

A STUDY OF SOME BEHAVIORAL AND PSYCHOLOGICAL
EFFECTS OF ACCOUNTING PRINCIPLES BOARD
OPINION RELEASES UPON THE MEMBERSHIP OF THE
AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS

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This is to certify that the

thesis entitled

A STUDY OF SOME BEHAVIORAL AND PSYCHOLOGICAL EFFECTS
OF ACCOUNTING PRINCIPLES BOARD OPINION RELEASES UPON
THE MEMBERSHIP OF THE AMERICAN INSTITUTE OF
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presented by

Blaine Allen Ritts

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A handwritten signature in dark ink, appearing to read "Leonard E. Ritts", written over a horizontal line.

Major professor

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ABSTRACT

A STUDY OF SOME BEHAVIORAL AND PSYCHOLOGICAL EFFECTS OF ACCOUNTING PRINCIPLES BOARD OPINION RELEASES UPON THE MEMBERSHIP OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

By

Blaine Allen Ritts

This investigation involved an attempt to isolate and measure the impact of Opinions of the Accounting Principles Board (APB) of the American Institute of Certified Public Accountants (AICPA) upon the attitudes and behavior of members of the AICPA toward certain accounting principles. The primary aspect of this study dealt with a determination of the extent to which APB Opinions are instrumental in changing the attitudes of those individuals who, prior to the release of an Opinion maintain an attitudinal posture relative to an accounting principle which differs from the preferences toward the application of that principle as subsequently expressed by the APB in an Opinion. Additionally, for those individuals whose attitudes and beliefs toward a particular accounting procedure change after the release of an Opinion to conform to the recommendations contained in the APB release, a description of the process involved in the attitude change and an analysis of the factors believed to be instrumental to this process were attempted in order to gain insight into this process of attitude change and its behavioral ramifications.

A set of mailed questionnaires, administered to a sample of 1000 CPAs randomly selected from the membership roster of the AICPA, were employed in the data gathering phase of this research project. The questionnaires were circularized at three points in time as follows:

1. Prior to the release of the Exposure Draft of APB Opinion No. 16 on business combinations.
2. Subsequent to the release of the Exposure Draft of APB Opinion No. 16 and prior to the release of the Formal Opinion.
3. Subsequent to the release of the Formal Opinion.

The administration of these questionnaires provided information about the attitudes of this sample of CPAs toward pooling of interests accounting both prior to the release of any communication on the subject by the APB, as well as after the release of the Exposure Draft of the Opinion and the release of the Formal Opinion. Additionally, certain other data were secured via these questionnaires as a basis for testing certain of the hypotheses set forth in the study.

The primary hypotheses of the study dealt with the direction and amount of attitude change experienced by the respondents as a result of the issuance of the Exposure Draft and the issuance of the Formal Opinion. Additional hypotheses relating to factors which might be associated with attitude change were tested in the investigation.

Analysis of the data accumulated during this study yielded the following major conclusions:

1. Practicing CPAs believe rather strongly that they must conform to the dictates of the APB as set forth in the

Opinions of the Board. As a result, where the CPA may have preferred to apply a particular accounting procedure, the CPA will apparently employ the procedure recommended by the APB rather than the one he prefers. This evidence indicates that the APB, through the process of issuing Opinions on accounting principles is successful in changing the behavior of the CPAs relative to the accounting principles they employ in practice.

2. Similarly, and apparently as a result of the behavioral changes discussed in 1 above, if the CPAs attitude toward a particular accounting procedure is in conflict with the position the APB takes toward that procedure at the time of the issuance of an Opinion, the CPA will experience a change in attitude after the release of the Opinion such that his attitude will more closely conform to the APB's position relative to the procedure in question. This study found such attitude changes to be highly statistically significant.
3. Finally, if the Formal Opinion is preceded by an Exposure Draft of the Opinion, the attitude changes observed in 2 above will occur after the release of the Exposure Draft, with very little additional change taking place upon the release of the Formal Opinion.

