

**AFAANZ Research Fund
2020 Round 1
Report on Grant Outcomes**

Name, Position, Contact Details for each applicant:

All applicants are associated with the Adelaide Business School, University of Adelaide.

Visiting Associate Professor Bryan Howieson (bryan.howieson@adelaide.edu.au)

Associate Professor Janice Loftus (janice.loftus@adelaide.edu.au)

Dr Sabine Schuhrer (sabine.schuhrer@adelaide.edu.au)

Project Title:

Are Accounting Standards Understandable?

Updated Project Summary (500 words) including any variations between the project undertaken and the original application:

Our project has not varied from the original proposal.

This project explored whether the language used, the writing style adopted, and the formatting of accounting standards are promoting or inhibiting the understandability of those standards by the standards' users (e.g., financial statement preparers and auditors). The understandability of accounting standards reflects whether the standards' users have the same interpretation of the standards as those intended by the standards-setters. The project is a direct response to a Research Call from the Australian Accounting Standards Board (AASB) and it has informed a growing debate about the alleged complexity of accounting standards (separate from the alleged complexity of financial statements). There is only a very limited prior literature on this topic that has focussed primarily on the 'readability' of accounting standards rather than their 'understandability'.

Funds Granted:

\$6,500

Detailed Report on Expenditure of Funds against Budget Items, with variations explained:

To date funding has been spent solely on the costs of transcribing interviews into Word documents for analysis. This is consistent with our original research application.

22 interviews (some interviewees did not wish to be recorded) were transcribed for a total cost of \$4532.85. This leaves the sum of \$1,967.15 unspent from our grant. It is our intention to apply these monies to further interviews that are to be conducted as an extension of our project.

Outcomes, for example, working papers, presentations and publications (give full details, including abstracts):

Our research was conducted using two approaches. The first was a quantitative analysis of the readability of the entire suite of AASB accounting standards. The second was qualitative. Despite the limitations imposed by COVID-19, over the period July to November 2020 we conducted interviews with 25 AASB constituents. Ethics approval was obtained from the Human Research Ethics Committee at the University of Adelaide and participants were recruited from around Australia through the researchers' own contacts, the project's advisory panel, or staff at the AASB. All of the interviews were conducted via Zoom or Skype, transcribed, and analysed with the assistance of the NVivo12 software. We produced a working paper from these analyses which, in various revised forms, has been presented at a number of Forums and workshops. We summarise the outcomes of the project as follows:

Working Paper:

"Are Accounting Standards Understandable?", abstract:

There has been a growing chorus of concern that accounting standards are increasingly difficult to understand to those who have to use them. We investigate whether the way in which accounting standards are written and presented impacts on the ability of the users of those standards to comprehend their meaning and requirements. Not surprisingly, readability statistics, which measure the complexity of words and sentences, reveal that the suite of Australian accounting standards are difficult or very difficult to read. Interviews with experienced financial statement preparers and auditors from the for-profit, not-for-profit private, and public sectors provide insights as to how 'understandability' is a function of a number of inter-related factors, only some of which relate to the way standards are written and presented. We conclude by offering some recommendations to standards-setters as to how the understandability of standards could be improved.

Presentations:

Virtual presentation, AASB 2020 Research Forum, Understandability of Accounting Standards, 30th November, 2020. There were over 1000 registered participants, comprising practitioners, regulators and academics. A recording of the session can be found at:

<https://www.youtube.com/watch?v=48uL7a00R5M>

By invitation from CPA Australia, we prepared and presented at two CPA Australia Policy Think Tank Sessions on the Understandability of Accounting Standards. The two sessions were held in virtual format on Thursday 27th May at 11.30 a.m. – 2.30 p.m. and again at 4.30 - 7.00 p.m. There were over 100 attendees who were primarily accounting professionals drawn from Australia and South-East Asia. In September 2021 CPA Australia published a report, *Understanding Accounting Standards: Outcomes from the Financial Reporting Policy Think Tank* as an output from the Think Tank Sessions (<https://www.cpaaustralia.com.au/-/media/project/cpa/corporate/documents/tools-and-resources/financial-reporting/policy-think-tank--short-report-sept-2021-final.pdf?rev=b1f87f9e60b04ebfbf431ccc3d18a8bc&download=true>).

Virtual research presentation, AFAANZ Annual Conference, Understandability of Accounting Standards, 5th – 7th July, 2021.

Impact on Practice:

As an outcome of the project, the AASB has responded in the first instance by making changes to the structure and operation of its website and it is currently working on improving the electronic accessibility and useability of its standards. These changes and other impacts are outlined in a letter written by the Chair of the AASB, Dr Keith Kendall, to the research team (attached at the end of this report).

