

**Grant Outcomes Report**  
**Non-GAAP Earnings Disclosures: Users' Perspective****(1) Name, Position, Contact Details for each applicant**

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**(2) Project Title**

Non-GAAP Earnings Disclosures: Users' Perspective

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

This project takes an experimental approach to investigating the links between non-GAAP financial disclosures and investors' judgment and decision making. The SEC regulation S-K item 10 (e) outlines four requirements of corporations when including non-GAAP financial measures in their SEC filings. The first two requirements (prominence and reconciliation) have been subjected to extensive research. The final two (internal use and justification) have not been examined. This project consists of two experiments.

The first (being paper one) investigates how management's internal use of non-GAAP financial measures affects the judgments and decisions of financial statement users. Specifically, we examine how the use of non-GAAP earnings to determine executive compensation affects investors' corporate valuations. We find investors intentionally rely on non-GAAP earnings in valuation decisions and firms using non-GAAP earnings to compensate executives are more favourably valued by investors. We conclude using non-GAAP earnings to remunerate executives is seen as informative to the market.

The second (being paper two) investigates how managements' non-GAAP justification affects investors judgments and decisions. Presently this paper is being written up with the expectation of the findings being disseminated at the 2020 AFAANZ conference.

A variation between the proposal and final project is the moderating influence on the above investment decisions of accounting literacy. This element of the project scope was dropped due to time and budgetary constraints. To properly include an accounting literacy component would require the creation of a validated objective accounting knowledge instrument. Presently the literature uses proxies for accounting knowledge such as financial literacy or ad-hoc mini quizzes with no standardisation or validation.

**(4) Funds Granted**

AUD\$5,000 plus GST

**(5) Detailed Report on Expenditure of Funds against Budget Items, with variations explained**

A detailed statement of income and expenditure is attached. The grant was used for data collection, which is in line with the grant application.

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

Paper one is currently under review at ABACUS. It was presented as the 2019 AFAANZ meeting in Brisbane. Paper two is being finalized. It is expected to be presented at the 2020 AFAANZ conference. Feedback and comments will be incorporated into the paper submitted for publication mid-2020.

**(7) Future Intentions for this Project (give full details)**

Research into this topic beyond the above outlined two papers is planned. However, additional research funds will be sought to conduct further experiments. As discussed in item (3), the investigation and creation of a validated accounting literacy instrument could form its own body of future work.

**(8) Summary of Outcomes and Benefits**

The study helps inform current and future regulation and standards. Prior to this project, no research into the non-financial component of non-GAAP financial disclosures has taken place. While on the surface non-GAAP reporting appears opportunistic, proponents believe it enhances the decision-usefulness of financial information by providing users a more relevant measure of the 'recurring' or 'core' corporate earnings. However, the International Accounting Standards Board (IASB) has received submissions from concerned stakeholders that these, largely unregulated, disclosures "might obscure or undermine other information in the financial statements" (IASB, 2017, p. 44). Further noted concerns include users finding it difficult to identify relevant, audited financial statement information and that too much additional information, even if appropriately highlighted, fragments the financial statements. User perspective evidence is timely due to the IASB presently seeking comments on its 'Disclosure initiative' project (IASB, 2017). The benefit of this project is that it responds directly to the IASB request to produce evidence of the impact non-GAAP disclosures has on the decision making of financial statement users.



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FUNDING : AFAANZ Research Grant Scheme  
Non-GAAP Earnings Disclosures: Users' Perspective  
Bond Reference : A144

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**Statement of Income and Expenditure  
for the period 1 July 2018 - 30 June 2019**

	\$
<b>INCOME</b>	
Funds received from AFAANZ	5,000.00
	<u>5,000.00</u>
<b>EXPENDITURE</b>	
Digital Data	49.50
Online Survey	4,950.00
	<u>4,999.50</u>
<b>Net Income</b>	<u>0.50</u>

I, Andrew Calder, have reviewed the above statement. I can confirm that this is a true and fair representation of expenditure associated with the AFAANZ grant received, and the funds were expended on the conduct of the project and in accordance with the funding agreement.

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CRICOS CODE 000178

November 27th, 2019

RE: GRANT OUTCOMES REPORT

I am writing this letter to confirm that I have approved the grant outcomes report related to the grant "Non-GAAP Earnings Disclosures: Users' Perspective".



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