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CHAPTER 1

INTRODUCTION

1.1 Purpose of the Study

The purpose of this inquiry is to measure the impact of the Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants upon the membership of the AICPA who are practicing as independent certified public accountants.¹ The primary aspect of this study was devoted to determining the extent to which APB² Opinions are instrumental in changing the attitudes of those individuals who, prior to the release of an Opinion maintain a position which differs from that subsequently expressed by the APB. Additionally, for those individuals whose attitudes and beliefs change after the release of an Opinion to conform to the recommendations contained in the APB release, a description of the process involved in the attitude change and an analysis of the factors believed to be instrumental to this process were attempted in order to gain insight into this process of attitude change. A further aspect of the study devoted attention to those individuals whose attitudes prior to the release of an Opinion evidenced agreement with the stand subsequently taken by the APB. The primary emphasis here rested

¹The initials "AICPA" will hereinafter be employed when referring to the American Institute of Certified Public Accountants.

²In subsequent references to the "Board" or the "APB" the author is employing shorthand notation for the Accounting Principles Board of the American Institute of Certified Public Accountants.

with a determination of the extent to which Principles Board Opinions reinforce favorable pre-Opinion attitudes.

It is anticipated that the knowledge gained from this study, in terms of the effect of APB Opinions upon the profession, can guide promotion of the process of general acceptance and provide substantial assistance to the APB in its efforts to achieve this objective.

1.2 Statement of the Problem

The primary problems confronting the researcher in attempting to achieve the purpose set forth above are problems of measurement and control. Techniques must be found for measuring the dependent variable, attitude, both before and after the release of the Opinion. Strict control must be exercised in order to minimize the effects of extraneous variables on the attitudes under study. Procedures must be developed for isolating and measuring the independent variables which will be analyzed.

The solution to these problems, in the form of the methodology which will be employed in this study, will be discussed further in Section 4 of this Chapter and in Chapter Three.

1.3 Review of Information Relative to the Accounting Principles Board of the American Institute of Certified Public Accountants

From its inception in 1959, the stated objectives of the Accounting Principles Board of the American Institute of Certified Public Accountants have been to improve financial reporting standards and to narrow areas of differences and inconsistencies in accounting practice in order to improve comparability of financial reports among companies (1:9).³

³Biographical references will be presented in brackets as follows: (Number of the reference as listed in the Bibliography: page number if reference is other than a journal article).

In preparing financial information for public presentation, the accountant can frequently choose from among several alternative accounting procedures which are available for analyzing and summarizing a particular type of financial data. As is common in such situations where numerous alternatives are available for treating the data, the application of any one alternative to the financial information can yield significantly different results, in terms of the financial statements that are produced, from what would have been experienced had another alternative been employed. For example, two firms operating in the same industry, which in substance have no material differences between their operating facilities, etc., might each choose a different set of accounting principles to guide them in the preparation of their financial statements. The result could be that the two firms would present published financial statements that differ significantly in terms of net income, etc., even though they experienced the same amount of sales from very similar operations for the particular time period in question.

The problem that, of course, arises is that a potential investor who may be interested in investing capital in this industry would employ these financial statements in an attempt to determine which company should be his choice for investment. This individual might choose, on the basis of these financial statements, to invest in the firm reporting the larger net income figure, reasoning that this firm has prospects for greater income in the future than the other firm, when, in fact, the differences in reported earnings results primarily from the fact that the firms employed different "acceptable" accounting procedures to produce their financial statements. Thus, although a comparison of

financial statements leads the prospective investor to believe that a financial difference exists between the companies under consideration, no real difference does exist. The availability of accounting alternatives has therefore resulted in the investor being misled by his analysis.

In the situation discussed above, the fact that the investor was misinformed was unintentional. The management of the two firms did not choose a different set of accounting principles so that they could report different net income figures. Rather the availability of alternative accounting procedures, and the choices made from among these by management, resulted in a significant difference in reported income for these two firms.

There are indications, however, that in some cases the existent flexibility in accounting principles has resulted in management choosing that set of principles which serve to cast the firm in the most favorable financial light (20, 24, 25, 43). In these situations management examines the alternatives available and selects those which serve to achieve some desired objective, i.e., the maximization of reported income. Under these circumstances, the investor is misled to the extent that the reported earnings are more favorable than they would have been had management selected the theoretically most appropriate accounting procedure under the circumstances rather than the one which produced the most favorable results in terms of net income. To the extent that the potential investor is misled in this situation, it results from the objective efforts of management and therefore must be considered intentional.