In addition, after our presentation at the 2020 AASB Research Forum a member of the International Accounting Standards Board (IASB), which issues accounting standards used in 166 jurisdictions, became aware of our research and notes its relevance to the IASB, as noted in the email below:

From: Tarca, Ann <atarca@ifrs.org>
Sent: Wednesday, 2 December 2020 1:02 PM
To: Bryan Howieson <bryan.howieson@adelaide.edu.au>
Subject: AASB forum - your paper on complexity

Hello Bryan

It was good to see you on Monday. I found your presentation very interesting and thought provoking. Are you able to send me a copy of your paper, there is interest in the topic among folks here.

Regards
Ann

Ann Tarca | Board Member

International Accounting Standards Board
Columbus Building | 7 Westferry Circus | London E14 4HD | UK
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Our project has also generated interest within the accounting practitioner community. For example, a summary and discussion of our work was reported in the CPA Australia practitioner journal, *In the Black* in May, 2021 (see: <https://www.intheblack.com/articles/2021/05/01/accounting-standards-easier-interpret>).

Future Intentions for this Project (give full details):

Given that our project was very well-received by the AASB, we are currently exploring opportunities to further extend the project. We have been encouraged to do so by the Chair of the AASB, Dr Keith Kendall, and we have arranged to meet with him in person in mid-December, 2021, to explore alternative research questions that he believes will inform the work of the AASB and other accounting standards-setters.

a. Conference submissions

None anticipated at the present time but will be dependent upon forthcoming discussions with the Chair of the AASB.

b. Journal submissions

We are currently revising our working paper, 'Are Accounting Standards Understandable?', which we plan to submit to *Accounting & Finance* before the end of the current year.

We are also in the early stages of developing a working paper on a theoretical framework regarding the characteristics and attributes of understandability in the context of accounting pronouncements. Subject to further interviews, it is proposed to submit this manuscript to the *Accounting, Accountability and Auditing Journal*.

c. Grant applications

None anticipated at the present time but this will be dependent upon forthcoming discussions with the Chair of the AASB.

d. Projects

To be determined based on forthcoming discussions with the Chair of the AASB.

Summary of Outcomes and Benefits:

The research team thanks AFAANZ for its financial support of our project. We have been able to conduct research that generated findings that not only had a direct and immediate effect on the practices of the AASB, but which are continuing to generate interest by accounting standards-setters and practitioners.

Outside of the outputs noted above, one of the team members, Bryan Howieson, currently serves on the AASB's Not-for-Profit Advisory Panel and has been able to use the findings of our project in the assisting the Panel with its deliberations on proposed reforms to financial reporting by 'Tier 2' and 'Tier 3' not-for-profit reporting entities.

We believe that the letter below which the team received from the Chair of the AASB, provides an independent summary of the outcomes and benefits generated by the project. We intend to build on this success by extending the research in consultation with the AASB.



Australian Government
**Australian Accounting
Standards Board**

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Associate Professor Bryan Howieson
Associate Professor Janice Loftus
Dr Sabine Schuhrer
School of Accounting and Finance
University of Adelaide

30 September 2021

Dear Associate Professor Howieson, Associate Professor Loftus and Dr Schuhrer,

I am writing to you to acknowledge the significance of your work on your Understandability of Accounting Standards research project for the Australian Accounting Standards Board.

This project first came to my attention when it was successfully submitted for consideration to be presented at the AASB's Annual Research Forum in 2020.

A particularly salient feature of this research, which represents one of the major contributions from the perspective of the national standard setter, is the qualitative component in which you seek to gauge the degree of understandability of accounting standards amongst parties who are likely to use these standards. This represents a significant extension of the prior existing body of research, which has dealt with more quantitative assessment, largely incorporated by readability measures. While your research covers this important component, your project goes further and seeks to assess the degree to which users of the standards are able to understand the content of those standards. This aspect has hitherto, to the best of my knowledge, not been addressed by the prior research and, consequently, this aspect alone represents an important contribution to our processes in which we design accounting standards.

Your research project has been especially timely, given it addresses the matter of complexity arising from the language used in standards, which was raised as a concern in the recent Parliamentary Inquiry into Audit Quality.

As important as the research into understandability of accounting standards is, this is not the only aspect of your research project that has contributed to the AASB's work program. Additionally, your project has addressed matters of useability beyond the language employed, providing important insights into how users seek to apply the standards and how that use may be better facilitated. This element has provided a foundation upon which we have commenced work to develop a new online portal through which users may access accounting standards in a manner that better facilitates their application through electronic links, cross referencing and enhanced searchability.

This research project has also been influential in the AASB's considerations regarding submissions to the International Accounting Standards Board as part of our project to simplify and improve the understandability of accounting standards (most of which are adopted by the AASB for use in Australia once published by the IASB).

Page 1 of 2

I commend the research that you have undertaken to date and look forward to continuing working with you on this important project that has already had, and continues to have, a significant impact on the manner in which we develop accounting standards.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Kendall", written in a cursive style.

Dr Keith Kendall
AASB Chair