

CONFIDENCE OF ACCOUNTANTS IN APPLYING INTERNATIONAL FINANCIAL REPORTING STANDARDS

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Abstract

Research on how accountants could increase their confidence in interpreting and applying International Financial Reporting Standards (IFRS) is lacking. This study examines whether the accuracy of judgments made by accountants varies as a consequence of their level of confidence, and whether their confidence in exercising judgments could be enhanced by greater familiarity with IFRS. The results of the study support that accountants who are more confident make judgments that better reflect the economic substance of a transaction than accountants who are less confident. The results further indicate that familiarity with IFRS enhances the confidence of accountants and the most accurate judgments are made by those accountants who are not only familiar with IFRS but also have confidence in their judgments.

Keywords: IFRS, Professional Judgments, Confidence, Familiarity

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1 Introduction

The fact that International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB) embody a principles-based or 'substance over form' regime (Chambers & Wolnizer, 1991; Douppnik & Richter, 2003) means that many decisions concerning the accounting treatment of a transaction are based on the professional judgments of accountants. This study examines whether accountants are confident in using IFRS, and if they are, whether these confident accountants are more likely to choose accounting treatments that reflect the economic substance of a transaction than accountants who are less confident. The study also examines whether accountants' confidence in exercising judgments could be enhanced by greater familiarity with IFRS.

Approximately 128 countries have adopted or intend to adopt IFRS for all their domestically listed companies. The implicit assumption in accounting convergence is that this will lead to high quality and comparable financial reporting. However, even though the adoption of IFRS is widely promoted, there are still many inherent challenges in implementing and applying IFRS within and across countries (see Douppnik & Richter, 2003; Verschoor, 2010; Wustemann & Wustemann, 2010; Hodgdon et al.,

2011). Owing to the significance of the role played by judgment in the application of IFRS, it is extremely important to examine how accountants' choice of accounting treatments could be enhanced when judgments are made that reflect the economic substance of a transaction, because an inappropriate judgment can lead to serious economic consequences for users of accounting information, as well as for firms.

Accountants' confidence in using IFRS to exercise their judgment to determine the appropriate form of financial disclosure is crucial. Confidence is the belief of the decision maker in the quality of the decision made (Sniezek, 1992). It can be perceived as a process variable that is considered a determinant of performance or an outcome variable that reflects an individual's confidence in the performance of a task (Bonner, 2007). Confidence in this study is conceptualised as an outcome variable, where confidence is described as the degree of belief in the accuracy of judgments made (see Einhorn & Hogarth, 1978; Lichtenstein et al., 1982; Reber, 1995). In psychology, a number of studies which examined the effects of confidence on judgment accuracy have reported that higher confidence in one's judgments leads to more accurate judgments being made (Woodman & Hardy, 2003; Keibell, 2009; Lee et al., 2011). Hence, it becomes crucial to investigate

whether accountants are confident in their judgments that require the use of IFRS and whether this confidence leads to choosing the accounting treatments that best reflect the economic substance of a transaction.

Research on judgment and decision making suggests that familiarity has a positive effect on judgments. Familiarity has been defined as “specific knowledge a person has about the aspects of work” (Goodman & Leyden, 1991, p. 578). Familiarity in our conceptualization is a knowledge-based variable which facilitates greater confidence in accountants and hence improves the quality of their judgments. The positive effects of familiarity on task performance have also been confirmed in experimental problem-solving tasks (Littlepage et al., 1997), studies of team familiarity in medical teams (Reagans et al., 2005), and in software development studies (Boehm, 1981; Curtis et al., 1988; Walz et al., 1993; Banker & Slaughter, 2000; Brooks, 1995). While the general benefits of task familiarity are apparent from these studies, it is still not clear whether familiarity with IFRS will enhance accountants’ confidence and support them to choose the accounting treatments that best reflect the economic substance of a transaction when applying principles-based accounting standards. This research therefore is timely and relevant.

Three hypotheses are used as a basis for the examination of the effects of confidence on the reporting judgments of accountants and to examine whether familiarity with IFRS as a confidence enhancing factor will assist them in selecting an accounting treatment that best reflects the economic substance of a transaction. A lease task was chosen and accountants were required to exercise their judgment on whether a leased item should be recognised as an operating lease or a finance lease. International Accounting Standard (IAS) 17 *Leases* is a conventional principles-based standard which emphasizes the substance of a lease transaction in making a classification as a finance lease or an operating lease (Jamal & Tan, 2010; Agoglia, Doupnik, & Tsakumis, 2011).

