel 2000; Hodge et al. 2004), managers, and executives (Heuer et al. 1999).

The initial pool of participants consisted of 171 students enrolled in the Financial Statement Analysis course during the 2018 autumn semester. All the data collection sessions were conducted in Spanish, the native language of the participants. Eight participants (4.7%) were excluded from the study because they failed to correctly respond to the manipulation check question. The remaining final sample, which comprised 163 participants consisted of 61 (37.4%) female students, 80 (49.1%) accounting majors, 71 (43.6%) finance majors, 11 (6.8%) double majors in accounting and finance, and 1 (0.5%)[15] economics major with a minor concentration in accounting. The participants in the final sample pool had taken an average of 6.4 accounting courses (s.d. = 3.26) and 51 (31.3%) of them indicated that they had a job experience in the accounting or finance fields[16].

2.4.2 Experimental Design and Procedure

The experiment was conducted under controlled laboratory conditions. All the data collection sessions were conducted in Spanish. The study participants were instructed to assume the role of a controller for a large division of a consumer goods company. First, the participants read a brief background information about a hypothetical company and were instructed to analyse a year-end issue using MFRS or IFRS. After analysing the year-end issue, the participants were asked to respond to manipulation/attention check items, debriefing questions, and demographic items. The participants who were randomly assigned to the monetary incentive condition were given the opportunity to participate in a raffle for a pair of headphones (worth $300 U.S. dollars) if they correctly responded to the manipulation check question. The raffle event was held a week after the data collection. See Appendix V for more information on the instrument used in this study.

[15] In Mexico, students can choose to have double majors. In this way, they can pursue a joint degree in accounting and finance or economics and accounting.
[16] This data analysis was developed using SPSS and the support of the following books: Field (2013), Hair et al. (2006) and Hair et al. (2017).

2.4.3 Independent Variables

One group of participants was instructed to analyse the reporting issue in accordance with the Mexican Financial Reporting Standards (MFRS) that were in place before the IFRS adoption and to weigh the pros and cons of using MFRS:

> *While analysing the reporting issue, use the Mexican Financial Reporting Standards before the IFRS adoption to make the reporting decision. Think of the MFRS pre-IFRS adoption and below list three pros and three cons of using the MFRS pre-IFRS adoption.*

Another group of participants was instructed to analyse the reporting issue in accordance with International Financial Reporting Standards (IFRS) and to weigh the pros and cons of using IFRS:

> *While analysing the reporting issue, use the Mexican Financial Reporting Standards after the IFRS adoption to make the reporting decision. Think of the MFRS post-IFRS adoption and below list three pros and three cons of using the MFRS post-IFRS adoption:*

Regarding monetary incentives, only one group of participants was given the opportunity to participate in a raffle (i.e., win a pair of headphones worth $300 U.S. dollars) if they correctly responded to a manipulation check question (presence of *incentives*). Another group of participants, who also volunteered to participate in the study, completed the task without the raffle opportunity (absence of *incentives*).

2.4.4 Warranty Estimate

The warranty decision context used was derived from the earnings management case used in Brown et al. (2014). This case involves an accounting estimate for a large subsidiary of a consumer goods company. The participants were informed of a new product that the subsidiary started selling with a 10-year warranty and were instructed to estimate and record the expected warranty expenses for this new product. While evaluating a range of possible outcomes regarding the warranty expense, the participants received information about the subsidiary's operational profit prior to accounting for the warranty expense ($42 million pesos) and the operational profit target for the subsidiary ($40.5 million pesos) that would enable the company to meet the consensus analysts´ earnings per share forecast (EPS). After reading information about the current operational profit and the expected operational profit target, the participants read the following statement about the potential consequence of meeting or failing to meet EPS forecast.

> *If ABC meets its profit target, you will receive a bonus for the year (worth approximately 50% of your yearly salary), and your subsidiary will receive more resources to expand into new markets. If you do not meet the target, you will not receive a bonus, and ABC may need to lay off personnel next year.*

After this statement, the case described different scenarios of warranty expense that could be recorded and their effects on the subsidiary's profit target and the firm's ability to meet the EPS forecast.

> *Based upon the profit before accounting for the new product warranty expenses ($42 million), ABC will meet its profit target this year. You note that ABC usually estimates uncertain expenses using an expected value technique, i.e., by multiplying each possible warranty expense by its probability and recording the sum. If you follow this approach, it will reduce operational profit for ABC by $2,000,000. This means ABC will miss its profit target by $500,000, and the firm's earnings will fall below the earnings target.*
>
> *However, you note that you could record the second-to-lowest amount included in the range. If you follow this approach, the warranty expense will reduce operational profit for ABC by $1,500,000. This means ABC will exactly meet its profit target. You also note that initial reports of the reliability of the new product are good.*

2.4.5 Dependent Variables

I utilized a direct and indirect approach to measure the participants' decisions regarding the warranty estimate case, and these factors were used as the dependent variables for testing hypotheses H1 and H2. First, the participants were instructed to indicate the amount of warranty expense that they would record for the hypothetical company (*Warranty Expense*). Following this question, the participants were instructed to answer the following question (*Other Controllers' Reporting Decision*):

1) *When faced with the following two options, what do you believe others in a similar situation would choose to do? Please indicate your response by circling a number on the scale below.*
   - *Option 1: Controllers who are in charge of financial reporting would record $1,500,000 or Less*
   - *Option 2: Controllers who are in charge of financial reporting would record $2,000,000 or More*

-3	-2	-1	0	1	2	3
Strongly choose OPTION 1: *Other controllers would record $1,500,000 or Less*	Moderately choose OPTION 1	Slightly choose OPTION 1	*Indifferent*	Slightly choose OPTION 2	Moderately choose OPTION 2	Strongly choose OPTION 2: *Other controllers would record $2,000,000 or More*

The second question was used to avoid social desirability bias (Fisher 1993), which is common in decisions involving ethical values, and leads individuals to project their true judgements on a *referent other* (Clement and Krueger 2000; Fisher 1993; Cohen et al. 2001; Mikulincer and Horesh 1999; Cohen et al. 1993).

The *Warranty Expense* and *Other Controllers' Reporting Decision* variables served as proxies for the participants' reporting decisions. Recording *Warranty Expense* as close to 1.5 million or less and the selection of Option 1 (from -1 to -3) indicated aggressive reporting decisions that would enable top management to meet their earnings forecast. Recording *Warranty Expense* as close to 2.0 million or more and the selection of Option 2 (from 1 to 3) indicated conservative reporting decisions that would not allow top management to meet their earnings forecast.

2.5 Results and Analysis

2.5.1 Descriptive Statistics

Panel B of Table 2.1 shows that the average warranty expense ranges from $1,756,097.56 to $1,772,727.27 and the other controllers' reporting decisions vary from -0.41 (Option 1) to 0 (indifferent) across the four contexts. The participants, on average, make conservative reporting decisions irrespective of whether they are in the pre-IFRS condition ($1,767,441.86 - $1,772,727.27) or the post-IFRS condition ($1,756,097.56 - $1,771,428.57). Additionally, the participants perceive that other controllers, on average, will choose option 1 whether they are assigned to the pre-IFRS condition (-0.16, -0.20) or the post-IFRS condition (-0.41, -0.00). I perform a one-way ANOVA and chi-square analyses on the demographic variables across the treatment conditions. My results (nontabulated) reveal no significant differences in the variables *Number of Accounting Courses* (F= 0.106, p = 0.956), *Gender* (χ^2 = 0.712, p = 0.870), *Major* (χ^2 = 4.976, p = 0.836), and *Experience in Accounting or Finance* (χ^2 = 2.021, p = 0.568) across the treatment conditions. These results show that participants' demographic profiles appear to be adequately balanced across the treatment conditions.

[Insert Table 2.1 here]

The correlation analysis presented in Table 2.2 reveals that the participants' decisions pertaining to *Warranty Expense* are significantly correlated with their perceptions of O*ther Controllers' Reporting Decision* (p < 0.01). None of the demographic variables are significantly correlated with *Warranty Expense* or *Other Controllers' Reporting Decision,* except for *Major (p* $\leq$ 0.05) and *Number of Accounting Courses* ($p < 0.05$). The negative correlations between the dependent variables and *Major* suggest that accounting majors make more conservative reporting decisions and perceive that other controllers are more likely to choose Option 2 (record warranty expenses of $2,000,000 or more) than non-accounting majors. The positive correlation between *Number of Accounting Courses* and *Other Controllers' Reporting Decision* indicates that the more accounting courses participants take, the more likely they are to perceive that other controllers will make conservative reporting decisions (or choose Option 2). Considering these results, I include *Major* and *Number of Accounting Courses* as control variables in the subsequent tests.

[Insert Table 2.2 here]

2.5.2 Hypotheses Testing

Hypothesis 1 (H1) posits that there will be no difference between the participants´ decisions regarding which accounting estimate to record in the MFRS mindset condition and those in the IFRS mindset condition. Hypothesis 2 (H2) predicts that the decision to record accounting estimate will differ from the absence of monetary incentives to the presence of monetary incentives. To test H1 and H2, I perform a 2 x 2 ANCOVA with *Warranty Expense* and *Other Controllers' Reporting Decision* as the dependent variables, *Mindset Condition,* and *Incentives* as the independent variables and *Major* and *Number of Accounting Courses* as covariates (or control variables), where applicable. The results of the ANCOVA, which are presented in Tables 2.3 and 2.4, reveal that the participants' decisions regarding warranty expenses and their perceptions of other controllers' reporting decision do not differ significantly from the MFRS mindset condition to the IFRS mindset condition ($p \geq 0.86$) and from the absence of monetary incentives to the presence of monetary incentives ($p \geq 0.61$). These results provide support for H1 and fail to support H2, respectively. Collectively, the hypotheses testing results suggest that the participants´ use of professional judgement led them to make conservative reporting decisions irrespective of their use of IFRS or MFRS.

[Insert Table 2.3 and 2.4 here]

2.5.3 Supplementary Analysis

Previous research, such as Jaramillo and López Vargas (2019), Libby and Thorne (2018), Libby et al. (2002) and Bonner and Sprinkle (2002), indicates that individuals' preferences for risk influence their decision-making in financial reporting contexts. Because of the importance of this factor, I also collected data on the risk preferences of the participants when they were given the opportunity to win a set of headphones after the completion of the tasks. Using the group of participants with monetary incentives, I performed a one-way ANOVA with *Warranty Expense* and *Other Controllers' Reporting Decision* as the dependent variables, *Mindset Condition* as an independent variable and *Major*, *Number of Accounting Courses* and *Risk Preference* as covariates (or control variables). The ANOVA results, which are presented in Tables

2.5 and 2.6 are consistent with those presented in Tables 2.3 and 2.4. That is, I find no evidence of major effects caused by *Mindset Condition* ($p \geq 0.662$) on *Warranty Expense* and *Other Controllers' Reporting Decision* after controlling for the participants' risk preferences. These results indicate that there is no significant difference between the participants' reporting decisions under MFRS and those under IFRS, irrespective of their risk preferences.

[Insert Table 2.5 and 2.6 here]

2.6 Conclusion and Discussion

In Study 1, the controller interviewees indicated that the use of professional judgement represents one of the challenges that they faced with the implementation of IFRS. It is not clear whether Mexican controllers following IFRS exercise their professional judgement by making more aggressive reporting decisions (or accruing warranty expenses that enable top management to meet their earnings per share (EPS) forecasts) or conservative reporting decisions (accruing warranty expenses that prevent top management from aggressively meeting EPS forecasts). Following up with Study 1, Study 2 examined whether controllers´ financial reporting decisions made under IFRS differ from those made under MFRS and whether financial incentives influence controllers´ reporting decisions. To investigate these issues, I employed undergraduate students majoring in accounting and/or finance, activated their mindsets according to MFRS or IFRS, and instructed them to analyse earnings management cases adapted from Brown (2014). The findings of this study indicated that there was no difference between the reporting decisions made under IFRS and those made under MFRS and that the participants' decisions were not affected by financial incentives. The follow-up results also indicated that the participants' reporting decisions were not influenced by their risk preferences (Weber et al. (2002).

In general, the results of this study suggested that the convergence process of MFRS into IFRS has effectively changed preparers' mindsets to the extent that Mexican preparers' reporting decisions are principles-based like IFRS. This study has some limitations. The participants were accounting and/or finance major students instead of controllers. Controller participants may face more pressures from top management to meet EPS forecasts than student participants, and they may have more incentives to earn bonuses and prevent layoffs, leading the findings of Study 2 to differ from the reporting decisions of actual controllers who work for organizations that place strong emphases on meeting the expectations of the BMV. My findings were limited by the finite context of the experiment (Shadish et al. 2002). Like any experimental study, the laboratory environment utilized lacked the richness and authenticity of an actual working environment, where controllers may consider a potentially large range or combination of factors in making their reporting decisions such as ethical or cultural issues pertaining to a given organizational setting.

Finally, another limitation is that the concept used in this study to operationalize "aggressive accounting" was "underreporting of expenses". Other complex and realistic ways to operationalize "aggressive accounting" could be "overstatement of revenues" or "understatement of liabilities", and the use of these concepts may bring different conclusions.

Future research may consider other methodologies, such as archival or field experimental studies, in examining the effects of ethical (Cohen, 2001; Youssef, 2015), cultural (Gray & Vint ,1995; Tsakumis, 2007, Thomas, 1989; Chand et al. 2012) and/or organizational factors (family versus nonfamily environments) on controllers' reporting decisions (Gao et al. 2019).

2.7 Tables of Study 2

Table 2.1
Descriptive Statistics

Panel A: Demographic Information

	Pre-IFRS and Absence of Incentives	Post-IFRS and Absence of Incentives	Pre-IFRS and Presence of Incentives	Post-IFRS and Presence of Incentives	Total
n /a	43	44	35	41	163
Number of accounting courses /b	6.51 {3.82}	6.55 {3.849}	6.31 {2.246}	6.20 {2.731}	6.40 {3.261}
Experience in accounting or finance /c	15 (34.9%)	16 (36.4%)	8 (22.9%)	12 (29.3%)	51 (31.2%)
Major: /c					
Accounting	22 (51.2%)	23 (52.3%)	15 (42.9%)	20 (48.8%)	80 (49.1%)
Finance	19 (44.2%)	18 (40.9%)	16 (45.7%)	18 (43.9%)	71 (43.6%)
Both	2 (4.7%)	2 (4.5%)	4 (11.4%)	3 (7.3%)	11 (6.8%)
Others	0 (0.0%)	1 (2.3%)	0 (2.3%)	0 (0.0%)	1 (0.5%)
Female /c	15 (34.9%)	15 (34.1%)	14 (40%)	17 (41.5%)	61 (37.4%)

Panel B: Participants' Reporting Decision

	Pre-IFRS and Absence of Incentives	Post-IFRS and Absence of Incentives	Pre-IFRS and Presence of Incentives	Post-IFRS and Presence of Incentives	Total
Warranty Expense /b	$1,767,441 {$333,610}	$1,772,727 {$273,957}	$1,771,428 {$252,716}	$1,756,097 {$276,630}	$1,766,871 {$284,812}
Other Controllers' Reporting Decision	-0.16 {2.137}	0.00 {2.046}	-0.20 {1.982}	-0.41 {2.000}	-0.19 {2.032}

/a Sample size per organizational context.
/b Mean {standard deviation}.
/c The percentage figures pertain to each treatment condition or the 'column' sample.

Warranty Expense = The amount of warranty expense (Mexican pesos) the participant would record

Other Controllers' Reporting Decision = -3=Strongly choose option 1 (record warranty expense of $1,500,000 or less), 0=Indifferent, +3= Strongly choose option 2 (record warranty expense of $2,000,000 or more)

Table 2.2
Correlation Matrix [(a)]

	Mindset Condition	Incentives	Amount of Warranty	Other Controllers' Reporting Decision
Mindset Condition	1			
Incentives	-0.034	1		
Amount of Warranty	0.008	-0.012	1	
Other Controllers' Reporting Decision	0.005	-0.058	0.483**	1
Gender	-0.005	0.065	-0.035	0.079
Major	0.020	0.062	-0.189*	-0.234**
Number of Accounting Courses	0.007	-0.043	-0.009	0.158*
Experience in Accounting or Finance	-0.037	-0.100	0.065	0.135

(***) Correlation is significant at the 0.10 level (2-tailed).
(**) Correlation is significant at the 0.05 level (2-tailed).
(*) Correlation is significant at the 0.01 level (2-tailed).
(a) N = 163

Mindset Condition = Condition=1 (the participant analysed the reporting issue using MFRS (pre-adoption)) and Condition=0 (the participant analysed the reporting issue using IFRS (post-adoption))
Incentives = Condition=1 (the student participate in a raffle as an incentive to participate) and Condition=0 (the student do not participate in the raffle)
Amount of Warranty = The amount of warranty expense (Mexican pesos) the participant would record
Other Controllers' Reporting Decision = -3=Strongly choose option 1 (record warranty expense of $1,500,000 or less), 0=Indifferent, +3= Strongly choose option 2 (record warranty expense of $2,000,000 or more)
Gender = 1=Female and 0=Male
Major = 1=Accounting, 2= Finance, 3=Both and 4=Other
Number of Accounting Courses = The number of accounting courses that the student has taken
Experience in Accounting or Finance = 1=Yes and 0=No

Table 2.3
ANCOVA Results for Hypotheses 1 and 2
(DV=Warranty Expense)

Panel A: Mean of Warranty Expense across Treatment Conditions (standard deviation) {sample size}

		Mindset Condition		Main Effect: Incentives
		Pre-IFRS	Post-IFRS	
Incentives	Presence	$1,771,428 ($252,716) {35}	$1,756,097 ($276,630) {41}	$1,763,157 ($264,243) {76}
	Absence	$1,767,441 ($333,610) {43}	$1,772,727 ($273,957) {44}	$1,770,114 ($303,129) {87}
Main Effect: Mindset Condition		$1,769,230 ($298,179) {78}	$1,764,705 ($273,733) {85}	$1,766,871 ($284,812) {163}

Panel B: ANCOVA Results (DV= Warranty Expense)

Source	Sum of Square	d.f.	Mean Square	F-Ratio	p-value
Major	473173675849.549	1	473173675849.549	5.905	.016
Mindset Condition	2483438158.146	1	2483438158.146	.031	.860
Incentives	21980220.126	1	21980220.126	.000	.987
Mindset Condition X Incentives	10224093938.394	1	10224093938.394	.128	.721
Error	12660921837258.988	158	80132416691.513		

(The assumption of homogeneity of regression holds across manipulated conditions for *Major*.)