As indicated by the objectives stated earlier, the APB, through the intermittent issuance of Opinions, is attempting to address itself to these problems of inconsistencies and differences in situations which do not appear to warrant the application of different accounting principles. The function of the Board is to examine areas where the availability of alternative accounting procedures and the application of these procedures result in substantial differences in financial statements where no apparent real financial difference exists. Based upon research into the problem area, the Board may decide to issue an Opinion within which it will indicate which procedure(s) from among the alternatives available is (are) preferable.

During the period from 1959 through late 1964 the APB issued five Opinions. Over this time span there was no formal requirement placed upon the independent accountant to follow the alternatives which the APB stated were preferable. Rather than requiring compliance with APB's stated preference, the AICPA chose to attempt to achieve general acceptance of the procedures advocated in the Opinions primarily on the basis of the prestige of the Board and of the Institute. While there may have been a tendency on the part of practicing CPAs toward compliance with the procedures viewed as preferable by the APB, the Institute apparently felt that this approach was not sufficiently narrowing the areas of differences and that the degree of compliance desired was not being achieved. Therefore, in October, 1964, the Council of the Institute issued a pronouncement⁴ (40) which, in effect, called for the

⁴The entire text of the Special Bulletin is contained in Appendix 1-A at the end of this Chapter.

independent accountant to view the Opinions⁵ of the Board as representing the most appropriate accounting principles under all circumstances. Although the language of the Special Bulletin did not include this specific statement, the substance of the pronouncement had the effect of elevating the Opinions and Bulletins to a preferred status.

This result was achieved by first establishing (by decree) that the Opinions of the Board represented generally accepted accounting principles (gaap) and secondly by requiring that departures from APB Opinions which have a material effect upon the financial statements be disclosed. Relative to general acceptance, the Special Bulletin said:

1. "Generally accepted accounting principles" are those principles which have substantial authoritative support (40).
2. Opinions of the Accounting Principles Board constitute "substantial authoritative support" (40).
3. "Substantial authoritative support" can exist for accounting principles that differ from Opinions of the Accounting Principles Board (40).

The reference to disclosure of departures declared that when the effect of the departure from the Board Opinion on the financial statements is material, the auditor must disclose the departure in the footnotes to the financial statements or in the independent auditor's report but only in those cases where the auditor is willing to accept the burden of and can substantiate that the departure does have substantial authoritative support. Where he believes that the departure does not have substantial authoritative support he must then disclose the departure by

⁵"As well as effective Accounting Research Bulletins issued by the former Committee on Accounting Procedure" (40).

either qualifying, disclaiming, or giving an adverse opinion (as appropriate) in the auditor's report.

Thus, the effect of establishing (1) that Board Opinions do represent generally accepted accounting principles, and (2) that disclosures of departures, when material, must be made in the published financial statements, resulted in establishing APB Opinions as not only gaap, but as preferred gaap.

At the time of the conclusion of this research effort, twelve additional Opinions had been issued since the Special Bulletin of October, 1964; or a total of seventeen since the formation of the Board in 1959. As indicated earlier, in addition to the Opinions of the APB, the provisions of the 1964 Special Bulletin also were made applicable to the Accounting Research Bulletins (ARB) issued by the APB's predecessor, the Committee on Accounting Procedure. Through 1959, the date of its disbandment, the Committee on Accounting Procedure had issued 51 Accounting Research Bulletins. For a complete listing of the ARBs and Opinions which were in effect at the time of the conclusion of this research effort see Appendix 1-B at the end of the Chapter.

1.4 Methodology

The object of this investigation was Accounting Principles Board Opinion No. 16. The data needed in order to test the hypotheses set forth in Chapter 2 were secured by employing mailed questionnaires.

The questionnaires were administered in a before-after fashion to a sample of individuals randomly selected from the membership roster of the American Institute of Certified Public Accountants. The variable intervening between the before-after measurements was the release of

Opinion No. 16 by the APB. The investigation is described here as a before-after experiment because measurements were taken on the dependent variable, attitude, and the independent variables, at various intervals both before the release of the Opinion and after its release. Each individual studied served as his own control since a measure of the dependent variable was obtained prior to the introduction of the intervening variable, the APB Opinion. To the extent that this type of control fulfills the requirements for control in an experimental study, this project may be called an experiment.