The first hypothesis posits that there will be differences in the judgments based on the degree of confidence accountants have in exercising their judgment. Specifically, the first hypothesis implies that accountants who have greater confidence in their judgments are more likely to choose accounting treatments that best reflect the economic substance of a transaction than accountants who are not confident. As expected, the results of the study provide strong support for the notion that accountants who are more confident make judgments which better reflect the economic substance of a transaction than accountants who are less confident.

The second and third hypotheses examine the potential role that familiarity plays in enhancing the confidence of accountants. The second hypothesis presumes that accountants who are familiar with IFRS

are able to use specific knowledge that links the principles of the accounting standards with business transactions, will spend less time referring to the contents of the standards and will focus more attention on exercising their professional judgment; hence, they will choose the accounting treatment that best reflects the economic substance of a transaction. The results indicate that accountants’ familiarity with IFRS have a significant positive influence on their judgments. Further, the study examines the impacts of both familiarity with IFRS and confidence on the judgments of accountants. The results indicate that familiarity with IFRS enhances the confidence of accountants and the most accurate judgment is made by those accountants who are familiar with IFRS as well as confident in their judgments.

Our findings have practical implications that are important for both accountants and standard setters because they show that accountants’ confidence in their judgments is crucial for choosing accounting treatments that best reflect the economic substance of a transaction. This study has implications for the convergence of accounting standards which advocates for high quality financial reports. The results of this study imply that countries adopting IFRS can only realize gains if the necessary investment in accounting education and training has been made so that accountants feel familiar with IFRS and their confidence is consequently enhanced.

The remainder of the paper is organized as follows. Section 2 outlines the relevant literature and develops our hypotheses. Sections 3 and 4 describe the experiment used to test the hypotheses and present the results. Section 5 provides a summary and offers the conclusions and implications of our study.

2 Theory and hypotheses development

2.1 Confidence in judgment and decision making

Confidence is a crucial factor in the judgment and decision making process because it reflects the degree of “assuredness” in one’s judgment or decision (Reber, 1995). According to Peterson and Pitz (1988), confidence can be assessed by obtaining the decision makers’ self-review on their belief in the possibility that the decision they have made is correct. The higher the probability stated by the decision makers, the higher the level of confidence they have in their judgments. Sniezek (1992) argued that confidence in judgments may be as important as the quality of the judgments themselves, because confidence will determine whether and how those judgments or decisions are used by decision makers, or even by others. Bonner (2007) pointed out that, although some prior studies in accounting have examined confidence as a process variable in individuals’ judgment and decision making (JDM), most studies tend not to examine the effects of confidence on subsequent JDM,

hence, the relationship between the two variables is still not well understood.

According to Lee and Dry (2006) people are sensitive to the accuracy of information when evaluating how accurately they perform. They observed that the type of decision made by individuals is linked to the kind of information presented to them, and that their confidence is affected by the frequency and accuracy of the advice. They also showed that people are less confident in their estimated decisions when they have to make many decisions.

A number of studies in psychology which examined the effects of confidence on judgment accuracy have reported that higher confidence in judgments leads to higher accuracy in judgments (Woodman & Hardy, 2003; Kebbell, 2009; Lee et al., 2011). For example, Kebbell (2009) conducted an experiment with 100 undergraduate participants to examine witnesses' confidence in their level of recall accuracy in relation to film footage of criminal behaviour. The study reported a significant positive relationship between witnesses' confidence and the recall accuracy of their answers. Similarly, Lee et al. (2011) explored the interaction between students' confidence in their judgment, their actual accuracy and time taken in answering 100 general knowledge questions. The results support their prediction that accuracy increases with higher confidence ratings. In a meta-analysis of 48 studies on competitive performance, Woodman and Hardy (2003) documented a significant positive relationship between individuals' confidence and their performance. The result is consistent with the proposition of motivation theory which suggests that a higher level of confidence may lead to increased performance by increasing individuals' motivation to succeed in a given task (Benabou & Tirole, 2002).