Mindset Condition = Condition=1 (the participant analysed the reporting issue using MFRS (pre-adoption)) and Condition=0 (the participant analysed the reporting issue using IFRS (post-adoption))
Incentives = Condition=1 (the student participate in a raffle as an incentive to participate) and Condition=0 (the student do not participate in the raffle)
Amount of Warranty = The amount of warranty expense (Mexican pesos) the participant would record
Major = 1= Accounting, 2= Finance, 3=Both, and 4=Other

Table 2.4
ANCOVA Results for Hypotheses 1 and 2
(DV=Other Controllers' Reporting Decision)

Panel A: Mean of Other Controllers' Reporting Decision across Treatment Conditions
(standard deviation) {sample size}

		Mindset Condition		Main Effect: Incentives
		Pre-IFRS	Post-IFRS	
Incentives	Presence	-0.20 (1.982) {35}	-0.41 (2.000) {41}	-0.32 (1.981) {76}
	Absence	-0.16 (2.137) {43}	-0.00 (2.046) {44}	-0.08 (2.081) {87}
Main Effect: Mindset Condition		-0.18 (2.056) {78}	-0.20 (2.022) {85}	-0.19 (2.032) {163}

Panel B: ANCOVA Results (DV= Other Controllers' Reporting Decision)

Source	Sum of Square	d.f.	Mean Square	F-Ratio	p-value
Major	23.662	1	23.662	5.937	.016
Number of Accounting Courses	3.121	1	3.121	.783	.378
Mindset Condition	.084	1	.084	.021	.885
Incentives	1.016	1	1.016	.255	.614
Mindset Condition X Incentives	2.100	1	2.100	.527	.469
Error	625.706	157	3.985		

(The assumption of homogeneity of regression holds across manipulated conditions for *Major* and *Number of Accounting Courses*.)

Mindset Condition =	Condition=1 (the participant analysed the reporting issue using MFRS (pre-adoption)) and Condition=0 (the participant analysed the reporting issue using IFRS (post-adoption))
Incentives =	Condition=1 (the student participate in a raffle as an incentive to participate) and Condition=0 (the student do not participate in the raffle)
Other Controllers' Reporting Decision=	-3=Strongly choose option 1 (record warranty expense of $1,500,000 or less), 0=Indifferent, +3= Strongly choose option 2 (record warranty expense of $2,000,000 or more)
Major =	1= Accounting, 2= Finance, 3=Both, and 4=Other
Number of Accounting Courses =	The number of accounting courses that the student has taken

Table 2.5
A One-Way ANOVA Results for Supplementary Analysis
(DV=Warranty Expense)

Panel A: Mean of Warranty Expense across Treatment Conditions (standard deviation) {sample size}

	Mindset Condition		
	Pre-IFRS	Post-IFRS	Total
Main Effect: Mindset Condition	$1,771,428 ($252,716) {35}	$1,756,097 ($276,630) {41}	$1,763,157 ($264,243) {76}

Panel B: ANCOVA Results (DV= Warranty Expense)

Source	Sum of Square	d.f.	Mean Square	F-Ratio	p-value
Major	10948718221.062	1	10948718221.062	.151	.699
Number of Accounting Courses	4248668422.533	1	4248668422.533	.059	.809
Risk Preference	57766620682.050	1	57766620682.050	.796	.375
Mindset Condition	316704036.272	1	316704036.272	.004	.948
Error	5151938501959.655	71	72562514112.108		

(The assumption of homogeneity of regression holds across manipulated conditions for *Major*.)

Mindset Condition = Condition=1 (the participant analysed the reporting issue using MFRS (pre-adoption)) and Condition=0 (the participant analysed the reporting issue using IFRS (post-adoption))
Incentives = Condition=1 (the student participate in a raffle as an incentive to participate) and Condition=0 (the student do not participate in the raffle)
Amount of Warranty = The amount of warranty expense (Mexican pesos) the participant would record
Major = 1= Accounting, 2= Finance, 3=Both, and 4=Other
Number of Accounting Courses = The number of accounting courses that the student has taken
Risk Preference = 1=To lose $20 or win $260, 2= Do not win or win $240, 3= Win $20 or win $200, 4= Win $40 or win $160, 5= Win $60 or win $120, 6= Win $80 in any scenario

Table 2.6
A One-Way ANOVA Results for Supplementary Analysis
(DV=Other Controllers' Reporting Decision)

Panel A: Mean of Other Controllers' Reporting Decision across Treatment Conditions
(standard deviation) {sample size}

	Mindset Condition		
	Pre-IFRS	Post-IFRS	Total
Main Effect: Mindset Condition	-0.20 (1.982) {35}	-0.41 (2.000) {41}	-0.32 (1.981) {76}

Panel B: ANCOVA Results (DV= Other Controllers' Reporting Decision)

Source	Sum of Square	d.f.	Mean Square	F-Ratio	p-value
Major	2.771	1	2.771	.683	.411
Number of Accounting Courses	.198	1	.198	.049	.826
Risk Preference	.987	1	.987	.243	.623
Mindset Condition	.782	1	.782	.193	.662
Error	287.980	71	4.056		

(The assumption of homogeneity of regression holds across manipulated conditions for *Major* and *Number of Accounting Courses*.)

Mindset Condition =	Condition=1 (the participant analysed the reporting issue using MFRS (pre-adoption)) and Condition=0 (the participant analysed the reporting issue using IFRS (post-adoption))
Other Controllers' Reporting Decision=	-3=Strongly choose option 1 (record warranty expense of $1,500,000 or less), 0=Indifferent, +3= Strongly choose option 2 (record warranty expense of $2,000,000 or more)
Major =	1= Accounting, 2= Finance, 3=Both, and 4=Other
Number of Accounting Courses =	The number of accounting courses that the student has taken
Risk Preference =	1=To lose $20 or win $260, 2= Do not win or win $240, 3= Win $20 or win $200, 4= Win $40 or win $160, 5= Win $60 or win $120, 6= Win $80 in any scenario

3. STUDY 3: THE EFFECT OF AUDIT PERSPECTIVE TAKING AND AUDIT COMMITTEE EXPERTISE ON CONTROLLERS´ MISREPORTING BEHAVIOUR

Top management (the CFO of a firm) is considered one of the four cornerstones of corporate governance because of its strong influence in terms of setting the overall tone of governance (Cohen et al. 2002; Gramling et al. 2004). As the second–in–command at firms, with a focus on investors and other external relations, CFOs are significantly "moving away from scorekeeper to business partner" (Ernst and Young 2008). While working as a business partner, a CFO needs to have a strong controller in place who can monitor the financial reporting process and minimize the negative impact of audits (Bragg 2011). A controller (or a senior accountant who is responsible for financial reporting) typically reports directly to the chief financial officer (CFO) and/or the chief executive officer (CEO), participates in finance-related activities, and coordinates with mid- and low-level managers to validate the completeness and integrity of financial information and prepare timely, accurate financial statements (Bell 2007; and Davis 2009). As internal corporate watchdogs, controllers are expected to maintain their independence from "top management's overly aggressive accounting and reporting practices" (Howell 2002)) while working closely with top management (Eskenazi et al. 2016) and interacting with external auditors and audit committee members (Suh et al. 2018).

Controllers "work in close proximity to [top management] and form strong personal relationships with them" (Eskenazi et al. 2016). Additionally, they are "the first line of defence against [the CFO's] overly aggressive accounting and reporting practices" (Howell 2002) while interacting with audit committee members and auditors (Hopper 1980; Suh et al. 2018). Figure 3.1 presents the interactive relationships between a controller and top management, audit committee members, and external auditors.

[Insert Figure 3.1 here]

There is evidence, however, that controllers often fail to fulfil their roles as internal corporate watchdogs who prevent financial misreporting. Indeed, the 14th Global Fraud Survey indicates that 46 percent of the controllers surveyed find ways to justify unethical behaviour when they perceive pressure to meet financial targets (EY 2016). This percentage has increased since 2016 (EY 2018). These results are consistent with the striking increase observed in the percentage of controllers who participated in fraud cases from 1987-1997 (21%) to 1998-2007 (34%) (Beasley et al. 2010; Beasley et al. 1999). Such increases in the alleged unethical reporting behaviour of controllers and their willingness to justify misreporting behaviour raise important questions about the effectiveness of the current governance systems in organizations. For example, how do the audit committees and auditors influence controllers' reporting decisions? Does controllers' proximity to top management (CFOs) affect their objectivity while overseeing the financial reporting process? To date, there is a scarcity of research examining these issues.

3.1 Perspective Taking

Perspective taking (PT) theory[17] has been broadly used in the field of social psychology and is often analysed with the sociological concept of "role-taking" (Feffer 1959). According to PT theory, a person puts "himself on the other's place" (Coutu 1951; Batson et al. 1997; Epley and Caruso 2009), which enables him to obtain another person's "point of view" (attitudes, thoughts, feelings, and concerns), anticipate that person's behaviour, and act accordingly. PT also evokes empathy with another person (Batson et al. 1997) and role-taking experiences improve a person's ability to engage in perspective taking (Feffer 1959). Evidence regarding PT theory in the context of auditing has been limited, and related findings indicate that role-playing improves auditors' judgements and decision-making (Trotman et al. 2005; Church et al. 2015; Bowlin 2011).

Church et al. (2015) examine the effect of role-taking experiences on auditors' ability to determine whether managers' reported earnings are materially misstated, and they find that undergraduate students (a proxy for auditors) estimate earnings more accurately when they take the perspective of clients (managers). The study results of Trotman et al. (2005) reveal that role-playing improves auditors' negotiation outcomes when negotiating audit adjustments with clients. Hamilton (2016) concludes that auditors who consider the perspective of the manager responsible for a misstatement are more sensitive to audit evidence indicative of financial reporting misstatements. In

[17] An alternative theory that could have been used is Psychological Closeness theory (e.g., Gino and Galinsky (2012), Goldstein and Cialdini (2007), Gunia et al. (2009), Kouchaki (2011) and Kreilkamp (1984)). This theory posits that perceptions of feeling close with others can bias a person's judgement and decision-making. Perspective taking theory, on the other hand, proposes that role-taking allows a role-taker to anticipate another person´s reactions enabling him to make more objective decisions.

general, the existing evidence provides support for the use of perspective-taking theory to assess the potential misreporting behaviour of audit clients.

Drawing from previous research, I expect that controllers who "put themselves into an external auditor's shoes" anticipate auditors' scrutiny regarding their reporting decisions and make fewer misreporting decisions (or understate expenses) than controllers who do not "put themselves into an external auditor's shoes." This discussion leads to the following hypothesis:

> **H1:** Controllers who engage in audit perspective-taking will be less likely to understate expenses than controllers who do not engage in audit perspective-taking.

3.2 Audit Committee – Expertise Power

Power has its origin in political science and sociology (Chee Chiu Kwok and Sharp 2005). Although there is no universal definition of power (Dahl 1957), it is known as "the capacity to bring about consequences" (Lukes 1977) or the potential to influence others' attitudes or behaviours despite resistance (Norman et al. 2011; Bacharach and Lawler 1980; Pfeffer 1981). Expert power is perceived when people evaluate a person's expertise in relation to his knowledge; subsequently, people follow such an individual's authority as an expert (French and Raven 1959). A handful of studies on auditing have identified the expertise power of audit committees from the perspective of international experience, previous experience in accounting, certifications, financial expertise, auditing experience, or better monitoring capacity (Dauth et al. 2017; García-Sánchez et al. 2017; Albersmann and Hohenfels 2017; Krishnan and Visvanathan 2008; DeZoort and Salterio 2001; Beck and Mauldin 2014; Bédard et al. 2004; Cohen et al. 2014).

Previous research finds that the level of an audit committee's financial expertise can decrease firms' earnings management behaviour, enabling them to access lower-cost debt, provide additional disclosures, issue fewer restatements and achieve higher firm value (Bédard et al. 2004; DeFond and Francis 2005). Since the implementation of SOX, managers have perceived audit committees to have more power (or authority) to oversee internal controls, oversee financial reporting quality and identify risks (Cohen et al. (2010).

Although the extant research on this topic has investigated the effect of audit committee expertise on financial reporting oversight (Bédard et al. 2004; Abbott et al. 2004; Krishnan and Visvanathan 2008; Davidson III et al. 2004; Cohen et al. 2014; Lin et al. 2006; Kalbers and Fogarty 1993), only two studies have examined the effect of audit committee expertise power on auditors' judgements and decision making (Kalbers and Fogarty 1993; Norman et al. 2011). Norman et al. (2011) find no evidence regarding the effect of audit committees' expertise power on internal auditors' willingness to overlook misstatements. Kalbers and Fogarty (1993), on the other hand, indicate that financial expertise such as knowledge of accounting and finance is a source of an audit committee's effectiveness that decreases opportunities for managers to engage in misreporting. To date, little is known about the effect of audit committee expertise power on controllers' misreporting behaviour. Given this mixed evidence, controllers' misreporting decisions (to understate expenses) are likely influenced by audit committees' expertise power. As such I propose the following nondirectional hypothesis:

H2: Controllers' decisions to accrue expense are likely different when there is a high level of audit committee expertise than when there is a low level of audit committee expertise.

3.3 Perceived Relationship Quality

The quality of relationships between superiors and subordinates is grounded in interpersonal factors such as liking one another based on interpersonal attraction (referred to as "affect"), supporting each other's actions and character (referred to as "loyalty"), and engaging in tasks and duties beyond what is required by the relevant formal employment terms (referred to as "contribution") (Brower et al. 2000; Liden and Maslyn 1998). Perceptions of relationship quality are known to significantly affect subordinate employees' behaviour in various settings (Graen and Uhl-Bien (1995)), including the financial reporting context (Suh et al. 2018; Gao et al. 2019). Jollineau et al. (2012) find that subordinates who perceive relatively high-quality relationships with their managers make more biased reporting decisions than subordinates who perceive relatively low-quality relationships with their managers. Interview narratives of C-suite financial executives (corporate controllers) who were involved in and indicted for major cases of accounting fraud suggest that these executives conformed to reporting requests made by their superiors (CFOs) because of their desire to please (or connect with) their leaders (Suh et al. 2018). Consistent with the findings of Suh et al. (2018) and Gao et al. (2019), public firm financial executives who perceive a relatively high-quality relationship with their top management make more aggressive (unethical) reporting decisions than public firm financial executives who perceive a relatively low-quality relationship with their top management.

Building on the work of Jollineau et al. (2012), Suh et al. (2018) and Gao et al. (2019), I expect that controllers' social connections with their CFOs—perceived relationship quality—will influence their reporting behaviour: the higher the perceived quality of a relationship between a controller and a CFO is, the more aggressive the reporting decisions of that controller will be (or the lower the amount of expenses that he or she records will be). Specifically, I propose the following directional hypothesis:

> **H3:** Controllers who perceive a high-quality relationship with their CFOs are more likely to understate expenses than controllers who perceive a low-quality relationship with their CFOs.

3.4 Research Methodology

This study employs a 2 x 2 x 2 between-participant randomized experiment to investigate the effects of *Audit Perspective Taking* (presence or absence), *Audit Committee Expertise* (low or high) and *Relationship Quality* (low or high) on financial reporting decisions involving the misreporting of warranty expenses (Figure 3.2).

[Insert Figure 3.2 here]

3.4.1 Participants

A total of 112 experienced, Mexican controllers and their subordinates (managers, supervisors, and assistants) from Mexican listed firms participated in this study. The final sample included 104 controllers and subordinates after excluding the participants who failed to provide correct answers to the manipulation check questions. Of these 104 participants, 68.3 percent were male, 43.3 percent had a master's degree, 43.3 percent were certified public accountants, 40.4 percent had experience in external auditing, and 11.5 percent have experience in internal auditing. Most of these participants held a controllership-related job title (64.5 percent), and the rest worked as managers (10.6 percent), supervisors (15.4 percent) or assistants (4.8 percent). On average, the participants had 11.2 years of experience in financial reporting and 9.6 years of tenure at their current organizations. Of the 104 participants[18], 26.0 percent worked in the professional, scientific and technical service sector, 24.0 percent worked in the finance and insurance sector, 12.5 percent worked in the information and media sector, 7.7 percent worked in the manufacturing sector, and the remaining worked in other industries (i.e., retail/wholesale trade, construction, real estate, utilities, telecom, transportation, healthcare, arts/entertainment and recreation, hospitality, education and mining/oil and gas). See Table 3.1 for more information about the industry sectors in which the participants worked. The controllers and their subordinates were recruited from continuing professional education programmes[19] provided by the Mexican Institute of Public Accountants (IMCP) during the second quarter of 2019. The experimental materials were administered at the beginning of the CPE programme, and the participants were debriefed upon the completion of the task material. All the data collection sessions were conducted in Spanish.