An attitude scale concerning the accounting principle (pooling of interests) which was the subject of Opinion No. 16 was prepared. The scaling technique which was employed produced an interval scale on which both the prior and post-Opinion attitudes were measured. For a more complete description of the development of the attitude scale and other methodological considerations see Chapter 3.

Once the data had been gathered, they were analyzed utilizing primarily statistical tests set forth in Siegel (37: various). These tests were employed in determining the significance of the extent of attitude change; the magnitude of the relationships between attitude change and other variables, as well as the significance of these relationships; and as a means of controlling the effect of a third variable on the relationship of two other variables. The data on the questionnaires were transferred to punch cards and a computer was utilized to produce the results of these statistical tests.

1.5 Advantages of the Study

One of the primary functions served by published financial statements of individual companies is to provide information which a prospective investor may employ in arriving at an investment decision.

To the potential investor who has available funds which he is desirous of investing in an existent firm, probably the most useful information that can be garnered from published financial statements is secured by comparing the financial statements of the companies he views as possible investment alternatives. This comparison may involve companies in the same industry or in different industries; for one period or over several periods. By analyzing the relationships between various financial categories on the financial statements of each of these firms and comparing the results, the individual can obtain valuable information about earnings trends, financial stability, and many other aspects of the firms operations which will assist him in arriving at a decision as to which firm should be the object of his investment.

With the existence of numerous acceptable accounting principles which are available to employ in the preparation of financial statements, this type of comparative analysis is made very difficult for the potential investor. Without a substantial knowledge of accounting he is unable to make the adjustments to the statements which are necessary to remove differences which arise primarily from the application of different accounting principles. To the extent that the statements differ because of differences in accounting procedures, and not because of real financial differences, the statements may not be directly comparable. However, not possessing the specialized knowledge required in order to make the adjustments, the individual may proceed by

attempting to compare the unadjusted statements directly. The result may be that, since the statements are not directly comparable, the potential investor may be misled by his analysis.

Since its creation, the primary objectives of the Accounting Principles Board have been to narrow the areas of differences in accounting principles by limiting the number of alternative accounting principles which are viewed as acceptable. The term "narrowing differences" has been interpreted in several ways, but the consensus appears to be that it does not mean attaining complete uniformity in accounting principles but rather establishing criteria for the use of accounting principles and the elimination of alternatives where criteria cannot be found which justify the use of these alternatives (35, 20). The Board has taken the position that firms' financial statements should not differ simply as a result of the application of different accounting principles, but rather that there should be some substantive basis for applying different accounting principles and that the experiences of the firms should be sufficiently different to warrant the use of different procedures. To the extent that such "real" differences do not exist, then the application of alternative procedures is not thought to be warranted.

It is the expectation here that the knowledge secured from this study about the extent to which Board Opinions are instrumental in affecting attitude change, and the contribution of other variables to this process of attitude change, can be of substantial assistance to the APB in speeding the process of general acceptance of preferred accounting principles. Knowledge of the effect of Opinions upon the

different types of people studied would assist in programs such as determining which combination of various approaches is likely to achieve the greatest success in terms of general acceptance. The point to be made here is that knowledge of how and why auditors change their attitudes can provide a basis for formulating a program which is likely to meet with greater success in achieving the desired objectives.

From a theoretical viewpoint this research effort is one of a very small set of studies which have attempted to examine the process of attitude change in other than a rigidly controlled (classroom type) experimental situation where the attitudes studied are usually "relatively uninvolved" (21). Additionally, based on the evidence available to this author, this is the only study which has attempted to investigate in a "real world" setting the process of attitude change under apparent conditions of forced compliance.

1.6 Limitations of the Study

1. The conclusions of this research effort may lack the ability to be generalized because the data secured in carrying out the study will be obtained from a sample of the members of the AICPA who are practicing as independent certified public accountants. Therefore, one may not be able to generalize the conclusions to any other group of accountants.

2. The conclusions drawn from this study will be based upon data gathered relative to the effects of one APB Opinion. One assumption of this study is that conclusions based upon the study of any one Opinion will provide a good general representation of the effects of any other given Opinion. To the extent that this assumption may not be valid, the reader should exercise caution in attempting to generalize the results beyond the Opinion studied in this research endeavor.