In accounting, findings regarding the effects of confidence on judgment accuracy have been mixed. For example, Pincus (1991) examined the relationships between individual auditor characteristics, decision accuracy and audit judgment confidence. The study reported that confidence and accuracy were not significantly related and suggested that confidence may be a process variable rather than an output variable. Weber (1978) tested 40 auditors' decision processes in assessing the overall reliability of internal control for a manufacturing company's inventory system, and even though the study failed to provide a test of the significance of the confidence-accuracy relationship, they reported that those subjects who used decision aid were significantly more confident in their judgments and made significantly more accurate decisions than those who did not, therefore supporting the existence of a positive relationship between confidence and accuracy. Similarly, Hageman (2010) conducted an experiment with 114 participants to examine the role of confidence in tax return preparation. The results indicate that tax preparers with higher levels of

confidence in their ability to accurately prepare a tax return demonstrated higher levels of accuracy in their performance of the task using a tax decision support system.

A number of studies in auditing that have investigated the appropriateness of auditors' confidence in the judgments they make have also reported mixed findings that auditors sometimes display overconfidence and sometimes underconfidence in the decisions they have made (Hunton et al., 2004). For example, Solomon et al. (1985) found that auditors' judgments in general-knowledge (almanac) questions were miscalibrated and significantly overconfident. Similarly, Hunton et al. (2004) reported that financial auditors may be overconfident in their ability to recognize heightened risks associated with an enterprise resource planning (ERP) system. Overconfidence in a decision is regarded as having a greater degree of perceived accuracy on a given task than is reflected in the actual accuracy of the performance (Lichtenstein et al., 1982; Paese & Sniezek, 1991). According to Bonner (2007), overconfidence is one of the most problematic biases in judgment and decision making; the outcome can have serious consequences if individuals fail to recognise the inaccuracy of their task performance, and this may lead to inaccurate resource allocation. Generally, studies have shown that overconfidence in task performance is negatively associated with judgment accuracy (Sniezek et al., 1990; Hageman, 2010; See et al., 2011).

Underconfidence in decision making occurs when there is greater accuracy in the decisions made than the self-assessed judgment accuracy of those decisions (Lichtenstein et al., 1982). Underconfidence may result in a good judgment being discarded, resulting in failure to benefit from a good decision (Staw, 1976). In the study by Tomassini et al. (1982), auditors were required to establish probability density functions on account balance for 6 real world cases. The results show substantial underconfidence in all areas of the distribution. Similarly, the study by Solomon et al. (1985) found that auditors' judgments in assessing the accuracy of particular account balances in financial statements were predominantly underconfident.

Both overconfidence and underconfidence can lead to inaccurate resource allocation, thus an appropriate level of decision confidence is as vital as decision accuracy in its effect on the ultimate outcome of a decision (Sniezek & Henry, 1989). While studies have been conducted in psychology, auditing and taxation contexts, research investigating the confidence in the context of IFRS reporting is missing. Our study fills this void by examining whether accountants who are more confident in their judgments are likely to choose the accounting treatments that best reflect the economic substance of a transaction than accountants who are not confident.

2.1.1 Effect of confidence on reporting judgments of accountants when interpreting and applying IFRS (H1)

To examine the confidence effect on judgment accuracy, a lease decision context for the classification of the proposed leasing arrangements between a lessor and a wholly-owned financing subsidiary who then subleases to an airline company as either financing lease or operating lease is selected. Under IAS 17, paragraphs 10 to 12 include the general principles for the lease treatment, primarily based on the criterion of whether the lessee has transferred to the lessor the 'significant' risks and rewards of ownership of the asset.

Grounded in prior research, mixed directions of judgment accuracy may be expected due to an individual's confidence. Confidence in a certain range may be associated with more accurate judgments, while overconfidence may be associated with less accurate judgments. In this study, it is expected that accountants who are confident will potentially evaluate the business transactions more thoroughly, process the given information more carefully, and not make judgments based on estimations (Lee & Dry, 2006). Additionally, accountants who are confident are expected to analyse the transactions more vigilantly and to be motivated to be successful in performing the task (Benabou & Tirole, 2002). Therefore, this study predicts that accountants who are thorough and vigilant, as well as being motivated to be successful in the task, will feel confident in their judgments. It is further predicted that those accountants who are more confident that their judgments are accurate are likely to make more accurate judgments. Accordingly, the following hypothesis is formulated.

H1: Accountants who are more confident in their judgments are likely to choose the accounting treatment that best reflects the economic substance of a transaction when applying IFRS than accountants who are less confident.