[Insert Table 3.1 here]

My results (nontabulated) indicated that the examined demographic factors did not differ significantly across the eight treatment conditions (p-values ≥ 0.11). The results of a chi-Square test indicated that *Gender* ($\chi^2 = 3.32$, $p = 0.85$), *Job Positions*

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[18] Participants were from different companies.
[19] The CPE program is compulsory for all accountants in Mexico that hold a Certification and wish to maintain it. The CPE renewal is obtained getting different points (40 – 60 points) depending on the specialization area.

(χ^2 = 34.30, *p* = 0.19), *CPA* (χ^2 = 14.28, *p* = 0.43), *Experience in External Auditing* (χ^2 = 21.733, *p* = 0.42), *Experience in Internal Auditing* (χ^2 = 9.51, *p* = 0.22), *Education* (χ^2 = 20.59, *p* = 0.11) and *Industry* (χ^2 = 94.09, *p* = 0.77) did not differ significantly across the eight treatment conditions. A one-way ANOVA revealed that the means of the variables *Years of Experience in Financial Reporting* (*F* = 1.02, *p* = 0.43) and *Years of Experience at Current Firm* (*F* = 0.64, *p* = 0.72) did not differ significantly across the eight treatment conditions. These results collectively suggested that the participants' demographic profiles were adequately balanced across the eight treatments conditions. The differences in the examined corporate governance factors were not significant (*p*-values ≥ 0.11), except for in the case of *CFO Monitoring* (*F* = 3.79, *p* < 0.01). The results of a chi-Square test indicated that the variables *Whom to Report for Financial Reporting* (χ^2 = 20.02, *p* = 0.52), *Direct Reporting to the AC* (χ^2 = 2.75, *p* = 0.91), *Who Makes FR Decision* (χ^2 = 16.27, *p* = 0.75), *Relevance of Expense Recognition* (χ^2 = 4.36, *p* = 0.74), and *Who Makes the Final FR Decision that Affects Annual Reporting* (χ^2 = 42.07, *p* = 0.47) did not differ significantly across the eight treatment conditions. One-way ANOVAs revealed that the means of the variables *AC Monitoring* (*F* = 1.47, *p* = 0.19), *EA Scrutiny* (*F* = 1.42, *p* = 0.21), *CFO Aggressiveness* (*F* = 1.09, *p* = 0.37), *CEO Monitoring* (*F* = 1.02, *p* = 0.42), *CEO Aggressiveness* (*F* = 0.72, *p* = 0.65), *AC Annual Meeting* (*F* = 1.38, *p* = 0.23), and *Meeting with the External Auditors* (*F* = 0.64, *p* = 0.72) did not differ significantly across the eight treatment conditions. The participants' demographic information and the corporate governance information of their firms across the eight treatment conditions are presented in Panels A and B of Table 3.2.

[Insert Table 3.2 Here]

3.4.2 Experimental Design and Procedure

The experiment was conducted under controlled laboratory conditions. All the data collection sessions were conducted in Spanish, and the participants were randomly assigned to one of the eight experimental treatment groups. The study participants were instructed to assume the role of a controller for a large division of a consumer goods company. First, the participants read a brief description of the hypothetical audit committee and were instructed to analyse a year-end issue that involved an accounting estimate of warranty expenses (based on Brown 2014). One group of participants was instructed to evaluate the year-end reporting issue from the perspective of an external auditor (*Present* condition), and the other group of participants was instructed to evaluate the reporting issue as they normally would in practice (*Absent* condition). After analysing the year-end issues, the participants were asked to respond to manipulation/attention check items, debriefing questions, and demographic items. See Appendix VI for more information on the instrument used in this study.

3.4.3 Independent Variables

3.4.3.1 Audit Committee Expertise

I heavily borrowed from the approach of Norman et al. (2011) to manipulate *high* or *low* levels of audit committee expertise (referred to as *AC Financial Expertise*). The size of the audit committee in the decision case is four members. The average size of an audit committee in Mexico, based on a PWC survey on corporate governance in Mexico (PWC 2013), is 4.8 members. The low level of audit committee expertise quality was set to meet the minimum requirements for expertise created by the definition of the Mexican Securities Market Law (CNBV 2014) for a financial expert. The case states:

…one member of the audit committee meets the minimum qualifications necessary to be considered a "financial expert," although this member does not have an accounting background.

A high level of audit committee expertise was set by indicating to the participants that most of the committee members were financial experts:

…three of the four members are Certified Public Accountants, and these three members possess the qualifications necessary to be considered "financial experts".

3.4.3.2 Audit Perspective Taking

The controller participants read the following paragraph that describes the *presence* or *absence* of an audit perspective (referred to as *Audit Perspective*):

Audit Perspective-Taking: Absent

The purpose of this questionnaire is to gain insights into the decisions of a controller. Please analyse the information provided in the following pages and provide your decisions, as you normally would in practice.

Audit Perspective-Taking: Present

The purpose of this questionnaire is to gain insights into the decisions of a controller. Please analyse the information provided in the following pages by thinking from the perspective of the external auditor responsible for evaluating your reporting decision. Put yourself in the place of an external auditor and try to imagine what you would think and how you would feel.

3.4.3.3 Relationship Quality

To measure the relationship quality of the participating controllers and their subordinates with their CFOs (referred to as *Relationship Quality*), I used a modified version of the *Leader-Member-Exchange* questionnaire (Jollineau et al. 2012; Gao et al. 2019). For more information, see Appendix VI Part III. The first three items (1, 2 & 3) measured the participants' perceptions of their affective relationships with their CFOs, the next three items (4, 5 & 6) measured the participants' perceptions of loyalty in their relationships with their CFOs, and the final three items (7, 8 & 9) measured the participants' perceptions of their contributions to these relationships. I performed a factor analysis to select the main items that reflected the participants' perceived relationship quality with their CFOs (referred to as *Relationship Quality* hereafter). The results of the factor analysis (not tabulated) indicated that six of the nine items (2, 3, 4, 5, 8 and 9) loaded as one-factor solutions, explaining approximately 72.9 percent of the variance in the underlying items included in the overall measure.[20] The scale reliability for the six items was high, with a Cronbach's alpha of 0.82. I summed all six items to create a single measure of perceived relationship quality for each participating CFO. Following the approaches of Jollineau et al. (2012) and Gao et al. (2019), I used the median of this single measure to classify the participants into groups of low and high CFO relationship quality.

3.4.4 Warranty Estimate

A warranty is a present obligation tied to a past obligation event. The cost of warranties is recorded when it is probable that there will be some claims related to them. The amount recognized should represent the best estimate of the expenditure required to settle the present obligation. A warranty or a product guarantee is a promise made by a seller to a buyer to make good on deficiencies related to the quantity, quality,

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[20] A confirmatory factor analysis was conducted on the items to test their dimensionality using an OBLIQUE rotation for Eigen values greater than 1.0. The use of this factor analysis was supported by the Kaiser-Meyer-Olken (KMO) measure of sample adequacy, which was in the middling (> 0.7) range (KMO = 0.705) (Hutcheson & Sofronious, 1999), and Bartlett's test of sphericity, which was significant ($p < 0.001$). All the factor loadings were ≥ 0.63, which is greater than the threshold of 0.55 for sufficient/significant factor loadings based on a sample size of 100.

or performance of a product (Kieso et al. 2015). In this study, I used a warranty decision context derived from Brown (2014). The participants were provided with information about a new consumer product and instructed to estimate and record the expected warranty expense for it, as it was sold with a 10-year warranty. Because the product was new, the participants were provided with a range of possible outcomes for the expected warranty expense. They were also given information about the division's operational profit prior to accounting for the warranty expense ($42 million Mexican pesos) and the operational profit target for the division ($40.5 million Mexican pesos), that would enable the company to meet the consensus analysts' earnings per share forecast. After reading this information, the participants read the following statement about the potential consequence of meeting or failing to meet the earnings per share forecast.

> *If your division meets its profit target, you will receive a bonus for the year (worth approximately 50% of your yearly salary), and your division will receive more resources to expand into new markets. If you do not meet the target, you will not receive a bonus, and you may need to lay off personnel next year.*

After this statement, the case described different amounts that could be recorded for the warranty expense and their effects on the division's profit target and the firm's ability to meet its earnings per share forecast.

> *Based upon the profit before accounting for the new product warranty expenses ($42 million Mexican pesos), you will meet the division's profit target this year. You note that your division usually determines an expense estimate by multiplying each estimate by its probability and recording the average amount. If you follow this approach, it will reduce operational profit for your division by $2,000,000. This means your division will miss its profit target by $500,000, and the firm's earnings per share will fall below the analyst forecast of earnings per share.*

However, you note that you could record the second-to-lowest estimate included in the range. If you follow this approach, the warranty expense will reduce operational profit for your division by $1,500,000. This means your division will exactly meet its profit target. You also note that initial reports of the reliability of the new product are good.

I chose to use an earnings management case for the task material because it allowed me to examine the participants' misreporting conduct. According to Healy and Wahlen (1999), earnings management "occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers" (p. 368). The participants were provided with the opportunity to evaluate a year-end reporting issue that was framed as avoiding a missed target rather than achieving a target; namely, they were given the opportunity to manage earnings by choosing a response near the low end of the warranty expense range (i.e., $1,500,000) instead of the lowest warranty expense (i.e., $1,000,000), and the benefits of avoiding a miss (i.e., bonus) were compared to the cost (i.e., potential layoff) of missing the earnings target (Brown et al. 2014; Gao et al. 2019).

All the participants, regardless of their treatment conditions or perceived relationship quality, received the same earnings management case, including the bonus incentives and potential layoff scenarios. A lack of relative differences (or heterogeneity) in the participants' reporting decisions across the treatment conditions, inclusive of high and low levels of perceived relationship quality, would indicate that their misreporting behaviour resulted from the same incentives/pressure. In contrast, recording a relatively small warranty expense (close to or less than $1.5 million) or selecting Option 1 (that other controllers would record $1.5 million or less) when, for example, the participants perceived that the audit committee (AC) had a low level of financial expertise, did not assume an auditors' perspective while making their reporting decisions, and/or perceived that they had a relatively high-quality relationship with their CFOs, would be indicative of managing earnings upward aggressively.

3.4.5 Dependent Variables

I utilized a direct and indirect approach to measure the participants' decision regarding the warranty estimate case as the dependent variables used for testing hypotheses 1-3 (H1, H2 & H3). First, the participants were instructed to indicate the amount of the warranty expense (referred to as *Warranty Amount*) that they would record for the hypothetical company. Following this question, the participants were instructed to answer the following question:

What do you believe other controllers in a similar situation would choose to do? Please indicate your response by circling a number on the scale below.

- Option 1: *Controllers who are in charge of financial reporting and interact with the CFO would record $1,500,000 or Less*
- Option 2: *Controllers who are in charge of financial reporting and interact with the CFO would record $2,000,000 or More*

-3	-2	-1	0	1	2	3
Strongly choose OPTION 1: *Other controllers would record $1,500,000 or Less*	Moderately choose OPTION 1	Slightly choose OPTION 1	*Indifferent*	Slightly choose OPTION 2	Moderately choose OPTION 2	Strongly choose OPTION 2: *Other controllers would record $2,000,000 or More*

The second question (referred to as *Others' Reporting Decision*) was used to avoid social desirability bias (Fisher 1993), which is common in decisions involving ethical values and leads participants to project their true judgements on a *referent other* (Clement and Krueger 2000; Fisher 1993; Cohen et al. 2001; Mikulincer and Horesh 1999; Cohen et al. 1993). The *Others' Reporting Decision* variable serves as a proxy for the participants' reporting decisions, with relatively high, positive scores indicating conservative reporting decisions (stronger support for Option 2 was considered more conservative but would result in top management missing its earnings forecast and bonus and laying off employees). In contrast, negative scores would indicate aggressive reporting decisions (stronger support for Option 1 was considered more aggressive but resulted in top management meeting its earnings forecast and bonus and avoiding a layoff).

3.5 Results and Analysis

3.5.1 Descriptive Statistics

Panels A and B of Table 3.3 show that the average warranty expense ranges from $1,678,571 to $1,875,000 across the eight treatment conditions. These results suggest that the direct question introduced a social desirability bias to the participants' reporting decisions. Irrespective of the treatment conditions, the participants make conservative reporting decisions that allow the hypothetical company's EPS to fall below the analysts' EPS forecasts. Consistent with this point, one-way ANOVAs reveal that the variations in the warranty expenses recorded do not differ significantly across the eight treatment conditions based on low-perceived relationship quality (F=0.75, p = 0.53) and high-perceived relationship quality (F=0.76, p = 0.52).

[Insert Table 3.3 here]

The correlation analysis presented in Table 3.4 indicates that the participants' awareness of their CFOs' financial reporting monitoring and external auditors' scrutiny increases when they adopt an auditors' perspective. The participants who perceive that they have a high-quality relationship with their CFOs indicate that their CFOs monitor the financial reporting process more closely and consider expense recognition more relevant than the participants who perceive that they have a low-quality relationship with their CFOs. In addition, the participants with high-quality relationship with their CFOs respond that it is the CEO rather than the CFO who makes the final decisions on reporting issues that may impact the company's EPS. The negative correlation between the *Warranty Amount* variable and the final FR decision variable reveals that the participants are more likely to accrue a larger amount of warranty expense when they think that it is the CEO who makes the final reporting decisions. None of the demographic variables or the corporate governance variables are significantly correlated with *Others' Reporting Decision*. Considering these results, I do not include demographic variables or corporate governance variables in the subsequent tests.

[Insert Table 3.4 here]

3.5.2 Preliminary testing

To verify that the manipulation of audit perspective and audit committee expertise was appropriately recognized by the participants, I asked them about the audit perspective scenario and the audit committee expertise described in the case. The participants who failed this attention check were not included in the hypothesis testing.

In addition, the participants were instructed to assess the level of audit committee expertise:

For the case you read in Part I, how did you perceive the level of audit committee expertise? (Place an X in the space below)

1 Very low	2	3	4	5	6	7 Very high

The results of the *t*-test (nontabulated) indicated that the participants in the high *AC Financial Expertise* condition (mean=4.75, s.d. = 1.21) perceived the audit committee to have more expertise than those in the low *AC Financial Expertise* condition (mean=3.34, s.d. = 1.53) at a significance level of 0.01 (t = -5.175, p < 0.001).

3.5.3 Hypotheses testing

The first hypothesis (H1) predicts that the controllers will be less likely to understate expenses when they adopt an audit perspective than when they do not adopt an audit perspective. The second hypothesis (H2) predicts that the controllers will be less likely to understate expenses when they perceive that the audit committee has a high level of expertise than when they perceived that the committee has a low level of expertise. Hypothesis 3 (H3) predicts that the controllers will be more likely to understate expenses when they perceive that they have a high-quality relationship with their CFOs than when they perceive that they have a low-quality relationship with their CFOs. To test H1, H2 and H3, I perform a 2 x 2 x 2 ANOVA with *Others' Reporting Decision* as the dependent variable and *Audit Perspective (presence* vs. *absence), AC Financial Expertise* (high vs. low) and *Relationship Quality* (high vs. low) as independent variables using the final sample of 104 controllers and subordinates. I did not use *Warranty Amount* as the dependent variable because of the lack of heterogeneity (or relative differences) across the treatment conditions.

The results in Table 3.5, Figure 3.3 and Figure 3.4 indicate that the main effects of *AC Financial Expertise* (F = 0.450, p = 0.504, two-tailed) and *Audit Perspective* (F = 0.145, p = 0.705, two-tailed) are nonsignificant and that the main effect of *Relationship Quality* (F = 5.527, p = 0.021, two-tailed) is significant. I also find nonsignificant interaction effects between *AC Financial Expertise* and *Audit Perspective* (F = 0.090, p = 0.764, two-tailed) and between *Audit Perspective* and *Relationship Quality* (F = 0.154 p = 0.697, two-tailed), and significant interaction effects between *AC Financial Expertise* and *Relationship Quality* (F = 3.507, p = 0.064, two-tailed) and amongst *AC Financial Expertise*, *Audit Perspective* and *Relationship Quality* (F = 13.940, p < 0.001, two-tailed). The significant main effects of *Relationship Quality* cannot readily be interpreted as a result of the significant three-way disordinal interaction effects.

[Insert Table 3.5, Figure 3.3, and Figure 3.4 here]

I use simple effect tests to evaluate the low- and high-relationship quality conditions and further examine the meaning of the observed interaction effect. Figure 3.3 and Panel A of Table 3.6 reveal that the participants who perceive that they have a low-quality relationships with their CFOs choose to make more aggressive reporting decisions (i.e., accrue a lower warranty expense amount) when there is a high level of *AC Financial Expertise* (mean = -0.86, s.d. = 2.14) than when there is a low level of *AC Financial Expertise* (mean = 2.00, s.d. = 1.71) in the non-*Audit Perspective* condition (F = 4.543, p = 0.038). There are no significant differences in the participants' reporting decisions between the high-*AC Financial Expertise* condition (mean = 1.23, s.d. = 1.96) and the low-*AC Financial Expertise* (mean = 0.58, s.d. = 2.31) condition in the *Audit Perspective* condition (F = 1.188, p = 0.281).

The results in Figure 3.4 and Panel B of Table 3.6 show that the participants, who perceive that they have high-quality relationships with their CFOs choose to make more aggressive reporting decisions when there is a low level of *AC Financial Expertise* (mean = -1.26, s.d. = 2.23) than when there is a high level of *AC Financial Expertise* in the non-*Audit Perspective* condition (mean = 0.73, s.d. = 2.49) (F = 12.588, p < 0.001). There are no significant differences in the participants' reporting decisions between the high-*AC Financial Expertise* condition (mean = -0.77, s.d. = 2.17) and low-*AC Financial Expertise* (mean = 0.20, s.d. = 2.48) condition in the *Audit Perspective* condition (F = 0.624, p = 0.433).