3. An additional assumption of this study is that the individuals who respond to the questionnaires represent a good approximation of the non-respondents. The reader should maintain constant awareness of the fact that this assumption underlies the conclusions drawn from the study, and to the extent he believes that such an assumption lacks validity he should exercise care in interpreting and generalizing these conclusions.

1.7 Organization of the Study

Chapter Two will be concerned with the development of the theoretical structure of the study. Consideration will be given to the psychological impact of the APB Opinions upon the independent accountant. A review of the psychological literature relating to attitude change will be undertaken and the hypotheses which will serve to guide this research effort will be presented.

Chapter Three will present the research design employed in carrying forth this investigation.

Chapter Four will present tests of the hypotheses based on the data gathered via the questionnaires.

Chapter Five will present the conclusions and recommendations derived from this investigation.

1.8 Notational and Procedural Form

Bibliographical references will be presented in brackets following a reference, in the manner (source number: page number, if reference is other than a journal article). In the Bibliography following Chapter Five, each biographical sources is identified by the source number employed in the text of the study.

Appendices will be presented immediately following the chapter with which they are associated. References to the appendices will be made in the chapter where appropriate.

The report contained herein will respect the confidential nature of the data which have been gathered on the questionnaires. Confidentiality will be relaxed only in those cases where the information has been previously published or where specific approval has been given for the citation made.

Finally, in the ensuing report, the numbering of footnotes will begin anew with each chapter and appendix.

APPENDIX 1-A

APPENDIX 1-A

The following is the complete text of the Special Bulletin, Disclosure of Departures From Opinions of Accounting Principles Board, issued by the Council of the American Institute of Certified Public Accountants in October, 1964.

"The Council of the Institute, at its meeting October 2, 1964, unanimously adopted recommendations that members should see to it that departures from Opinions of the Accounting Principles Board (as well as effective Accounting Research Bulletins issued by the former Committee on Accounting Procedure) are disclosed, either in footnotes to financial statements or in the audit reports of members in their capacity as independent auditors.

This action applies to financial statements for fiscal years beginning after December 31, 1965.

The recommendations adopted by Council are as follows:

1. "Generally accepted accounting principles" are those principles which have substantial authoritative support."
2. Opinions of the Accounting Principles Board constitute "substantial authoritative support."
3. "Substantial authoritative support" can exist for accounting principles that differ from Opinions of the Accounting Principles Board.

4. No distinction should be made between the Bulletins issued by the former Committee on Accounting Procedure on matter of accounting principles and the Opinions of the Accounting Principles Board. Accordingly, references in this report to Opinions of the Accounting Principles Board also apply to the Accounting Research Bulletins.^{1,2}

5. If an accounting principle that differs materially in its effect from one accepted in an Opinion of the Accounting Principles Board is applied in financial statements, the reporting member must decide whether the principles has substantial authoritative support and is applicable in the circumstances.

a. If he concludes that it does not, he would either qualify his opinion, disclaim an opinion, or give an adverse opinion as appropriate. Requirements for handling these situations in the reports of members are set forth in generally accepted auditing standards and in the Code of Professional Ethics and need no further implementation.

b. If he concludes that it does have substantial authoritative support:

(1) he would give an unqualified opinion and

¹This is in accord with the following resolution of the Accounting Principles Board at its first meeting on September 11, 1959:

"The Accounting Principles Board has the authority, as did the predecessor committee, to review and revise any of these Bulletins (published by the predecessor committee) and it plans to take such action from time to time."

"Pending such action and in order to prevent any misunderstanding meanwhile as to the status of the existing accounting research and terminology bulletins, the Accounting Principles Board now makes public announcement that these bulletins should be considered as continuing in force with the same degree of authority as before."

²The Terminology Bulletins are not within the purview of the Council's resolution nor of this report because they are not statements on accounting principles.