2.2 Effect of familiarity on judgment and decision making

Another major factor that has been found to affect an individual's performance and decision making is familiarity. A person who is familiar with a certain task may perceive the task to be less complex than those who are unfamiliar or have fewer relevant experiences (Campbell, 1988). To develop an understanding of the effects of familiarity on individuals' judgments and decision making, Schank (1999) provided a theoretical basis to indicate how training and prior exposure to a task help decision makers to make better judgments. In his theory, human information processing relies on memory processes and the categorical structures that organize the information stored in memory. Schank (1999)

pointed out that human memory is organized by categories, with a memory index to store new information, retrieve existing knowledge, and create new indices for novel information. When people process information, the mind consults the memory index to establish links between related categories and assemble the relevant knowledge needed to understand and interpret the information. In this process, how the categories are structured significantly influences the outcome of a decision task. The categorical knowledge structures can be developed through training and prior exposure/experience to a decision task, which in turn leads to improvements in the judgment and decision making process (Kopp & O'Donnell, 2005).

In psychology, a number of studies provide evidence that a person's familiarity with a task or situation has a positive influence on judgments and performance. For example, the studies of Goodman and Leyden (1992), Littlepage et al. (1997) and Espinosa et al. (2007) in group settings have consistently reported that familiarity with tasks positively affects group members' performance in the areas of mining, problem solving and software development. Littlepage et al. (1997) concluded that the positive effect is the result of improvement in individual ability through a transfer of specific knowledge or strategies between prior and current tasks. Similarly, Reinhard et al. (2011 and 2013) showed that those participants who have high familiarity have greater accuracy in making judgments of truth and deception. The authors explained that participants with high familiarity are less likely to direct attention away from valid cues and rely on invalid cues to make judgments. Reinhard et al. (2013) also reported that participants in the high-familiarity category were also more confident in their decision making and better calibrated than participants in the low-familiarity category.

In auditing, extant studies have reached similar conclusions that familiarity with a particular judgment task influence the judgment and decision making of auditors. Anderson and Maletta (1994) reviewed prior studies and concluded that auditors who are less familiar with a particular judgment task are more cautious and risk averse than those with greater task familiarity. Further, a small number of studies in accounting substantiate that familiarity in accounting standards improves the judgments of analysts and accountants. For example, Bae et al. (2008) reported that foreign analysts whose home-country accounting standards do not differ greatly from the firm's home-country accounting standards, i.e., they are more familiar with the accounting standards used by the firm, tend to be more accurate in earnings forecasting. Byard et al. (2011) examined whether the European-wide mandatory adoption of IFRS had improved the forecast accuracy of foreign analysts relative to domestic analysts. The findings indicate that only those foreign analysts familiar with IFRS experience

an improvement in forecast accuracy because they are better able to analyse IFRS-based financial statements.

Similarly, Chand et al. (2010) found that the complexity of the accounting standard and the professional accountant's familiarity with the standard affected the accountant's ability to interpret and apply the standard in a consistent manner. In their study, professional accountants demonstrated more consistency in their judgments when they were required to interpret accounting standards which they were familiar with. Therefore, in the accounting context, professional accountants would be required to have appropriate training and exposure before being able to proficiently interpret and apply accounting standards. The level of familiarity of professional accountants with an accounting standard largely depends on the extent to which they are trained and exposed to the standard (Chand et al., 2010). Overall, it can be seen from prior studies that familiarity positively affects the judgments and decision making of professionals.

2.2.1 Effect of familiarity with IFRS on the reporting judgments of accountants when interpreting and applying IFRS (H2)

Existing research in psychology and accounting has suggested that familiarity has an impact on judgment and decision making, particularly when the task is complex. It is argued that the interpretation of principles-based standards is a complex task due to the high cognitive demands placed on accountants to interpret and apply the accounting standards (Devi, 2003). Accountants need to interpret uncertainty expressions, evaluate a number of broad principles, and exercise their own judgments to determine the appropriate form of financial disclosure. Therefore, professional accountants need to be well-trained and extensively exposed to principles-based standards before they are sufficiently familiar with the standards to accurately interpret and apply them.