[Insert Table 3.6 here]

Using a subsample of controllers, I conduct a 2 × 2 x 2 ANOVA and simple effect tests. The results shown in Tables 3.7 and 3.8 are similar to those reported in Tables 3.5 and 3.6. I find a significant main effect of *Relationship Quality* (F = 3.831, p = 0.055, two-tailed) and significant interaction effects between *AC Financial Expertise* and *Relationship Quality* (F = 6.065, p = 0.017, two-tailed) and amongst *AC Financial Expertise*, *Audit Perspective* and *Relationship Quality* (F = 5.531, p = 0.022, two-tailed).

[Insert Table 3.7, Figure 3.5, and Figure 3.6 here]

The controllers who perceive that they have a low *Relationship Quality* with their CFOs choose to make more aggressive reporting decisions (i.e., accrue a lower warranty expense amount) when there is a high level of *AC Financial Expertise* in the non-*Audit Perspective* condition (mean = -0.62, s.d. = 2.26) than when there is a low level of *AC Financial Expertise* (mean = 2.29, s.d. = 0.76) (F = 7.986, p = 0.009). There are no significant differences in the participants' reporting decisions between the high-*AC Financial Expertise* condition (mean = 1.20, s.d. = 1.81) and the low-*AC Financial Expertise* (mean = 1.00, s.d. = 2.65) condition in the *Audit Perspective* condition (F = 0.042, p = 0.840).

The controllers who perceive that they have a high *Relationship Quality* with their CFOs choose to make more aggressive reporting decisions (i.e., accrue a lower warranty expense amount) when there is a low level of *AC Financial Expertise* than when there is a high level of *AC Financial Expertise* (mean = 1.00, s.d. = 2.82) in the non-*Audit Perspective* condition (mean = -1.50, s.d. = 2.42) (F = 12.588, p < 0.001). There are no significant differences in the participants' reporting decisions between the high-*AC Financial Expertise* condition (mean = -0.18, s.d. = 2.56) and low-*AC Financial Expertise* (mean = 0.14, s.d. = 2.04) condition in the *Audit Perspective* condition (F = 0.624, p = 0.433).

[Insert Table 3.8 here]

Collectively, the results of the ANOVA and simple effect tests provide partial support for H1, H2 and H3. That is, the effects of *AC Financial Expertise* and *Audit Perspective* on the participants' reporting decisions are contingent upon their *Perceived Relationship Quality* with their CFOs.

3.5.4 Supplementary analysis

I regress *Others' Reporting Decision* on *AC Financial Expertise*, *Audit Perspective,* the interaction term (*AC Financial Expertise x Audit Perspective*) and the corporate governance variables (*CFO Aggressiveness*, *CEO Monitoring*, *FR Report, CEO Aggressiveness, AC Annual Meeting*, *Direct Reporting to the AC, Meeting with the External Auditors, FR decision, Relevance of expense recognition* and *Final FR Decision*) using the final sample of 104 controllers and subordinates. Table 3.9 shows that the variable *Others' Reporting Decision* is not affected by the main independent variables (*AC Financial Expertise*, *Audit Perspective,* and the interaction term), but it is positively influenced by the *CEO Monitoring* (p = 0.024) and *FR Report* (p = 0.083) variables. These results suggest that, the higher perceptions of the CEO and the channel of financial reporting (the CFO), the more participants will make conservative reporting decisions.

[Insert Table 3.9 here]

The results of the regression analysis involving the low- and high-quality relationship conditions are presented in Table 3.9. In the subsample from the low-relationship quality condition, *Others' Reporting Decision* is negatively associated with *AC Financial Expertise* (b_1=-3.798, p < 0.001) and positively influenced by the interaction term (b_3=4.302, p = 0.007). Surprisingly, none of the corporate governance variables has any effect on the participants' reporting decisions. In contrast, in the subsample from the high-quality relationship condition, *Others' Reporting Decision* is positively associated with *AC Financial Expertise* (b_1=2.199, p = 0.026) and Audit Perspective (b_2=1.492, p = 0.093) and negatively influenced by the interaction term (b_3=

-3.146, *p* = 0.030) after controlling for the significant effects of the *CEO Monitoring* (b_8= 0.702, *p* = 0.008), *Report to the AC* (b_{12}= -2.022, *p* = 0.025) and *Final FR Decision* (b_{15}= -0.375, *p* = 0.032) variables.

3.6 Conclusion and Discussion

In Study 1, I find that the relationships between controllers, CFOs, audit committee (AC) members and external auditors have become closer since the IFRS adoption in Mexico. That is audit committee members more closely monitor top management's reporting decisions, CFOs are more concerned with accounting decisions and their effects on earnings per share, and external auditors are play an important role in overseeing the implementation of IFRS. To follow-up with Study 1, I investigate in Study 3 the effects of the roles of these corporate governance actors in the financial reporting process on controllers' reporting decisions. The findings of this study reveal that the effects of the financial expertise of audit committees and audit perspective-taking on the controllers' reporting decisions are contingent upon their perceived relationship quality with their CFOs. That is, the controllers who perceive that they have low-quality relationships with their CFOs make more aggressive reporting decisions when they perceive that the audit committee to has a high level of financial expertise than when they perceive that the audit committee to has a low level of financial expertise. These differences in the controllers' reporting decisions are significant when they are not instructed to adopt an auditor's perspective while making their reporting decisions. When the controllers are instructed to adopt and auditor's perspective, the differences in their reporting decisions become insignificant, suggesting that the anticipation of auditors questioning their reporting decisions likely leads them to make less aggressive (or more conservative) reporting decisions.

The controllers who perceive that they have high relationship quality with their CFOs make more aggressive reporting decisions when they perceive that the audit committee has a low level of financial expertise than when they perceive that the audit committee has a high level of financial expertise when they do not adopt an audit perspective. When they adopt an audit perspective, on the other hand, the differences in the controllers' reporting decisions become insignificant. Collectively, the findings of Study 3 indicate that instructing controllers to adopt an auditors' perspective while making their reporting decisions leads them to make conservative reporting decisions, irrespective of the level of financial expertise of the audit committee.

The results of the supplementary analysis suggest that audit committee financial expertise coupled with active monitoring by CEOs, direct reporting to ACs and final reporting decisions being made by CFOs lead controllers to make conservative reporting decisions when they perceive that they have high-quality relationship with their CFOs.

In general, the results of this study provide partial support for H1 and H2 and support H3. That is, the effects of the financial expertise of audit committees and the adoption of an audit perspective on controllers´ reporting decisions are contingent upon their perceived relationship quality with their CFOs. These results are consistent with the fact that in Mexico, CEOs and CFOs are most often appointed by shareholders, so controllers´ decisions are influenced by this situation.

My findings are limited by the finite context of the experiment (Shadish et al. 2002). Like any experimental study, the laboratory environment of this study lacks the richness and authenticity of an actual working environment, where controllers may consider a potentially wide range or combination of factors in making their reporting decisions such as ethical or cultural issues pertaining to the given organizational setting. Another limitation is the demographic profiles of the controller participants. My sample consists of both controllers and subordinates. It is worth noting that subordinates do not face the same pressures as controllers from top management to meet earnings forecasts and do not have the same incentives to earn bonuses. Finally, the underlying construct of “aggressive accounting” used in this study is “underreporting of expenses” due to the task material being associated with warranty expense decisions. Other complex and realistic ways to operationalize “aggressive accounting” could be “overstatement of revenues” or “understatement of liabilities.” Future research using these operationalized concepts could extend this study by incorporating additional variables such as the power dynamics amongst CEOs, CFOs and audit committees and their impacts on controllers’ reporting decisions within the domain of a financialized corporate environment (Davis and Kim, 2015; Suh et al. 2018). A further contextual factor that could be used to extend this study could be the effects of ethical and cultural factors on controllers’ reporting decisions.

3.7 Figures of Study 3

Figure 3.1

Controllers in Corporate Governance Context

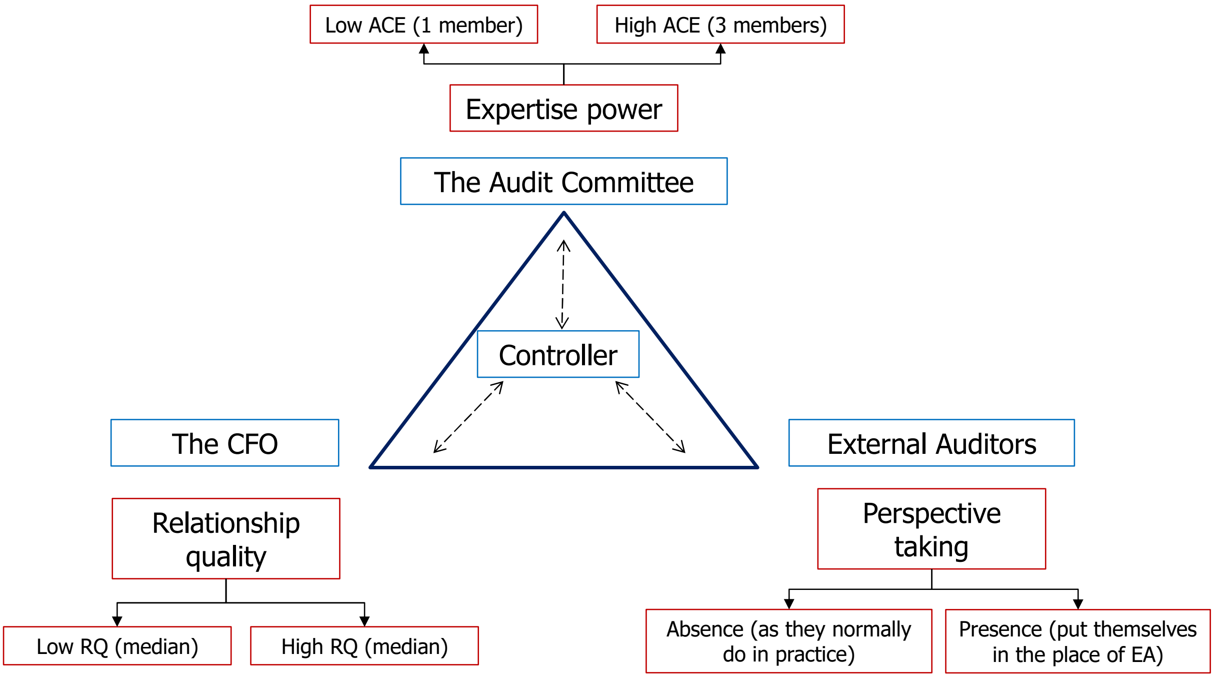


Figure 3.2

Research Design

Low-Relationship Quality		Perspective Taking	
		Presence	Absence
Audit Committee Expertise	Low		
	High		

High-Relationship Quality		Perspective Taking	
		Presence	Absence
Audit Committee Expertise	Low		
	High		

Figure 3.3

The Effects of AC Financial Expertise and Audit Perspective on Others' Reporting Decision– Perception of a Low Relationship Quality with the CFO

Sample of Controllers and Subordinates (Managers, Supervisors and Assistants) (N=51)

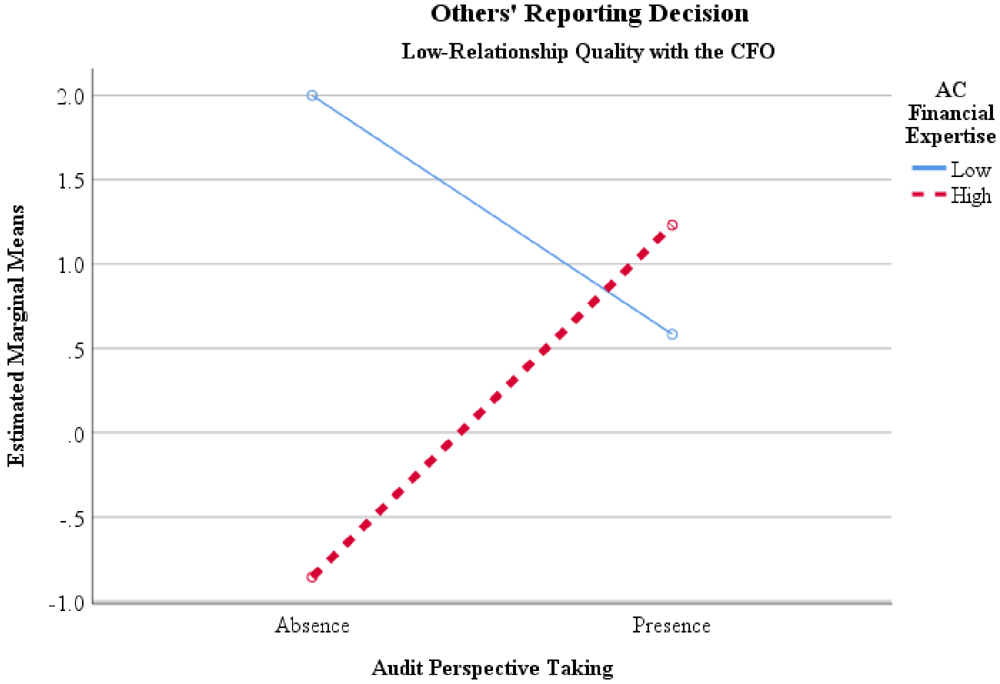


Figure 3.4

The Effects of AC Financial Expertise and Audit Perspective on

Others' Reporting Decision – Perception of a High Relationship Quality with the CFO

Sample of Controllers and Subordinates (Managers, Supervisors and Assistants) (N=53)

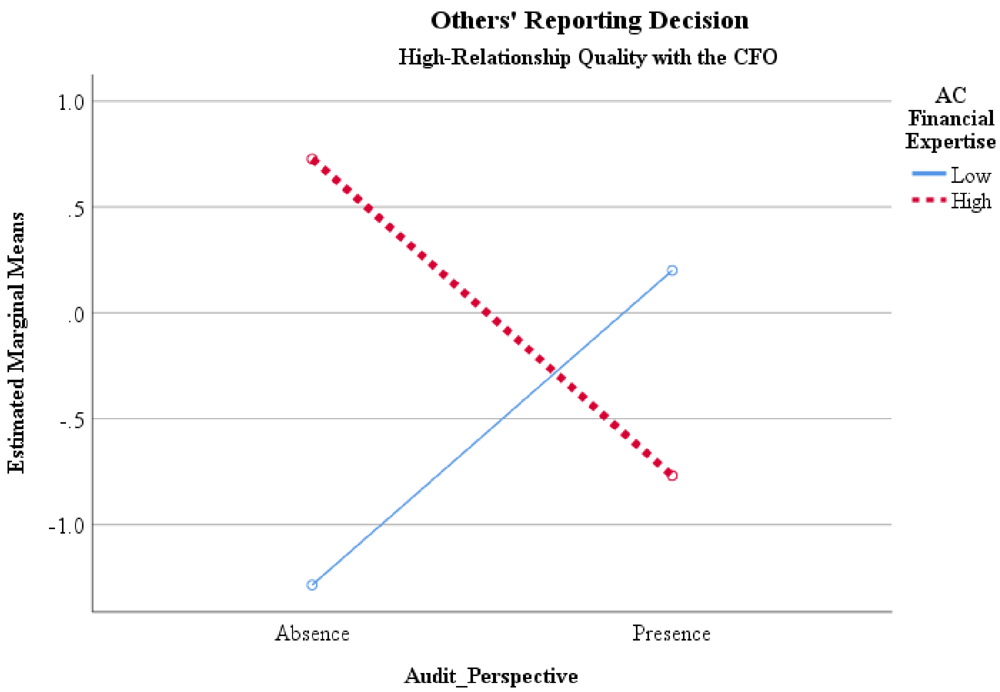


Figure 3.5

The Effects of AC Financial Expertise and Audit Perspective on Others' Reporting Decision– Perception of a Low Relationship Quality with the CFO

Sample of Controllers (N=32)