(2) disclose the fact of departure from the Opinion in a separate paragraph in his report or see that it is disclosed in a footnote to the financial statements and, where practicable, its effects on the financial statements.* Illustrative language for this purpose is as follows:

The company's treatment of (describe) is at variance with Opinion No. __ of the Accounting Principles Board (Accounting Research Bulletin No. __ of the Committee on Accounting Procedure) of the American Institute of Certified Public Accountants. This Opinion (Bulletin) states that (describe the principle in question). If the Accounting Principles Board Opinion (Accounting Research Bulletin) had been followed, income for the year would have been increased, (decreased) by \$ __, and the amount of retained earnings at (date) increased (decreased) by \$ __. In our opinion, the company's treatment has substantial authoritative support and is an acceptable practice.

If disclosure is made in a footnote, the last sentence might be changed to read: In the opinion of the independent auditors, _____, the company's treatment has substantial authoritative support and is an acceptable practice.

6. Departures from Opinions of the Accounting Principles Board which have a material effect should be disclosed in reports for fiscal periods that begin:

*In those cases in which it is not practicable to determine the approximate effect on the financial statements, this fact should be expressly stated.

a. After December 31, 1965, in the case of existing Bulletins and Opinions.

b. After the issue date of future Opinions unless a later effective date is specified in the Opinion.

7. The Accounting Principles Board should review prior to December 31, 1965, all Bulletins of the Committee on Accounting Procedure and determine whether any of them should be revised or withdrawn.

8. The Accounting Principles Board should include in each Opinion a notation that members should disclose a material departure therefrom.

9. The failure to disclose a material departure from an Accounting Principles Board Opinion is deemed to be substandard reporting.⁺ The Practice Review Committee should be instructed to give its attention to this area and to specifically report to Council the extent of deviations from these recommendations.

10. The Committee on Professional Ethics and the Institute's legal counsel had advised that the present By-Laws and Code of Professional Ethics would not cover an infraction of the above recommendations.

⁺In discussion at the council meeting it was explained that the phrase "substandard reporting" was used in the sense of reporting practices not in conformity with recommendations of the Council.

Whether the Code of Professional Ethics should be amended is a question which should be studied further.⁺,³

As indicated in the above text, Council's action is not intended to have the force and effect of a rule of ethics, but rather that of a standard or reporting practice, deviations from which should have the attention of the Practice Review Committee."

⁺
By order of the Council a special committee is now reviewing the entire matter of the status of Opinions of the Accounting Principles Board, and the development of accounting principles and practices for the purpose of recommending to Council a general statement of philosophy, purpose and aims in this area.

³In the Summer of 1970, the Institute placed before its membership the question of whether the essential provisions of this Special Bulletin should be incorporated into the Code of Professional Ethics. The proposition was defeated by a slim margin. Thus, infractions of the Special Bulletin continue to not be covered by the Code of Professional Ethics.

APPENDIX 1-B

APPENDIX 1-B

The following is a list of Accounting Research Bulletins and Accounting Principles Board Opinions which were in effect at the time of the conclusion of this study (June, 1971), and which were, therefore, subject to the provisions of the Special Bulletin, Disclosure of Departures From Opinions of Accounting Principles Board issued in October, 1964.

I. Effective Accounting Research Bulletins (ARB).

- 43.¹ Restatement and Revision of Accounting Research Bulletins (June, 1953)
 - 1.² Prior Opinions
 - a.³ Rules Adopted by Membership
 - b. Opinion Issued by Predecessor Committee (as amended by Accounting Principles Board Opinion (APBO) number 6)
 - 2. Form of Statements
 - a. Comparative Financial Statements
 - b. (Superceded by APBO number 10)
 - 3. Working Capital
 - a. Current Assets and Current Liabilities (as amended by APBO number 6)
 - b. (Superceded by APBO number 10)
 - 4. Inventory Pricing
 - 5. (Superceded by APBO numbers 16 and 17)
 - 6. Contingency Reserves
 - 7. Capital Accounts
 - a. Quasi-Reorganization or Corporate Readjustment
 - b. Stock Dividends and Stock Split-Ups (as amended by APBO number 6)
 - c. (Superceded by ARB number 48)

¹Represents Accounting Research Bulletin number.

²Represents Chapter number.

³Represents Chapter subsection.