In the context of this study, it is expected that accountants who are familiar with the accounting standards will be able to use specific knowledge that links the principles of the accounting standards with business transactions, will spend less time referring to the contents of the standards, and will focus more attention on exercising their professional judgment. Moreover, they are likely to rely on more relevant information to make judgments and will be able to interpret and apply accounting standards in an accurate manner compared to those accountants who are less familiar with the standards. Therefore, this study predicts that accountants who are familiar with the accounting standards will more accurately interpret and apply accounting standards and will therefore choose the accounting treatments that best reflect the economic substance of a transaction than those accountants who are less familiar with the standards. Accordingly, the following hypothesis is

formulated:

H2: Accountants who are more familiar with IFRS are more likely to choose the accounting treatment that best reflects the economic substance of a transaction when interpreting and applying IFRS than accountants who are less familiar with IFRS.

2.3 Influence of familiarity with IFRS and accountants' confidence on their judgments (H3)

The psychology and auditing literature shows that confidence on the judgments has a positive effect on judgment. The findings show that a higher level of confidence leads to greater accuracy in the judgments made. Similarly, findings in psychology literature show that when individuals are familiar with the tasks being undertaken, they are able to establish links between related categories and assemble the relevant knowledge needed to understand and interpret the information, leading to accurate judgments.

This study expects that those accountants who are more familiar with IFRS as a result of possessing well-developed knowledge structures will be more confident in their judgments and hence will make more accurate judgments. Accordingly, the following hypothesis is formulated:

H3: Familiarity with IFRS is likely to enhance the accountant's confidence in their judgment and accuracy when they interpret and apply IFRS.

3 Research method

3.1 Participants and design

It was necessary for the research setting of this study to represent a country that has harmonised with IFRS. Malaysian Accounting Standards (MAS) are generally harmonised with IFRS. Hence, Malaysia provides an appropriate research setting for undertaking the current study.

The participants in our experiment were 82 Malaysian Certified Practising Accountants (CPA) with an average of five years' professional work experience. The respondents had relevant education, training and experience in dealing with MAS which, as noted above, is well harmonised with IFRS. Because our experiment asks participants to choose the accounting treatment that best reflects the underlying economics of transactions for a company faced with the treatment of a lease transaction, it was important for us to feature Malaysian-based accountants who had experience in making financial reporting decisions in this context.

To preserve internal validity and to enable differences in the reporting judgments of accountants to be attributable to the two variables of interest (confidence with the judgment and familiarity with IFRS), particular care was taken in designing the scenario. Potentially confounding variables that could also affect the reporting judgments of accountants

were controlled. For the given scenario, participants were simply instructed to choose the accounting treatment that best reflected the underlying economics of transaction for a company faced with lease treatment decision.

3.2 Procedures

The participants were provided with a research instrument containing two sections. The first section required respondents to provide demographic data such as gender, age, level of formal education, employer details and years of work experience. Respondents were asked to identify their familiarity level with IFRS with the options ranging from very familiar to not familiar (where 1 denoted 'very familiar' and 4 denoted 'not familiar'). In order to group the participants as familiar with IFRS or not familiar with IFRS, the median split technique was employed to split the accountants into two groups according to their level of familiarity. Fifty accountants (61% of the sample) were familiar with IFRS while thirty two accountants (39% of the sample) were not familiar with IFRS.

The respondents were also asked to indicate how confident they were that their judgment was correct on a seven-point Likert scale (where 1 denoted 'extremely confident' and 7 denoted 'not confident at all'). Again, the median split technique was employed to group the participants who were confident with their judgment and those who were not confident with their judgment. Twenty-eight accountants (34% of the sample) were confident that their judgment was accurate, while fifty four accountants (66% of the sample) were not confident that their judgment was accurate.

The second section includes the case scenario based on a hypothetical airline company. The participants were provided with the proposed leasing arrangements between a lessor and a wholly-owned financing subsidiary who then subleases to an airline company. The sublease is for 12 years, which is 60% of the aircraft's economic useful life of 20 years. The airline company has no purchase option at the end of the lease term; however, the wholly-owned financing subsidiary has an option to purchase the aircraft at the end of the lease. The present net value of the lease payments is 64% of the aircraft's fair market value. In the alternative other scenario, the lessee enters into a guarantee agreement with the lessor regarding the payment in favour of the wholly-owned financing subsidiary.