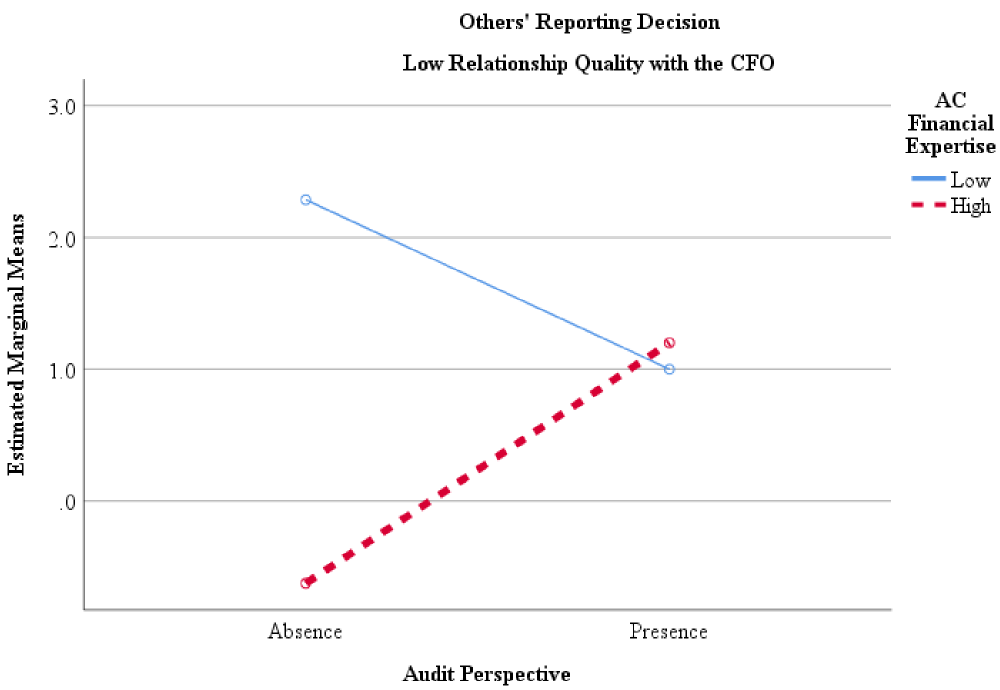
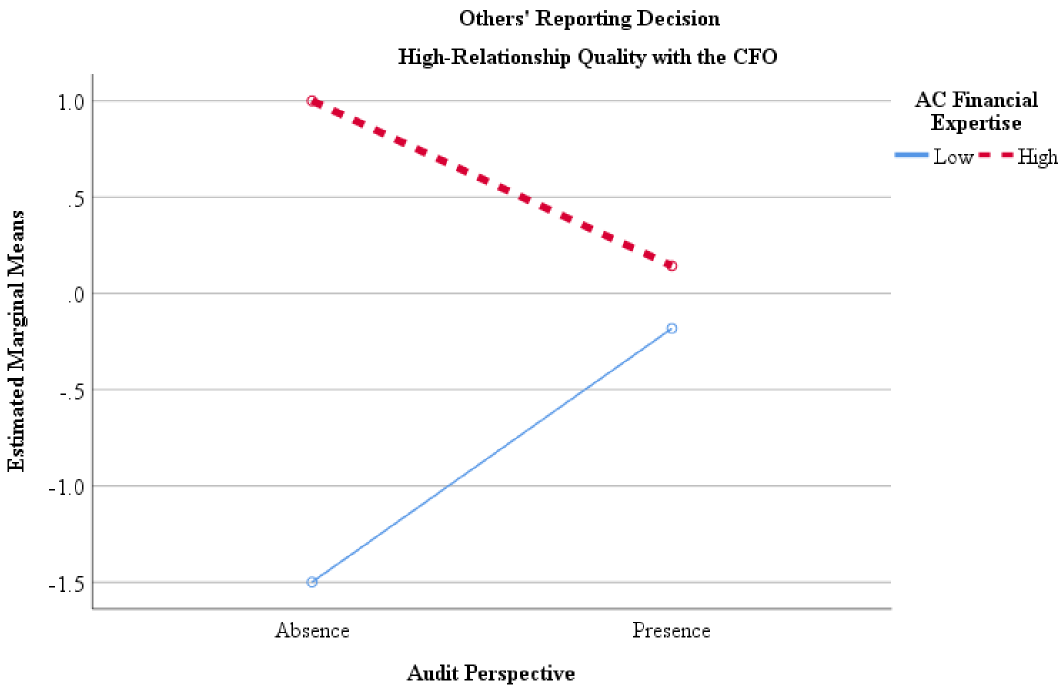


Figure 3.6

The Effects of AC Financial Expertise and Audit Perspective on Others' Reporting Decision– Perception of a High Relationship Quality with the CFO

Sample of Controllers (N=35)



3.8 Tables of Study 3

Table 3.1

Industry Distribution
Sample of Controllers and Subordinates (Managers, Supervisors and Assistants)
(N=104)

	Frequency	Percent
Professional, Scientific and Technical Services	27	26
Finance and Insurance	25	24
Information and Media	13	12.5
Manufacturing	8	7.7
Retail trade	4	3.8
Construction	4	3.8
Real Estate	4	3.8
Utilities	4	3.8
Telecom	4	3.8
Wholesale trade	2	1.9
Transporting and Warehousing	2	1.9
Healthcare	2	1.9
Arts, entertainment and recreation	2	1.9
Hospitality and Food services	1	1
Education	1	1
Mining, Oil & gas	1	1
Total	104	100

Table 3.2
Demographic Information and Corporate Governance Information
Sample of Controllers and Subordinates (Managers, Supervisors and Assistants)
(N=104)

Panel A: Low-Relationship Quality Condition

	Low AC Financial Expertise and Absence of Audit Perspective Taking	High AC Financial Expertise and Absence of Audit Perspective Taking	Low AC Financial Expertise and Presence of Audit Perspective Taking	High AC Financial Expertise and Presence of Audit Perspective Taking	Total
n [/a]	12	14	12	13	51
Female [/c]	4 (33.3%)	5 (35.7%)	2 (16.7%)	3 (23.0%)	14 (27.4%)
Job position [/c]					
Controller	7 (58.3%)	8 (66.7%)	7 (58.3%)	10 (83.3%)	32 (62.8%)
Manager	2 (16.7%)	1 (8.3%)	0 (0.0%)	2 (16.7%)	5 (9.8%)
Supervisor	3 (25.0%)	2 (16.7%)	3 (25.0%)	0 (0.0%)	8 (15.7%)
Assistant	0 (0.0%)	1 (8.3%)	2 (16.7%)	0 (0.0%)	3 (5.9%)
CPA [/c]	5 (25.0%)	3 (15.0%)	5 (25.0%)	7 (35.0%)	20 (39.2%)
Experience in financial reporting [/b]	9.08 {11.204}	6.43 {5.487}	13.42 {13.352}	9.08 {8.015}	9.37 {9.822}
Experience in external auditing [/c]	7 (30.4%)	4 (17.4%)	7 (30.4%)	5 (21.8%)	23 (46.0%)
Experience in internal auditing [/c]	4 (66.7%)	2 (33.3%)	0 (0.0%)	0 (0.0%)	6 (11.8%)
Education [/c]					
Undergraduate	10 (83.3%)	6 (42.9%)	8 (66.7%)	6 (46.2%)	30 (58.8%)
Master	2 (16.7%)	7 (50.0%)	4 (33.3%)	7 (53.8%)	20 (39.2%)
Ph.D.	0 (0.0%)	1 (7.1%)	0 (0.0%)	0 (0.0%)	1 (2.0%)
CFO monitoring[/b]	4.92 {1.443}	3.86 {1.916}	4.83 {1.528}	5.38 {1.758}	4.73 {1.733}
AC monitoring [/b]	4.67 {1.875}	4.71 {2.054}	4.42 {1.676}	5.15 {1.908}	4.75 {1.853}
EA scrutiny [/b]	5.08 {2.021}	5.21 {1.626}	6.08 {1.165}	5.08 {0.954}	5.35 {1.508}
CFO aggressiveness [/b]	5.92 {1.443}	5.57 {1.222}	5.50 {1.087}	5.46 {1.613}	5.61 {1.328}
CEO monitoring [/b]	4.58 {1.881}	4.14 {2.143}	4.50 {1.314}	5.23 {1.423}	4.61 {1.733}
Whom to report for FR reporting [/c]					
CEO	1 (8.3%)	2 (14.3%)	2 (16.7%)	4 (30.8%)	9 (17.7%)
CFO	8 (66.7%)	8 (57.2%)	6 (50.0%)	6 (46.1%)	28 (54.9%)
Both (CEO & CFO)	3 (25.0%)	4 (28.5%)	4 (33.3%)	2 (15.4%)	13 (25.5%)
Other	0 (0.0%)	0 (0.0%)	0 (0.00%)	1 (7.7%)	1 (1.9%)
CEO aggressiveness [/b]	5.83 {1.337}	5.71 {1.326}	5.50 {0.905}	6.08 {1.038}	5.78 {1.154}
AC annual meeting [/b]	3.42 {1.240}	4.00 {2.082}	5.45 {3.830}	5.15 {1.772}	4.49 {2.442}
Direct reporting to the AC [/c]	2 (16.7%)	4 (33.3%)	3 (25.0%)	3 (25.0%)	12 (23.5%)
Meeting with the external auditors [/b]	2.00 {1.907}	3.21 {3.766}	3.64 {3.443}	2.92 {2.575}	2.94 {3.003}

Who make FR decision? /c					
CEO	2 (16.6%)	6 (42.9%)	4 (33.3%)	3 (23.1%)	15 (29.4%)
CFO	9 (75.0%)	7 (50.0%)	7 (58.3%)	7 (53.8%)	30 (58.9%)
Both (CEO & CFO)	1 (8.3%)	0 (0.0%)	1 (8.4%)	3 (23.1%)	5 (9.8%)
Others	0 (0.0%)	1 (7.1%)	0 (0.0%)	0 (0.0%)	1 (1.9%)
Relevance of expense recognition /c	11 (91.7%)	13 (92.8%)	11 (91.7%)	12 (92.3%)	47 (92.1%)
Who make *final* FR decision that impacts annual earnings? /c					
CEO	2 (16.7%)	2 (14.3%)	2 (16.7%)	2 (15.4%)	8 (15.7%)
CFO	5 (41.6%)	4 (28.5%)	3 (25.0%)	2 (15.4%)	14 (27.4%)
AC	1 (8.3%)	2 (14.3%)	1 (8.3%)	0 (0.0%)	4 (7.8%)
CEO & CFO	2 (16.7%)	1 (7.1%)	1 (8.3%)	5 (38.4%)	9 (17.6%)
All	2 (16.7%)	5 (35.7%)	5 (41.7%)	4 (30.8%)	16 (31.4%)

Panel B: High-Relationship Quality Condition

	Low AC Financial Expertise and Absence of Audit Perspective Taking	High AC Financial Expertise and Absence of Audit Perspective Taking	Low AC Financial Expertise and Presence of Audit Perspective Taking	High AC Financial Expertise and Presence of Audit Perspective Taking	Total
n /a	14	11	15	13	53
Female/c	4 (28.6%)	5 (45.4%)	6 (40.0%)	4 (30.7%)	19 (35.8%)
Job position /c					
Controller	7 (50.0%)	6 (54.5%)	10 (66.7%)	6 (46.1%)	29 (56.8%)
Manager	4 (28.6%)	0 (0.0%)	1 (6.7%)	1 (7.7%)	6 (11.8%)
Supervisor	0 (0.0%)	3 (27.2%)	3 (20.0%)	2 (15.4%)	8 (15.7%)
Assistant	0 (0.0%)	0 (0.0%)	0 (0.0%)	2 (15.4%)	2 (3.9%)
CPA /c	7 (58.3%)	5 (35.7%)	6 (50.0%)	7 (53.8%)	25 (49.0%)
Experience in financial reporting /b	13.36 {10.389}	12.45 {9.310}	11.33 {10.939}	14.62 {10.564}	12.91 {10.157}
Experience in external auditing /c	5 (35.7%)	2 (18.2%)	5 (33.3%)	7 (53.8%)	19 (35.8%)
Experience in internal auditing /c	1 (7.1%)	1 (9.1%)	2 (13.3%)	2 (15.3%)	6 (11.3%)
Education /c					
Undergraduate	5 (35.7%)	3 (27.2%)	11 (73.3%)	9 (69.2%)	28 (52.8%)
Master	9 (64.3%)	8 (72.3%)	4 (26.7%)	4 (30.8%)	25 (47.2%)
Ph.D.	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
CFO monitoring /b	5.50 {1.286}	5.64 {1.206}	6.00 {1.414}	6.31 {0.630}	5.87 {1.194}
AC monitoring /b	5.07 {1.328}	5.00 {1.414}	5.53 {1.552}	6.15 {0.899}	5.45 {1.367}
EA scrutiny /b	5.29 {0.994}	5.00 {1.342}	5.73 {1.335}	6.08 {1.038}	5.55 {1.218}
CFO aggressiveness /b	5.57 {1.284}	6.09 {0.831}	5.73 {1.438}	6.54 {0.877}	5.96 {1.192}
CEO monitoring /b	4.64 {1.781}	5.00 {1.483}	5.40 {1.183}	5.31 {1.702}	5.09 {1.535}

Whom to report for financial reporting /c					
CEO	3 (21.4%)	1 (9.1%)	0 (0.0%)	3 (23.1%)	7 (13.2%)
CFO	7 (50.0%)	7 (63.6%)	9 (60.0%)	10 (76.9%)	33 (62.3%)
Both (CEO & CFO)	4 (28.6%)	3 (27.3%)	6 (40.0%)	0 (0.0%)	13 (24.5%)
Other	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
CEO aggressiveness /b	5.86 {1.292}	5.55 {1.368}	5.87 {1.246}	6.38 {0.870}	5.92 {1.207}
AC annual meeting /b	2.07 {0.730}	2.18 {0.603}	2.40 {0.507}	1.77 {0.439}	2.11 {0.610}
Direct reporting to the AC /c	1 (7.2%)	2 (18.2%)	4 (26.7%)	3 (23.1%)	10 (18.9%)
Meeting with the external auditors /b	3.86 {5.157}	5.09 {6.284}	4.27 {6.053}	5.67 {8.217}	4.65 {6.296}
Who make FR decision? /c					
CEO	1 (7.1%)	2 (18.2%)	3 (20.0%)	3 (23.1%)	9 (17.0%)
CFO	10 (71.4%)	7 (63.6%)	11 (73.3%)	9 (69.2%)	37 (69.8%)
Both (CEO & CFO)	2 (14.3%)	1 (9.1%)	1 (6.7%)	0 (0.0%)	4 (7.5%)
Others	1 (7.1%)	1 (9.1%)	0 (0.0%)	1 (7.7%)	3 (5.7%)
Relevance of expense recognition /c	14 (100%)	11 (100%)	15 (100%)	13 (100%)	53 (100%)
Who make the *final* FR decision that affects annual earnings? /c					
CEO	1 (7.1%)	3 (27.3%)	3 (20.0%)	6 (46.1%)	13 (24.5%)
CFO	8 (57.1%)	5 (45.4%)	4 (26.7%)	4 (30.8%)	21 (39.6%)
AC	0 (0.0%)	0 (0.0%)	1 (6.6%)	0 (0.0%)	1 (1.9%)
CEO & CFO	3 (21.4%)	1 (9.1%)	4 (26.7%)	1 (7.7%)	9 (17.0%)
All	2 (14.3%)	2 (18.2%)	3 (20.0%)	2 (15.4%)	9 (17.0%)

/a Sample size per treatment condition.
/b Mean {standard deviation}.
/c The percentage figures pertain to each treatment condition or the 'column' sample.

Gender = 0 if male, 1 if female
Job position = 1=Director, 2=Controller, 3=Manager, 4=Supervisor, and 5=Assistant
CPA = 1=Yes and 0=No
Experience in financial reporting = Number of years of experience
Experience in external auditing = 0 if no experience, 1 if have experience
Experience in internal auditing = 0 if no experience, 1 if have experience
Education = 1= Bachelor's degree, 2=Master's degree, and 3=PhD
CFO monitoring = 1=Not closely through 7=Very closely
AC monitoring = 1=Not closely through 7=Very closely
EA scrutiny = 1=Not closely through 7=Very closely
CFO aggressiveness = 1=Not aggressive through 7=Very aggressive
CEO monitoring = 1=Not closely through 7=Very closely
Whom to report for financial reporting = 1=CFO, 2=CEO, 3=Both, and 4=Other
CEO aggressiveness = 1=Not aggressive through 7=Very aggressive
AC annual meeting = Number of meetings in a year
Direct reporting to the AC = 1=Yes and 0=No
Meeting with the external auditors = Number of meetings in a year
Who makes FR decision? = 1=CFO, 2=CEO, 3=Both, and 4=Other
Relevance of expense recognition = 1=Yes and 0=No
Who makes the final FR decision that affects annual earnings? = 1=CFO, 2=CEO, 3=AC, 4=CEO & CFO, and 5=All

Table 3.3
Participants' Reporting Decision
Sample of Controllers and Subordinates (Managers, Supervisors and Assistants)
(N=104)

Panel A: Low-Relationship Quality Condition

	Low AC Financial Expertise and Absence of Audit Perspective	High AC Financial Expertise and Absence of Audit Perspective	Low AC Financial Expertise and Presence of Audit Perspective	High AC Financial Expertise and Presence of Audit Perspective	Total
Warranty expense [/a]	1,875,000 {226,134}	1,735,714 {249,945}	1,833,333 {246,183}	1,807,692 {253,185}	1,809,804 {242,697}
Others' reporting decision [/a]	2.00 {1.71}	-0.86 {2.14}	0.58 {2.14}	1.23 {1.96}	0.69 {2.26}

Panel B: High-Relationship Quality Condition

	Low AC Financial Expertise and Absence of Audit Perspective	High AC Financial Expertise and Absence of Audit Perspective	Low AC Financial Expertise and Presence of Audit Perspective	High AC Financial Expertise and Presence of Audit Perspective	Total
Warranty expense [/a]	1,678,571 {248,622}	1,772,727 {261,116}	1,700,000 {253,546}	1,807,692 {253,185}	1,735,849 {251,988}
Others' reporting decision [/a]	-1.29 {2.23}	0.73 {2.49}	0.20 {2.48}	-0.77 {2.17}	-0.32 {2.41}

/a Mean {standard deviation}

Warranty expense = The amount of warranty expense (Mexican pesos) the participant would record

Others' reporting decision = -3=Strongly choose option 1 (record warranty expense of $1,500,000 or less), 0=Indifferent, +3= Strongly choose option 2 (record warranty expense of $2,000,000 or more)

Table 3.4
Correlation Matrix (a)