3.3 Pre-test

To obtain an indication of the accounting treatment that best reflects the underlying economics of transaction and event in the financial statements (i.e., the most accurate judgment) on the scenario, a pre-test was conducted. The research instrument was pre-tested with fifteen senior accounting academics from Macquarie University in Australia and five senior

professional accountants in Sydney, Australia. To determine whether to "treat the lease arrangement as an operating lease", the mean score of the judgments made by all the participants in the pre-test was used.

A lease can only be recognised as a financing lease by an entity when any one of the conditions under IAS 17 paragraphs 10 – 12 has been satisfied. The sublease is for 60% of the aircraft's economic useful which does not meet the criterion that the "lease term is for the major part of the economic life of the asset". Additionally, the airline company has no purchase option at the end of the lease term. The Net Present Value of the Minimum Lease Payment (MLP) is 80% of the fair value of the asset, which also does not meet the criterion that "the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset". Moreover, the lessee has an option to renew the lease for a further 5 years at the prevailing market rental rate at the end of this lease term, which does not meet the criterion of a financing lease. Therefore, none of the conditions of IAS paragraphs 10 – 12 had been satisfied. Consequently, the most accurate judgment in this scenario is that the lease should be treated as an operating lease.

The pre-test mean score for the accountants' judgment was 6.5 (non-tabulated), which indicates that the lease should be treated as an operating lease. Since accuracy is unobservable for many accounting tasks, the mean judgment is an indication of judgment consensus amongst the respondents (Libby, 1981; Ashton, 1985; Abdolmohammadi & Wright, 1987). Research has shown that consensus is a fairly good surrogate for accuracy in accounting tasks (Solomon & Shields, 1995). Therefore, in this study the consensus in the judgment of experts is used as a proxy for judgment accuracy.

4 Results and discussions

4.1 Demographic details of respondents

85 accountants participated in the research, but there were only 82 valid responses (i.e. a usable response rate of 96%).¹⁶ As shown in Table 1 of the usable responses, 28 accountants were confident that their judgment was correct while 54 accountants were not confident that their judgment was correct. Additionally, of the usable responses, 32 accountants were not very familiar with IFRS while 50 accountants were familiar with IFRS. The mean age category of the respondents in the confident group was 35 years and in the familiarity group was 36 years. The average number of years in formal education was 17 years for the respondents in the confident group and 17.5 years for the respondents in the familiarity group. The average level of professional experience was 5 years for the confident group and 7.7 years for the familiarity group.

¹⁶ Three responses were not included in the analysis of the results because they were incomplete.

Table 1. Demographic data of respondents

Demographic Data	Confident that the Judgment is correct		Familiarity with IFRS	
	Confident	Not Confident	Familiar	Not Familiar
Sample Size	28	54	50	32
Level of Experience in years (Mean)		5		7.7
Level of Formal Education in years (Mean)		17		17.5
Age (Mean)		35		36

4.2 Effect of confidence on the reporting judgments of accountants (H1)

H1 is tested using a 2 x 2 ANOVA where “confidence in judgment” is the between-subject independent variable with the accountant’s lease treatment decision serving as the dependent variable. The participants are dichotomized into a confident group and a less confident group using the median split.

The ANOVA results with dichotomized variable reveal that participants who are in the confidence group are significantly more likely to make a lease treatment decision which best reflects the economic substance of a transaction (mean = 5.25) than the less confident group (mean = 4.28, $F = 14.216$, $p = 0.000$). These results in Table 2 provide support for H1.

Table 2. Descriptive statistics and Univariate analysis of effect of confidence on the judgments of respondents

Source of Variance	Mean	Standard Deviation	F	Significance Level
Confident with judgment n=28	5.25	1.236	14.216	0.000*
Not Confident with judgment n=54	4.28	1.036		

Note: *Significant at $p < 0.01$

4.3 Effect of familiarity on the reporting judgments of accountants (H2)

H2 is tested using a 2 x 2 ANOVA where “familiarity with IFRS” is the between-subject independent variable with the accountant’s lease treatment decision serving as the dependent variable. The participants are dichotomized into a familiar group and a less familiar group using the median split.

The ANOVA results with dichotomized variable reveal that participants who are in the familiar group are significantly more likely to make a lease treatment decision which best reflects the economic substance of a transaction (mean = 4.84) than the less familiar group (mean = 4.25, $F = 4.998$, $p = 0.028$). These results in Table 3 provide support for H2.