	AC financial expertise	Audit perspective taking	Relationship quality	Warranty amount	Others' reporting decision
AC financial expertise	1.000				
Audit perspective	0.000	1.000			
Relationship quality	-0.077	0.038	1.000		
Warranty amount	0.033	0.045	-0.149	1.000	
Others' reporting decision	-0.055	0.055	-.213*	.372**	1.000
CFO monitoring	-0.033	.228*	.362**	0.042	0.006
AC monitoring	0.089	0.145	.215*	0.003	-0.002
EA scrutiny	-0.072	.213*	0.072	0.097	0.056
CFO aggressiveness	0.088	0.018	0.141	-0.108	0.038
CEO monitoring	0.028	0.172	0.149	-0.098	0.190
Whom to report for financial reporting	0.071	0.093	0.060	-0.087	0.099
CEO aggressiveness	-0.143	-0.033	-0.003	0.061	0.161
AC annual meeting	-0.110	0.151	0.094	-0.042	-0.013
Direct reporting to the AC	0.057	0.084	-0.057	-0.046	-0.028
Meeting with the external auditors	0.066	0.063	0.171	0.021	0.110
Who makes FR decision?	-0.016	-0.068	0.129	-0.091	0.096
Relevance of expense recognition	-0.004	0.004	.204*	-0.184	-0.070
Who makes the final FR decision that affects annual earnings?	-0.026	0.007	-.211*	-.197*	-0.074
Gender	0.034	-0.075	0.090	-0.098	0.055
Job position	0.017	0.065	-0.097	0.093	0.004
CPA	-0.178	-0.216	0.117	-0.122	-0.228
Experience in financial reporting	-0.067	0.090	0.176	0.130	0.034
Experience in external auditing	0.083	-0.083	-0.108	0.170	-0.081
Experience in internal auditing	-0.053	-0.127	-0.007	0.150	-0.014
Education	0.184	-0.184	0.039	0.076	-0.017
Industry	0.010	-0.010	-0.147	-0.082	0.120

(***) Correlation is significant at the 0.10 level (2-tailed).
(**) Correlation is significant at the 0.05 level (2-tailed).
(*) Correlation is significant at the 0.01 level (2-tailed).
(a) N = 104

AC financial expertise = Audit Committee financial expertise. 1=Very low through 7=Very high
Audit perspective = 1=Presence and 0=Absence
Relationship quality = Perceived relationship with the CFO. 0=Low and 2=High

Warranty amount =	The amount of warranty expense (Mexican pesos) the participant would record
Others' reporting decision =	-3=Strongly choose option 1 (record warranty expense of $1,500,000 or less), 0=Indifferent, +3= Strongly choose option 2 (record warranty expense of $2,000,000 or more)
CFO aggressiveness =	1=Not aggressive through 7=Very aggressive
CEO monitoring =	1=Not closely through 7=Very closely
Whom to report for financial reporting =	1=CFO, 2=CEO, 3=Both, and 4=Other
CEO aggressiveness =	1=Not aggressive through 7=Very aggressive
AC annual meeting =	Number of meetings in a year
Direct reporting to the AC =	1=Yes and 0=No
Meeting with the external auditors =	Number of meetings in a year
Who makes FR decision? =	1=CFO, 2=CEO, 3=Both, and 4=Other
Relevance of expense recognition =	1=Yes and 0=No
Who makes the final FR decision that affects annual earnings? =	1=CFO, 2=CEO, 3=AC, 4=CEO & CFO, and 5=All
Gender =	0 if male, 1 if female
Job position =	1=Director, 2=Controller, 3=Manager, 4=Supervisor, and 5=Assistant
CPA =	1=Yes and 0=No
Experience in financial reporting =	Number of years of experience
Experience in external auditing =	0 if no experience, 1 if have experience
Experience in internal auditing =	0 if no experience, 1 if have experience
Education =	1=Bachelor's degree, 2= Master's degree, and 3=PhD
CFO monitoring =	1=Not closely through 7=Very closely
AC monitoring =	1=Not closely through 7=Very closely
EA scrutiny =	1=Not closely through 7=Very closely

Table 3.5

ANOVA Results for DV = Others' Reporting Decision
Sample of Controllers and Subordinates (Managers, Supervisors and Assistants)
(N=104)

Panel A: Mean (standard deviation) {sample size} across treatment conditions

		AC Financial Expertise				Main Effect: Audit Perspective
		Low Relationship Quality		High Relationship Quality		
		Low	High	Low	High	
Audit Perspective	Absence	2.00 (1.706) {12}	-1.29 (2.234) {14}	-0.86 (2.143) {14}	0.73 (2.494) {11}	0.04 (2.474) {51}
	Presence	0.58 (2.314) {12}	0.20 (2.484) {15}	1.23 (1.964) {13}	-0.77 (2.166) {13}	0.30 (2.300) {53}
Main Effect: AC Financial Expertise		1.29 (2.116) {24}	-0.52 (2.244) {29}	0.15 (2.282) {27}	-0.08 (2.394) {24}	0.17 (2.379) {104}

Panel B: ANOVA Results (DV = Others' Reporting Decision)

Source	Sum of Square	d.f.	Mean Square	F-Ratio	p-value
AC Financial Expertise	2.189	1	2.189	.450	.504
Audit Perspective	.702	1	.702	.145	.705
Relationship Quality	**26.869**	**1**	**26.869**	**5.527**	**.021**
AC Financial Expertise x Audit Perspective	.439	1	.439	.090	.764
AC Financial Expertise x Relationship Quality	**17.047**	**1**	**17.047**	**3.507**	**.064**
Audit Perspective x Relationship Quality	.749	1	.749	.154	.696
AC Financial Expertise x Audit Perspective x Relationship Quality	**67.765**	**1**	**67.765**	**13.940**	**.000**
Error	466.685	96	4.861		

AC financial expertise = Audit Committee financial expertise. 1=Very low through 7=Very high
Audit perspective = 1=Presence and 0=Absence
Relationship quality = Perceived relationship with the CFO. 0=Low and 2=High
Others' reporting decision = -3=Strongly choose option 1 (record warranty expense of $1,500,000 or less), 0=Indifferent, +3= Strongly choose option 2 (record warranty expense of $2,000,000 or more)

Table 3.6

Simple Effects Tests for DV = Others' Reporting Decision
Sample of Controllers and Subordinates (Managers, Supervisors and Assistants)
(N=104)

Panel A: Simple Effects – Low Relationship Quality (DV = Others' Reporting Decision)

Comparison	d.f.	F	p-Value
Low Financial Expertise: Absence versus Presence of Audit Perspective	47	2.874	0.097
High Financial Expertise: Absence versus Presence of Audit Perspective	47	7.013	0.011
Absence of Audit Perspective: Low versus High Financial Expertise	47	12.588	0.001
Presence of Audit Perspective: Low versus High Financial Expertise	47	0.624	0.433

Panel B: Simple Effects – High Relationship Quality (DV = Others' Reporting Decision)

Comparison	d.f.	F	p-Value
Low Financial Expertise: Absence versus Presence of Audit Perspective	49	2.904	0.095
High Financial Expertise: Absence versus Presence of Audit Perspective	49	2.424	0.125
Absence of Audit Perspective: Low versus High Financial Expertise	49	4.543	0.038
Presence of Audit Perspective: Low versus High Financial Expertise	49	1.188	0.281

AC financial expertise = Audit Committee financial expertise. 1=Very low through 7=Very high
Audit perspective = 1=Presence and 0=Absence
Relationship quality = Perceived relationship with the CFO. 0=Low and 2=High
Others' reporting decision = -3=Strongly choose option 1 (record warranty expense of $1,500,000 or less), 0=Indifferent, +3= Strongly choose option 2 (record warranty expense of $2,000,000 or more)

Table 3.7

ANOVA Results for DV = Others' Reporting Decision
Sample of Controllers (N=67)

Panel A: Mean (standard deviation) {sample size} across treatment conditions

		AC Financial Expertise				Main Effect: Audit Perspective
		Low Relationship Quality		High Relationship Quality		
		Low	High	Low	High	
Audit Perspective	Absence	2.29 (0.756) {7}	-1.50 (2.415) {10}	-0.62 (2.264) {8}	1.00 (2.828) {7}	0.09 (2.595) {32}
	Presence	1.00 (2.646) {7}	-0.18 (2.562) {11}	1.20 (1.814) {10}	0.14 (2.035) {7}	0.51 (2.267) {35}
Main Effect: AC Financial Expertise		1.64 (1.985) {14}	-0.81 (2.522) {21}	0.39 (2.173) {18}	0.57 (2.409) {14}	0.31 (2.420) {67}

Panel B: ANOVA Results (DV = Others' Reporting Decision)

Source	Sum of Square	d.f.	Mean Square	F-Ratio	p-value
AC Financial Expertise	.013	1	.013	.003	.960
Audit Perspective	1.013	1	1.013	.198	.658
Relationship Quality	**19.605**	**1**	**19.605**	**3.831**	**.055**
AC Financial Expertise x Audit Perspective	.886	1	.886	.173	.679
AC Financial Expertise x Relationship Quality	**31.033**	**1**	**31.033**	**6.065**	**.017**
Audit Perspective x Relationship Quality	.006	1	.006	.001	.972
AC Financial Expertise x Audit Perspective x Relationship Quality	**28.301**	**1**	**28.301**	**5.531**	**.022**
Error	301.897	59	5.117		

AC financial expertise = Audit Committee financial expertise. 1=Very low through 7=Very high
Audit perspective = 1=Presence and 0=Absence
Relationship quality = Perceived relationship with the CFO. 0=Low and 2=High
Others' reporting decision = -3=Strongly choose option 1 (record warranty expense of $1,500,000 or less), 0=Indifferent, +3= Strongly choose option 2 (record warranty expense of $2,000,000 or more)

Table 3.8

Simple Effects Tests for DV = Others' Reporting Decision
Sample of Controllers (N=67)

Panel A: Simple Effects – Low Relationship Quality (DV = Others' Reporting Decision)

Comparison	d.f.	F	p-Value
Low Financial Expertise: Absence versus Presence of Audit Perspective	28	1.461	0.237
High Financial Expertise: Absence versus Presence of Audit Perspective	28	3.737	0.063
Absence of Audit Perspective: Low versus High Financial Expertise	28	7.986	0.009
Presence of Audit Perspective: Low versus High Financial Expertise	28	0.042	0.840

Panel B: Simple Effects – High Relationship Quality (DV = Others' Reporting Decision)

Comparison	d.f.	F	p-Value
Low Financial Expertise: Absence versus Presence of Audit Perspective	31	1.477	0.233
High Financial Expertise: Absence versus Presence of Audit Perspective	31	0.417	0.523
Absence of Audit Perspective: Low versus High Financial Expertise	31	4.177	0.050
Presence of Audit Perspective: Low versus High Financial Expertise	31	0.73	0.789

AC financial expertise =	Audit Committee financial expertise. 1=Very low through 7=Very high
Audit perspective =	1=Presence and 0=Absence
Relationship quality =	Perceived relationship with the CFO. 0=Low and 2=High
Others' reporting decision =	-3=Strongly choose option 1 (record warranty expense of $1,500,000 or less), 0=Indifferent, +3= Strongly choose option 2 (record warranty expense of $2,000,000 or more)

Table 3.9

Regression Analyses: DV = Others' Reporting Decision

$$DV_i = \alpha_i + \beta_{1i} \times AC\ Financial\ Expertise_i + \beta_{2i} \times Audit\ Perspective_i + \beta_{ti} \times Corporate\ Governance\ Variables_{ti} + \varepsilon_i$$

	All Firms (N=104)	Low Relationship Quality (n_1=51)	High Relationship Quality (n_2=53)
Constant	a_1 = -1.118 $s.e$ = 2.113 (p = 0.598)	a_1 = -0.251 $s.e$ = 2.816 (p = 0.929)	a_1 = -3.649 $s.e$ = 2.989 (p = 0.231)
AC financial expertise	b_1 = -0.640 $s.e$ = 0.727 (p = 0.381)	b_1 = -3.798 $s.e$ = 0.963 (p = 0.000)	b_1 = 2.199 $s.e$ = 0.944 (p = 0.026)
Audit perspective	b_2 = 0.004 $s.e$ = 0.740 (p = 0.995)	b_2 = -1.611 $s.e$ = 1.075 (p = 0.144)	b_2 = 1.492 $s.e$ = 0.864 (p = 0.093)
AC financial expertise x Audit perspective	b_3 = 0.646 $s.e$ = 1.058 (p = 0.543)	b_3 = 4.302 $s.e$ = 1.482 (p = 0.007)	b_3 = -3.146 $s.e$ = 1.392 (p = 0.030)
CFO monitoring	b_4 = 0.646 $s.e$ = 1.058 (p = 0.543)	b_4 = -0.242 $s.e$ = 0.250 (p = 0.342)	b_4 = -0.483 $s.e$ = 0.328 (p = 0.150)
AC monitoring	b_5 = -0.166 $s.e$ = 0.241 (p = 0.492)	b_5 = 0.220 $s.e$ = 0.281 (p = 0.439)	b_5 = -0.433 $s.e$ = 0.400 (p = 0.286)
EA question reporting decisions	b_6 = 0.057 $s.e$ = 0.266 (p = 0.832)	b_6 = 0.163 $s.e$ = 0.348 (p = 0.644)	b_6 = 0.504 $s.e$ = 0.384 (p = 0.199)
CFO aggressiveness	b_7 = -0.130 $s.e$ = 0.231 (p = 0.575)	b_7 = -0.221 $s.e$ = 0.317 (p = 0.490)	b_7 = -0.140 $s.e$ = 0.301 (p = 0.646)
CEO monitoring	b_8 = 0.467 $s.e$ = 0.204 (p = 0.024)	b_8 = 0.049 $s.e$ = 0.282 (p = 0.862)	b_8 = 0.702 $s.e$ = 0.251 (p = 0.008)
FR Report	b_9 = 0.750 $s.e$ = 0.428 (p = 0.083)	b_9 = 0.285 $s.e$ = 0.582 (p = 0.627)	b_9 = 0.741 $s.e$ = 0.615 (p = 0.237)
CEO aggressiveness	b_{10} = -0.003 $s.e$ = 0.279 (p = 0.991)	b_{10} = 0.278 $s.e$ = 0.410 (p = 0.502)	b_{10} = 0.109 $s.e$ = 0.308 (p = 0.725)
AC annual meeting	b_{11} = -0.048 $s.e$ = 0.093 (p = 0.604)	b_{11} = -0.010 $s.e$ = 0.175 (p = 0.957)	b_{11} = 0.060 $s.e$ = 0.107 (p = 0.581)
Direct reporting to the AC	b_{12} = -0.299 $s.e$ = 0.669 (p = 0.656)	b_{12} = 0.910 $s.e$ = 0.892 (p = 0.315)	b_{12} = -2.022 $s.e$ = 0.860 (p = 0.025)
Meeting with the external auditors	b_{13} = 0.070 $s.e$ = 0.051 (p = 0.178)	b_{13} = 0.081 $s.e$ = 0.143 (p = 0.572)	b_{13} = 0.078 $s.e$ = 0.048 (p = 0.118)

FR decision	b_{14} = 0.044 $s.e$ = 0.418 (*p* = 0.916)	b_{14} = -0.162 $s.e$ = 0.594 (*p* = 0.787)	b_{14} = 0.226 $s.e$ = 0.521 (*p* = 0.667)
Final FR decision	b_{15} = -0.045 $s.e$ = 0.129 (*p* = 0.728)	b_{15} = 0.146 $s.e$ = 0.166 (*p* = 0.385)	b_{15} = -0.375 $s.e$ = 0.167 (*p* = 0.032)
R^2	0.126	0.410	0.512
Adjusted R^2	-0.033	0.134	0.296

AC financial expertise =	Audit Committee financial expertise. 1=Very low through 7=Very high
Audit perspective =	1=Presence and 0=Absence
Relationship quality =	Perceived relationship with the CFO. 0=Low and 2=High
Warranty amount =	The amount of warranty expense (Mexican pesos) the participant would record
Others' reporting decision =	-3=Strongly choose option 1 (record warranty expense of $1,500,000 or less), 0=Indifferent, +3= Strongly choose option 2 (record warranty expense of $2,000,000 or more)
CFO aggressiveness =	1=Not aggressive through 7=Very aggressive
CFO monitoring =	1=Not closely through 7=Very closely
AC monitoring =	1=Not closely through 7=Very closely
EA questions reporting decisions =	1=Not closely through 7=Very closely
CEO monitoring =	1=Not closely through 7=Very closely
Whom to report for financial reporting =	1=CFO, 2=CEO, 3=Both, and 4=Other
CEO aggressiveness =	1=Not aggressive through 7=Very aggressive
AC annual meeting =	Number of meetings in a year
Direct reporting to the AC =	1=Yes and 0=No
Meeting with the external auditors =	Number of meetings in a year
FR decision =	1=CFO, 2=CEO, 3=Both, and 4=Other
Final FR decision =	1=CFO, 2=CEO, 3=AC, 4=CEO & CFO, and 5=All

APPENDIX I: PRE-ADOPTION INTERVIEWS QUESTIONS BY GROUP

A) Group 1: Interview design for Controllers/Preparers

1. General issues:
    1) What has Mexico done different with respect other countries about IFRS adoption?
    2) Do you think that IFRS adoption will make financial information more comparable? Why yes or why not.
    3) Can you describe the adoption process that you have been followed?

2. Implementation issues:
    4) What are the main accounting changes that you have (or expected to have) to implement because IFRS adoption?
    5) Which costs have your company/firm had (or expected to have) because IFRS adoption?
    6) What do you perceive to be the benefits of IFRS adoption?
    7) Which IFRS standards do you consider to be most difficult to implement?
    8) Do you think firms will change the way they do business following the implementation of IFRS?
    9) Do you expect the cost of audit services to increase substantially after the adoption of IFRS? Why yes or why not.
    10) What do you think the role of CINIF will be after the adoption of IFRS?
    11) What do you think the role of the CNBV has been in the whole process?

3. Inflation issues:
    12) Do you think the removal of inflation accounting will create costs?
    13) Do you think the removal of inflation accounting will reduce the amount of relevant information?
    14) Do you think the removal of inflation accounting will change the strategy of the firms, e.g., levels of gearing, capital expenditures, etc.?
    15) What do you see as the benefits of removing inflation accounting?
    16) Do you think investor will understand the changes taking place with respect to inflation accounting?
    17) Any other comments you would like to make?

B) Group 2: Interview design for Auditors and Consultants

1. General issues:
    18) What has Mexico done different with respect other countries about IFRS adoption?
    19) Do you think that IFRS adoption will make financial information more comparable? Why yes or why not.

2. Implementation issues:
    20) What are the main accounting changes that you have (or expected to have) to implement because IFRS adoption?
    21) Which costs have your company/firm had (or expected to have) because IFRS adoption?
    22) What do you perceive to be the benefits of IFRS adoption?
    23) Which IFRS standards do you consider to be most difficult to implement?

24) Do you think firms will change the way they do business following the implementation of IFRS?
25) Do you expect the cost of audit services to increase substantially after the adoption of IFRS? Why yes or why not.
26) What do you think the role of CINIF will be after the adoption of IFRS?
27) What do you think the role of the CNBV has been in the whole process?

3. Inflation issues:
    28) Do you think the removal of inflation accounting will create costs?
    29) Do you think the removal of inflation accounting will reduce the amount of relevant information?
    30) Do you think the removal of inflation accounting will change the strategy of the firms, e.g., levels of gearing, capital expenditures, etc.?
    31) What do you see as the benefits of removing inflation accounting?
    32) Do you think investor will understand the changes taking place with respect to inflation accounting?
    33) Any other comments you would like to make?

C) Group 3: Interview design for Regulators and Supporting Institutions

1. General issues:
    34) What has Mexico done different with respect other countries about IFRS adoption?
    35) Do you think that IFRS adoption will make financial information more comparable? Why yes or why not.

2. Translation issues:
    36) Have you faced any translation issue because IFRS are written in English? Do you suggest using the official version translated into Spanish or the English version?
    37) Are all IFRS applicable or suitable for the business environment in Mexico?
    38) Are there any missing elements from IFRS that would be useful for the business environment in Mexico? Which ones?

3. Implementation issues:
    39) What do you think will be the major accounting changes entities will have (or expected to have) to implement because IFRS adoption?
    40) What do you perceive to be the costs of implementing IFRS?
    41) What do you perceive to be the benefits of implementing IFRS?
    42) Which IFRS do you consider to be the most difficult to implement?
    43) What will be the major elements that users of financial information will see on the reconciliation adjustment?
    44) Do you think firms will change the way they do business following the implementation of IFRS?
    45) Do you think adoption of IFRS has created more opportunities of cross-listings or listings to Mexican entities?
    46) Do you think Mexico has an appropriate (efficient) enforcement mechanism to prevent or to reduce opportunities for manipulation information (or misreporting)?
    47) What do you think the role of CINIF will be after the adoption of IFRS?
    48) What do you think the role of the CNBV has been in the whole process?
    49) Any other comments you would like to add.

D) Group 4: Interview design for Analysts

1. General issues:

    50) What has Mexico done different with respect other countries about IFRS adoption?
    51) Do you think that IFRS adoption will make financial information more comparable? Why yes or why not.
    52) Do you consider that earnings based on IFRS are more easy or difficult to predict?
    53) Have you had any problem on the use of financial information prepared under IFRS for your predictions and recommendations?
    54) What have been the benefits of implementing IFRS for predicting or calculating multiples?
    55) Do you consider that IFRS accounting figures have bring opportunities (more or less opportunities) to manage earnings?
    56) Do you consider that IFRS accounting figures are more related with cash flows than the ones prepared under MFRS?
    57) Do you consider that under IFRS there are more disclosures than under MFRS?
    58) Do you consider that under IFRS accounting information is of more quality than under MFRS?
    59) Have you had any cost associated with IFRS adoption?
    60) Have you had more contact with controllers now that financial information is prepared under IFRS?
    61) Have you seen any change in the way entities do business after IFRS adoption?
    62) Any other comments you would like to make?

APPENDIX II: PARTICIPANTS OF THE PRE-ADOPTION INTERVIEWS

	Code	Role	Interview date	Time Length
Group 1: Controllers				
1) Grupo KUO	C1	Controller	29-02-2012	1:00:40
2) Grupo CIE	C2	Controller	22-03-2012	1:21:02
3) AMERICA MOVIL	C3	Controller	9-04-2012	51:43
4) Grupo Industrial PEÑOLES	C4	Controller	01-03-2012	1:16:04
5) PEMEX	C5	Controller	11-04-2012	1:15:08
Group 2: Auditors & Consultants				
6) EY	AC1	IFRS Desk	01-02-2012	1:18:31
7) PWC	AC2	Auditor/Consultant	13-02-2012	1:00:58
8) KPMG	AC3	Auditor/Consultant	21-03-2012	49:28
9) Deloitte	AC4	Auditor/Consultant	21-03-2012	1:36:58
10) CRZ	AC5	Tax Consultant	23-02-2012	56:29
Group 3: Regulators & Supporting Institutions				
11) CNBV	R1	Regulator	02-02-2012	1:14:32
12) CINIF	R2	Regulator	22-02-2012	1:30:11
13) IMCP	S1	Supporting Institution	09-02-2012	58:31
14) BMV	S2	Supporting Institution	02-05-2012	1:04:10
15) SAT	R3	Tax Regulator	09-04-2012	51:58
Group 4: Equity Analysts				
16) BANAMEX	A1	Analyst	6-03-2012	1:02:08
17) SCOTIABANK	A2	Analyst	30-03-2012	49:19

APPENDIX III: POST-ADOPTION INTERVIEWS QUESTIONS BY GROUP

A) Group 1: Interview design for Controllers/Preparers

1. General issues:
    1) After five years of IFRS adoption, what has been your experience (feelings, vision) with respect IFRS adoption?
    2) What has Mexico done different with respect other countries about IFRS adoption?
    3) Do you think that IFRS adoption will make financial information more comparable? Why yes or why not.

2. Implementation issues:
    4) What are the main accounting changes that you have (or expected to have) to implement because IFRS adoption?
    5) Which costs have your company/firm had (or expected to have) because IFRS adoption?
    6) What do you perceive to be the benefits of IFRS adoption?
    7) Which IFRS standards do you consider to be most difficult to implement?
    8) Do you think firms will change the way they do business following the implementation of IFRS?
    9) Do you expect the cost of audit services to increase substantially after the adoption of IFRS? Why yes or why not.
    10) Do you think IFRS have shaped the way how reporting decisions are made? If yes, in which way.
    11) Under IFRS context, what are the specific situations that require the use of professional judgment?
    12) What do you think the role of CINIF will be after the adoption of IFRS?
    13) What do you think the role of the CNBV has been in the whole process?

3. CFO, Audit Committee (AC) and External Auditor issues:
    14) Have you had any areas of disagreement with the CFO regarding financial reporting process under the context of IFRS compliance as opposed to the context of MFRS compliance?
    15) Has your relationship (or dynamic) with the Audit Committee and external auditors in the setting of financial reporting has changed after IFRS adoption?
    16) Do you think external auditors´ monitoring role in overseeing financial reporting quality has changed after IFRS adoption?
    17) Do you think that external auditors' questionings about financial reporting are different now under IFRS?
    18) Have you had any accounting disagreement with auditors? Explain.
    19) Do you think audit committee´s monitoring role in overseeing financial reporting quality has changed after IFRS adoption?
    20) Does the audit committee question your reporting decisions more now than before IFRS adoption?
    21) Have you had any accounting disagreement with the audit committee?
    22) Any other comments you would like to make?

B) Group 2: Interview design for Auditors and Consultants

1. General issues:
    23) After five years of IFRS adoption, what has been your experience (feelings, vision) with respect IFRS adoption?
    24) What has Mexico done different with respect other countries about IFRS adoption?
    25) Do you think that IFRS adoption will make financial information more comparable? Why yes or why not.

2. Implementation issues:
    26) What are the main accounting changes that you have (or expected to have) to implement because IFRS adoption?
    27) Which costs have your company/firm had (or expected to have) because IFRS adoption?
    28) What do you perceive to be the benefits of IFRS adoption?
    29) Which IFRS standards do you consider to be most difficult to implement?
    30) Do you think firms will change the way they do business following the implementation of IFRS?
    31) Do you expect the cost of audit services to increase substantially after the adoption of IFRS? Why yes or why not.
    32) Do you think IFRS have shaped the way how reporting decisions are made? If yes, in which way.
    33) Under IFRS context, what are the specific situations that require the use of professional judgment?
    34) What do you think the role of CINIF will be after the adoption of IFRS?
    35) What do you think the role of the CNBV has been in the whole process?

3. Controllers, Audit Committee Members and External Auditors issues:
    36) Have you had any areas of disagreement with the CFO regarding financial reporting process under the context of IFRS compliance as opposed to the context of MFRS compliance?
    37) Has your relationship (or dynamic) with the Audit Committee and external auditors in the setting of financial reporting has changed after IFRS adoption?
    38) Do you think external auditors´ monitoring role in overseeing financial reporting quality has changed after IFRS adoption?
    39) Do you think that external auditors' questionings about financial reporting are different now under IFRS?
    40) Have you had any accounting disagreement with auditors? Explain.
    41) Do you think audit committee´s monitoring role in overseeing financial reporting quality has changed after IFRS adoption?
    42) Does the audit committee question your reporting decisions more now than before IFRS adoption?
    43) Have you had any accounting disagreement with the audit committee?
    44) Any other comments you would like to make?

C) Group 3: Interview design for Regulators and Supporting Institutions

1. General issues:
    45) After five years of IFRS adoption, what has been your experience (feelings, vision) with respect IFRS adoption?

46) What has Mexico done different with respect other countries about IFRS adoption?
47) Do you think that IFRS adoption will make financial information more comparable? Why yes or why not.

2. Translation issues:
   48) Have you faced any translation issue because IFRS are written in English? Do you suggest using the official version translated into Spanish or the English version?
   49) Are all IFRS applicable or suitable for the business environment in Mexico?
   50) Are there any missing elements from IFRS that would be useful for the business environment in Mexico? Which ones?

3. Implementation issues:
   51) What do you think will be the major accounting changes entities will have (or expected to have) to implement because IFRS adoption?
   52) What do you perceive to be the costs of implementing IFRS?
   53) What do you perceive to be the benefits of implementing IFRS?
   54) Which IFRS do you consider to be the most difficult to implement?
   55) What will be the major elements that users of financial information will see on the reconciliation adjustment?
   56) Do you think firms will change the way they do business following the implementation of IFRS?
   57) Do you think IFRS have shaped the way how reporting decisions are made? If yes, in which way.
   58) Under IFRS context, what are the specific situations that require the use of professional judgment?
   59) Do you think adoption of IFRS has created more opportunities of cross-listings or listings to Mexican entities?
   60) Do you think Mexico has an appropriate (efficient) enforcement mechanism to prevent or to reduce opportunities for manipulation information (or misreporting)?
   61) What do you think the role of CINIF will be after the adoption of IFRS?
   62) What do you think the role of the CNBV has been in the whole process?

4. CFO, Audit Committee (AC) and External Auditor issues:
   63) Has the relationship (or dynamic) between the CFO and the controller has changed?
   64) Do you think external auditors´ and Audit Committee monitoring role in overseeing financial reporting quality has changed after IFRS adoption?
   65) Do you think external auditors' financial reporting questionings to controllers with respect financial reporting have changed now under IFRS?
   66) Do you think audit committee financial reporting questionings to controllers with respect financial reporting have changed now under IFRS?
   67) Any other comments you would like to make?

D) Group 4: Interview design for Analysts

1. General issues:
    68) After five years of IFRS adoption, what have been the main effects that Mexican entities had because of adoption?
    69) What has Mexico done different with respect other countries about IFRS adoption?
    70) Do you think that IFRS adoption will make financial information more comparable? Why yes or why not.
    71) Do you consider that earnings based on IFRS are more easy or difficult to predict?
    72) Have you had any problem on the use of financial information prepared under IFRS for your predictions and recommendations?
    73) What have been the benefits of implementing IFRS for predicting or calculating multiples?
    74) Do you consider that IFRS accounting figures have bring opportunities (more or less opportunities) to manage earnings?
    75) Do you consider that IFRS accounting figures are more related with cash flows than the ones prepared under MFRS?
    76) Do you consider that under IFRS there are more disclosures than under MFRS?
    77) Do you consider that under IFRS accounting information is of more quality than under MFRS?
    78) Have you had any cost associated with IFRS adoption?
    79) Have you had more contact with controllers now that financial information is prepared under IFRS?
    80) Have you seen any change in the way entities do business after IFRS adoption?

2. Controllers, Audit Committee Members and External Auditors issues:
    81) Do you think external auditors´ and Audit Committee monitoring role in overseeing financial reporting quality has changed after IFRS adoption?
    82) Do you think external auditors' financial reporting questionings to controllers with respect financial reporting have changed now under IFRS?
    83) Any other comments you would like to make?

APPENDIX IV: PARTICIPANTS OF THE POST-ADOPTION INTERVIEWS

	Code	Role	Interview date	Time Length
Group 1: Controllers				
1) Grupo KUO	C1	Controller	31/07/2017	53:57
2) Grupo Médica Sur	C2	Controller	26/07/2017	1:16:30
3) AMERICA MOVIL	C3	Controller	5/07/2017	50:42
4) Grupo Industrial PEÑOLES	C4	Controller	12/07/2017	2:00:06
Group 2: Auditors & Consultants				
5) EY	AC1	IFRS Desk	30/06/2017	1:22:08
6) PWC	AC2	Auditor/Consultant	12/07/2017	57:52
7) KPMG	AC3	Auditor/Consultant	10/07/2017	01:10:33
8) Deloitte	AC4	Auditor/Consultant	17/07/2017	01:16:20
Group 3: Regulators & Supporting Institutions				
9) CNBV	R1	Regulator	18/07/2017	01:18:09
10) CINIF	R2	Regulator	4/07/2017	01:40:26
11) IMCP	S1	Supporting Institution	4/07/2017	01:26:54
12) BMV	S2	Supporting Institution	25/07/2017	01:15:21
Group 4: Equity Analysts				
13) BANAMEX	A1	Analyst	19/07/2017	46:39
14) SCOTIABANK	A2	Analyst	20/07/2017	01:06:00
15) INTERACCIONES	A3	Analyst	18/07/2017	01:36:31
16) BANORTE	A4	Analyst	13/07/2017	01:03:00

APPENDIX V: INSTRUMENT STUDY 2

*The purpose of this questionnaire is **to gain insights into the decision-making of financial reporting.** Please analyse the information described in the following pages and provide your decisions, as you would in the normal context of business.*

We have restricted the amount of information presented to limit the time necessary to complete the study. Although you will not have all of the information you would typically have at your disposal during an actual reporting context, it is important that you make your decisions to the best of your abilities given the limited information set.

*Your participation in this study is very important to us! Please answer all questions carefully in the order presented. The questionnaire should not take more than **20 minutes** to complete. Your responses are completely anonymous and cannot be traced to you.*

Finally, if you complete the questionnaire (and answer the first question of Envelope #2 correctly), you will enter a raffle for a pair of Beat wireless headphones Solo 3, so please remember to keep the ticket that is included in envelope 2 so that in case you win, you can claim the prize.

Thank you for your help.

Please open <u>Envelope #1</u> and begin the questionnaire

Part I

(before) [*after*] the IFRS adoption

Background Information and Assumptions for the Case

Please read all assumptions and the information on the following pages carefully. You will be asked several questions about the assumptions and the case materials at the end of the questionnaire.

Assume that you work as a controller for a large division of a consumer goods company called ABC Inc. The company is a publicly traded corporation that was founded in 2004.

While preparing the financial statements, you found one reporting issue that involves the division of ABC and requires your decision. (The information related to the reporting issue is provided on the following pages. While analysing the reporting issue, use the Mexican Financial Reporting Standards before the IFRS adoption to make the reporting decision. Think of the MFRS pre-IFRS adoption and below list three pros and three cons of using the MFRS pre-IFRS adoption:) [*The information related to the reporting issue is provided on the following pages. While analysing the reporting issue, use the Mexican Financial Reporting Standards after the IFRS adoption to make the reporting decision. Think of the MFRS post-IFRS adoption and below list three pros and three cons of using the MFRS post-IFRS adoption:*]

	Pros	Cons
1.		
2.		
3.		

Year-End Issue

You are finalizing the division's financial records for the end of the year. Your decision involves an accounting estimate. Your division has started selling a new product this year that is very popular among consumers. These products are sold with a 10-year warranty.

You need to **estimate** warranty expense for this product. Because **this product is new**, your staff has provided you with a range of possible outcomes for this expense:

Possible Warranty Expense		**Probability**		**Expense x Probability**
$1,000,000		20%		$200,000
$1,500,000		20%		$300,000
$2,000,000		20%		$400,000
$2,500,000		20%		$500,000
$3,000,000		20%		$600,000
Expected Value of Warranty Expense				**$2,000,000**

As **you** review this information, you note that **your division** has earned $42 million dollars in operating profit this year prior to accounting for warranty expense. This is a significant increase from the previous year.

The Chief Financial Officer (CFO) has set up a new requirement that each division meet a certain operational profit target each year. The targets are designed to help ensure that ABC Inc. meets targeted earnings.