4.4 Influence of familiarity and accountants’ confidence on their judgments (H3)

It was expected that the accountants’ confidence in their judgments would be enhanced when they were familiar with IFRS, hence they would choose the lease treatment decision which best reflected the economic substance of the transaction. Therefore, a positive correlation between the confidence of individual

accountants with their judgments (i.e. a lower value on the seven-point Likert scale) and the familiarity level of accountants (i.e. a lower value on the seven-point Likert scale) will be shown.

The results show that the correlation between the two variables is positively correlated (non-tabulated Pearson correlation coefficient is 0.057). The follow-up nonparametric correlation tests also show that the correlation between the two variables is positively correlated (non-tabulated Kendall’s correlation coefficient is 0.057 and Spearman’s correlation coefficient is 0.057).

Between-subjects ANOVA tests show that, as expected, the most accurate decision was made by the accountants who were confident in their judgment as well as familiar with IFRS (mean = 5.62) than the accountants who were less familiar and confident, familiar and less confident and less familiar and less confident in their judgment (mean 4.36, $F = 17.250$, $p = 0.000$).¹⁷

¹⁷ For the purpose of showing the difference in judgments, the familiar and confident accountants were placed in one group, while the less familiar and confident, familiar and less confident, less familiar and less confident were placed in another.

Table 3. Descriptive statistics and Univariate analysis of effect of familiarity with IFRS on the judgments of respondents

Source of Variance	Mean	Standard Deviation	F	Significance Level
Not familiar with IFRS N=32	4.25	1.218	4.998	0.028*
Familiar with IFRS N=50	4.84	1.131		

Note: *Significant at $p < 0.05$

Table 4a. Descriptive statistics of effects of familiarity with IFRS and confidence on judgments of respondents

Confidence with judgment	Familiar with IFRS	Mean	Standard Deviation	N
Confident with judgment	Less Familiar with IFRS	4.75	1.422	12
	Familiar with IFRS	5.62	0.957	16
	Total	5.25	1.236	28
Not confident with judgment	Less Familiar with IFRS	3.95	0.999	20
	Familiar with IFRS	4.47	1.022	34
	Total	4.28	1.036	54
Total	Less Familiar with IFRS	4.25	1.218	32
	Familiar with IFRS	4.84	1.131	50
	Total	4.61	1.194	82

Table 4b. Descriptive statistics and Univariate analysis of effect of familiarity with IFRS and confidence on judgments of respondents

Source of Variance	Mean	Standard Deviation	F	Significance Level
Familiar and Confident N=16	5.62	0.957	17.250	0.000*
Less familiar and confident, familiar and less confident and less familiar and less confident N=66	4.36	1.118		

Note: *Significant at $p < 0.01$

5 Conclusion and implications

Using a sample of professional accountants from Malaysia, we examined whether the accuracy in the judgments of accountants varies as a function of their confidence and whether their confidence in exercising judgments could be enhanced with greater familiarity with IFRS. The results provide strong support for the claim that accountants who are more confident about their judgments make more accurate judgment.

The results further demonstrate that familiarity with IFRS enhances the confidence of accountants, which has a positive influence on the accuracy of the accounting judgment. A possible explanation for this positive relationship between familiarity with IFRS and judgment would be that the accountants who are familiar with IFRS are likely to base their judgments on relevant cues or heuristics and thus will pay much attention to the relevant aspects of the accounting transaction, therefore making the appropriate judgment. Overall, the findings show that the most accurate judgment is made by those accountants who are familiar with IFRS as well as being confident in their judgments.

An important implication of the results is that it would be premature for the IASB and standard setters of countries adopting IFRS to assume that adopting IFRS will automatically lead to high quality financial reports. The results of this study imply that accountants, the preparers of the financial reports, need to acquire relevant interpersonal skills such as confidence in the outcomes of tasks being undertaken to produce high quality financial reports. To help accountants acquire such interpersonal skills, it is imperative for organizations to mount in-house training on the interpretation and application of IFRS, which will assist accountants to familiarize themselves with IFRS. This will certainly facilitate the improvement of accountants' judgments which will also enhance the decision usefulness of accounting information.

This study contributes to the wide and still growing literature on factors that are important tools for improving judgment. Prior research in psychology and accounting generally indicates that confidence and familiarity improve the judgments of individuals, which is strongly supported by our findings. This study provides the motivation for future research to

learn what other judgment improvement tools are important for accountants.

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