The CFO has set an operational profit target for **your division** of $40.5 million dollars. If your division meets its profit target, you will receive a bonus for the year (worth approximately 50% of your yearly salary), and your division will receive more resources to expand into new markets. If you do not meet the target, you will not receive a bonus, and you may need to lay off personnel next year.

Based upon the profit before accounting for the new product warranty expenses ($42 million), you will meet the division's profit target this year.

You note that your division usually determines an expense estimate by multiplying each estimate by its probability and recording the average amount. If you follow this approach, it will reduce operational profit for your division by $2,000,000. This means your division will miss its profit target by $500,000, and the firm's EPS will fall below the analyst forecast of EPS.

However, you note that you could record the second-to-lowest estimate included in the range. If you follow this approach, the warranty expense will reduce operational profit for your division by $1,500,000. This means your division will exactly meet its profit target.

You also note that initial reports of the reliability of the new product are good.

1) Based on this information, what amount would you record as warranty expense for ABC? (Choose any amount from the Table provided above)

$___________________________________

2) When faced with the following two options, what do you believe others in a similar situation would choose to do? Please indicate your response by circling a number on the scale below.

- Option 1: *Controllers who are in charge of financial reporting and interact with the CFO would record $1,500,000 or Less*
- Option 2: *Controllers who are in charge of financial reporting and interact with the CFO would record $2,000,000 or More*

-3	-2	-1	0	1	2	3
Strongly choose OPTION 1: *Other controllers would record $1,500,000 or Less*	Moderately choose OPTION 1	Slightly choose OPTION 1	*Indifferent*	Slightly choose OPTION 2	Moderately choose OPTION 2	Strongly choose OPTION 2: *Other controllers would record $2,000,000 or More*

Please place Part I of this study back into Envelope #1 and seal the envelope. Leave Envelope #1 on the table and continue with Envelope #2.

Please open Envelope #2 and answer the remaining questions.

At this point, please do not re-open Envelope #1.

[All Participants]

Part II

1. For the case you read in Part I, how were you instructed to analyse the year-end issue? (please select one of the two options below)

	I was instructed to use the Mexican Financial Reporting Standards *before* the IFRS adoption to make the reporting decision, and to list three pros and three cons of using the MFRS *pre*-IFRS adoption.
	I was instructed to use the Mexican Financial Reporting Standards *after* the IFRS adoption to make the reporting decision, and to list three pros and three cons of using the MFRS *post*-IFRS adoption.

Demographic Questions:

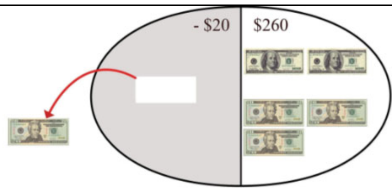
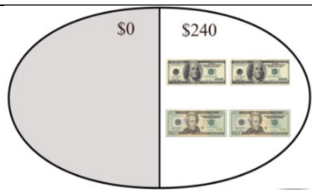
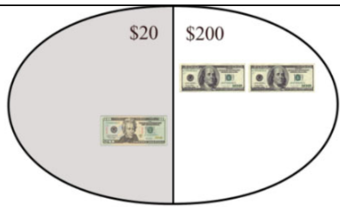
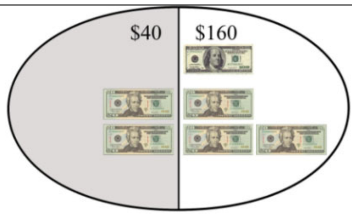
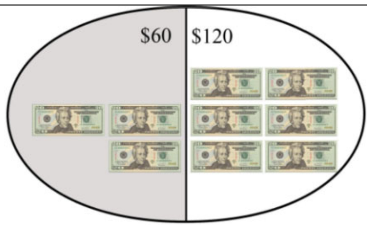
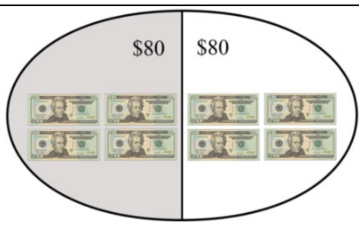
1. Gender (circle one): Female Male
2. Indicate your major: ________________________________
3. Number of accounting courses studied: ________________________________
4. Are you currently working at any position that involves accounting or finance?
   Yes ____________ No ____________

Additional Question:

5. In your opinion, do you think there is difference between the MFRS pre- IFRS adoption and MFRS post-IFRS adoption with respect to accounting for provisions?

1 **Not at all**	**2**	**3**	**4**	**5**	**6**	**7** **Very much**

6. Of the six options presented below, choose the option (choose only one) that best represents your preference:

Mark with an X only one option	Choice		What do you prefer?
	Choice 1		To lose $20 or win $260
	Choice 2		Do not win (do not lose) or win $240
	Choice 3		Win $20 or Win $200
	Choice 4		Win $40 or win $160
	Choice 5		Win $60 or win $120
	Choice 6		Win $80 in any scenario

7. For each of the following statements, please indicate the likelihood of engaging in each activity. Provide a rating from 1=extremely unlikely to 5=extremely likely.

1. Betting a day's income at the horse races

1 (Extremely unlikely)	2	3 (Not sure)	4	5 (Extremely likely)

2. Cosigning a new car loan for a friend

1 (Extremely unlikely)	2	3 (Not sure)	4	5 (Extremely likely)

3. Investing 10% of your annual income in a blue-chip stock

1 (Extremely unlikely)	2	3 (Not sure)	4	5 (Extremely likely)

4. Investing 10% of your annual income in a very speculative stock

1 (Extremely unlikely)	2	3 (Not sure)	4	5 (Extremely likely)

5. Investing 10% of your annual income in government bonds

1 (Extremely unlikely)	2	3 (Not sure)	4	5 (Extremely likely)

6. Investing in a business that has a good chance of failing

1 (Extremely unlikely)	2	3 (Not sure)	4	5 (Extremely likely)

7. Lending a friend an amount of money equivalent to one month's income

1 (Extremely unlikely)	2	3 (Not sure)	4	5 (Extremely likely)

8. Spending money impulsively without thinking about the consequences

1 (Extremely unlikely)	2	3 (Not sure)	4	5 (Extremely likely)

9. Taking a job where you get paid exclusively on a commission basis

1 (Extremely unlikely)	2	3 (Not sure)	4	5 (Extremely likely)

10. Taking a day's income to play the slot-machines at a casino

1 (Extremely unlikely)	2	3 (Not sure)	4	5 (Extremely likely)

Please place your materials back into Envelope #2 and seal the envelope.

Remember to keep your raffle ticket, because without it you cannot claim the prize if you are the winner.

Then, please leave Envelope #1 and Envelope #2 on Table.

Thank you very much for your help!

APPENDIX VI: INSTRUMENT STUDY 3

*The purpose of this questionnaire is **to gain insights into the decisions of a controller**. Please analyse the information provided in the following pages and provide your decisions, as you would in the normal context of business.*

We have restricted the amount of information presented to limit the time necessary to complete the study. Although you will not have all of the information you would typically have at your disposal during an actual reporting context, it is important that you make your decisions to the best of your abilities given the limited information set.

*Your participation in this study is very important to us! Please answer all questions carefully in the order presented. The questionnaire should not take more than **20 minutes** to complete. Your responses are completely anonymous and cannot be traced to you or your firm.*

Thank you for your help.

Please open envelope #1 and begin the questionnaire

Part I

(Low) [*High*] level of audit committee expertise

(absence) [Presence] of auditor perspective taking

<u>Background Information and Assumptions for the Case</u>

Please read all assumptions and the information on the following pages carefully. You will be asked several questions about the assumptions and the case materials at the end of the questionnaire.

Assume that you work as a controller for a large division of a consumer goods company called ABC Inc. The company is a publicly traded corporation that was founded in 2004.

The audit committee of ABC is composed of four members. On average, the committee members hold XX meetings annually. (Only one member of the audit committee meets the minimum qualifications necessary to be considered a ‘‘financial expert,’’ although this member does not have an accounting background.) [*Three of the four members are Certified Public Accountants, and these three members possess the qualifications necessary to be considered “financial experts.”*]

While preparing the financial statements, you found one reporting issue that involves the division of ABC and requires your decision. (Please analyse the information provided on the following pages and make your decision, as you normally would in practice.) [*Please analyse the information provided on the following pages by thinking from the perspective of the external auditor responsible for evaluating your reporting decision. Put yourself in the place of external auditor and try to imagine what you would think and how you would feel and make the decision.*]

<u>Year-End Issue</u>

You are finalizing the division’s financial records for the end of the year. Your decision involves an accounting estimate. Your division has started selling a new product this year that is very popular among consumers. These products are sold with a 10-year warranty.

You need to **estimate** warranty expense for this product. Because **this product is new**, your staff has provided you with a range of possible outcomes for this expense:

Possible Warranty Expense		**Probability**		**Expense x Probability**
$1,000,000		20%		$200,000
$1,500,000		20%		$300,000
$2,000,000		20%		$400,000

$2,500,000		20%		$500,000
$3,000,000		20%		$600,000
		Expected Value of Warranty Expense		**$2,000,000**

As **you** review this information, you note that **your division** has earned $42 million dollars in operating profit this year prior to accounting for warranty expense. This is a significant increase from the previous year.

The Chief Financial Officer (CFO) has set up a new requirement that each division meet a certain operational profit target each year. The targets are designed to help ensure that ABC Inc. meets targeted earnings.

The CFO has set an operational profit target for **your division** of $40.5 million dollars. If your division meets its profit target, you will receive a bonus for the year (worth approximately 50% of your yearly salary), and your division will receive more resources to expand into new markets. If you do not meet the target, you will not receive a bonus, and you may need to lay off personnel next year.

Based upon the profit before accounting for the new product warranty expenses ($42 million), you will meet the division's profit target this year.

You note that your division usually determines an expense estimate by multiplying each estimate by its probability and recording the average amount. If you follow this approach, it will reduce operational profit for your division by $2,000,000. This means your division will miss its profit target by $500,000, and the firm's EPS will fall below the analyst forecast of EPS.

However, you note that you could record the second-to-lowest estimate included in the range. If you follow this approach, the warranty expense will reduce operational profit for your division by $1,500,000. This means your division will exactly meet its profit target.

You also note that initial reports of the reliability of the new product are good.

2) Based on this information, what amount would you record as warranty expense for ABC? (Choose any amount from the Table provided above)

$___________________________________

3) When faced with the following two options, what do you believe others in a similar situation would choose to do? Please indicate your response by circling a number on the scale below.

- Option 1: *Controllers who are in charge of financial reporting and interact with the CFO would record $1,500,000 or Less*
- Option 2: *Controllers who are in charge of financial reporting and interact with the CFO would record $2,000,000 or More*

-3	-2	-1	0	1	2	3
Strongly choose OPTION 1: *Other controllers would record $1,500,000 or Less*	Moderately choose OPTION 1	Slightly choose OPTION 1	*Indifferent*	Slightly choose OPTION 2	Moderately choose OPTION 2	Strongly choose OPTION 2: *Other controllers would record $2,000,000 or More*

Please place Part I of this study back into Envelope #1 and seal the envelope. Leave Envelope #1 on the table and continue with Envelope #2.

Please open Envelope #2 and answer the remaining questions.

At this point, please do not re-open Envelope #1.

[All Participants]

Part II

2. For the case you read in Part I, how were you instructed to analyse the year-end issue? (please select one of the two options below)

	I was instructed to analyse the case material and make decisions, as I normally would in practice.
	I was instructed to analyse the case material by thinking from the perspective of the external auditor responsible for evaluating my reporting decision. That is, I would put myself in the place of external auditor and tries to imagine what I would think and how I would feel and make the decision.

3. For the case you read in Part I, how did you perceive the level of audit committee expertise?
(circle the appropriate number)

1 Very low	2	3	4	5	6	7 Very high

4. For the case you read in Part I, which one of the descriptions best represents the audit committee of ABC, Inc. (please select one of the two options below)

	The audit committee of ABC is composed of four members. On average, the committee members hold XX meetings annually. Only one member of the audit committee meets the minimum qualifications necessary to be considered a ''financial expert,'' although this member does not have an accounting background.
	The audit committee of ABC is composed of four members. On average, the committee members hold XX meetings annually. Three of the four members are Certified Public Accountants, and these three members possess the qualifications necessary to be considered "financial experts."

Part III

Please answer the following questions on a scale from **-3 (Strongly Disagree)** to **+3** (**Strongly Agree**):

1. The CFO would be a lot of fun to work with (Place an X in the space below).

-3 Strongly Disagree	-2	-1	0	+1	+2	+3 Strongly Agree

2. I like the CFO as a person (Place an X in the space below).

-3 Strongly Disagree	-2	-1	0	+1	+2	+3 Strongly Agree

3. The CFO is the kind of person I would like to have as a friend (Place an X in the space below).

-3 Strongly Disagree	-2	-1	0	+1	+2	+3 Strongly Agree

4. The CFO would come to my defence if I were “attacked” by others (Place an X in the space below).

-3 Strongly Disagree	-2	-1	0	+1	+2	+3 Strongly Agree

5. The CFO would defend me to others in the organization if I made an honest mistake (Place an X in the space below).

-3 Strongly Disagree	-2	-1	0	+1	+2	+3 Strongly Agree

6. The CFO would defend my work actions to the CEO, even without complete knowledge of the issue in question (Place an X in the space below).

-3 Strongly Disagree	-2	-1	0	+1	+2	+3 Strongly Agree

7. I would not mind working my hardest for the CFO (Place an X in the space below).

-3 Strongly Disagree	-2	-1	0	+1	+2	+3 Strongly Agree

8. I would be willing to do work for the CFO that goes beyond what is specified as my task (Place an X in the space below).

-3 Strongly Disagree	-2	-1	0	+1	+2	+3 Strongly Agree

9. I would be willing to apply extra efforts, beyond those normally requested, to meet the CFO's work goals (Place an X in the space below).

-3 Strongly Disagree	-2	-1	0	+1	+2	+3 Strongly Agree

Part IV

1. On a scale of 1 (Not closely) to 7 (Very closely), how closely does the CFO monitor or provide oversight over the financial reporting process? Place an X in the space below:

1 Not closely	2	3	4	5	6	7 Very closely

2. On a scale of 1 (Not closely) to 7 (Very closely), how closely does the audit committee (or equivalent) monitor or provide oversight over the financial reporting process? Place an X in the space below:

1 Not closely	2	3	4	5	6	7 Very closely

3. On a scale of 1 (Not closely) to 7 (Very closely), how closely do external auditors question your reporting decisions? Place an X in the space below:

1 Not closely	2	3	4	5	6	7 Very closely

4. On a scale of 1 (Not aggressive) to 7 (Very aggressive), how aggressive is the CFO with regard to meeting or exceeding performance targets, such as sales, net income, and/or earnings per share?

1 Not aggressive	2	3	4	5	6	7 Very aggressive

5. On a scale of 1 (Not closely) to 7 (Very closely), how closely does the CEO monitor or provide oversight over the financial reporting process? Place an X in the space below:

1 Not closely	2	3	4	5	6	7 Very closely

6. Please indicate to whom you report for the purpose of overseeing financial reporting process:

   The Chief Executive Officer (CEO) or *equivalent* YES ______NO ______

   The Chief Financial Officer (CFO) or *equivalent* YES ______NO ______

   If none of the above, which position do you report to?

   ____

7. On a scale of 1 (Not aggressive) to 7 (Very aggressive), how aggressive is the CEO about meeting or exceeding performance targets, such as sales, net income, and/or earnings per share?

1 Not aggressive	2	3	4	5	6	7 Very aggressive

8. On average, how many meetings do you have with the audit committee (or equivalent) in a year? _____________ Times

9. Do you report findings *directly* to the audit committee (or equivalent)?

   YES ______ NO ______

10. On average, how many meetings do you have with external auditors in a year?

    _____________ Times

11. At your company, who makes the financial reporting decisions? (place an X all that apply)

    The Chief Executive Officer (CEO) or *equivalent* YES ______NO______

    The Chief Financial Officer (CFO) or *equivalent* YES ______NO______

    If none of the above, please indicate below:

    ____

12. Is expense recognition important for your company? (place an X)

    YES ______ NO ______

13. At your company, who makes the final decision on reporting issues that may impact the company's annual earnings? (place an X all that apply)

The Chief Executive Officer (CEO) or *equivalent* YES ______NO______

The Chief Financial Officer (CFO) or *equivalent* YES ______NO______

The Audit Committee or *equivalent* YES ______NO______

If none of the above, please indicate below:

____

Part V

Demographic Questions:

8. Gender (circle one): Female Male
9. Professional designations (circle all that apply): CPA CPA in ACC

   Other ____________

10. How many years of experience do you have in financial reporting? _____________

11. How many years have you worked for your current organization? _____________

12. Do you have any experience working as an external auditor? ______YES_______NO

13. If the above answer is YES, how many years have you worked as an *external* auditor?

    ____

14. Do you have any experience working as an *internal* auditor? ______ YES_______NO

15. If the above answer is YES, how many years have you worked as an *internal* auditor?

    ____

16. What is the highest level of education that you have attained? (place an X)

    ___Bachelor ___Master's Degree ___PhD

PART VI

1. Please choose the general industry with which your organization is primarily associated: **Industry**

	Manufacturing
	Finance and Insurance
	Wholesale Trade
	Retail Trade
	Transportation and Warehousing
	Construction
	Real Estate
	Professional, Scientific and Technical Services
	Hospitality and Food Services
	Healthcare
	Information and Media
	Education
	Arts, Entertainment and Recreation
	Utilities
	Mining and Oil & Gas
	Agriculture, Forestry, Fishing and Hunting
	Holding Company or Conglomerate
	Others ____

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