- 8. (Superceded by APBO number 9)
- 9. Depreciation
 - a. Depreciation and High Costs
 - b. (Superceded by APBO number 6)
 - c. Emergency Facilities-Depreciation, Amortization, and Income Taxes
(as amended by APBO number 6 and number 11)
- 10. Taxes
 - a. Real and Personal Property Taxes
(as amended by APBO number 9)
 - b. (Superceded by APBO number 11)
- 11. Government Contracts
 - a. Cost-Plus-Fixed-Fee Contracts
 - b. Renegotiation
(as amended by APBO number 9 and number 11)
 - c. Terminated War and Defense Contracts)
- 12. Foreign Operations and Foreign Exchange
(as amended by APBO number 6 and number 9)
- 13. Compensation
 - a. (Superceded by APBO number 8)
 - b. Compensation Involved in Stock Option and Stock Purchase Plans
- 14. (Superceded by APBO number 5)
- 15. Unamortized Discount, Issue Cost, and Redemption Premium on Bonds Refunded
(as amended by APBO number 9 and number 11)
- 44. (Revised) Declining Balance Depreciation (July, 1958)
(as amended by APBO number 6 and number 11)
- 45. Long-Term Construction-type Contract (October, 1955)
- 46. Discontinuance of Dating Earned Surplus (February, 1956)
- 47. (Superceded by APBO number 8)
- 48. (Superceded by APBO number 16)
- 49. (Superceded by APBO number 9)
- 50. Contingencies (October, 1958)
- 51. Consolidated Financial Statements (August, 1959)
(as amended by APBO number 10 and number 11)
(paragraphs 7 and 8 superceded by APBO number 16)

II. Effective Accounting Principles Board Opinions

- 1.⁴ New Depreciation Guidelines and Rules
(November, 1962) (as amended by APBO number 11)
2. Accounting for the "Investment Credit"
(December, 1962) (as amended by APBO number 4)
3. The Statement of Source and Application of Funds
(October, 1963)
4. Accounting for the "Investment Credit"
(March, 1964)
5. Reporting of Leases in Financial Statements of Lessee
(September, 1964) (as amended by APBO number 11)
6. Status of Accounting Research Bulletins
(October, 1965) (Paragraphs 21 and 23 superceded by APBO number 11, paragraphs 12c and 22 superceded by APBO number 16, and paragraph 15 superceded by APBO number 17)
7. Accounting for Leases in Financial Statements of Lessors
(May, 1966)
8. Accounting for the Cost of Pension Plans
(November, 1966)
9. Reporting the Results of Operations
(December, 1966) (as amended by APBO number 13 and number 15)
10. Omnibus Opinion - 1966
(December, 1966) (as amended by APBO number 12, number 14, and number 16)
11. Accounting for Income Taxes
(December, 1967)
12. Omnibus Opinion - 1967
(December, 1967) (as amended by APBO number 14)
13. Amending Paragraph 6 of APB Opinion No. 9, Application to Commercial Banks (March, 1969)
14. Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants (March, 1969)

⁴Represents the Accounting Principles Board Opinion number.

15. Earnings Per Share
(May, 1969)
16. Business Combinations
(August, 1970)
17. Intangible Assets
(August, 1970)

CHAPTER II
THEORETICAL CONSIDERATIONS

2.1 Discussion of the Psychological Effects of the Special Bulletin of October, 1964, Upon the Certified Public Accountants Who Are Practicing as Independent Accountants

Perhaps at this point it is appropriate to discuss the October, 1964, pronouncement in more depth in order to gain a greater appreciation of its implications, particularly with respect to the psychological effects of the pronouncement upon the individual certified public accountant.

The reader should have noted in the discussion in Chapter I that the departures from Board Opinions which require disclosure are those departures which have a material effect (the Board has not yet defined the word material) upon the financial statements. Thus the Council is not concerned with, and therefore does not require disclosure of, departures which are immaterial in their impact.

According to the provisions of the Special Bulletin, for deviations from the Opinions which are concluded to be material in terms of their impact upon the financial statements, the independent auditor must decide upon one of two courses of action which are available for him to follow.

He must first determine if the departure has substantial authoritative support.¹ If he concludes that it does, and he is willing to accept the sole responsibility for employing a procedure which his primary professional organization has seen fit to reject, he may render an unqualified opinion in the auditor's report and disclose the fact of the departure and its impact² either in a separate paragraph in his report or in a footnote to the financial statements.

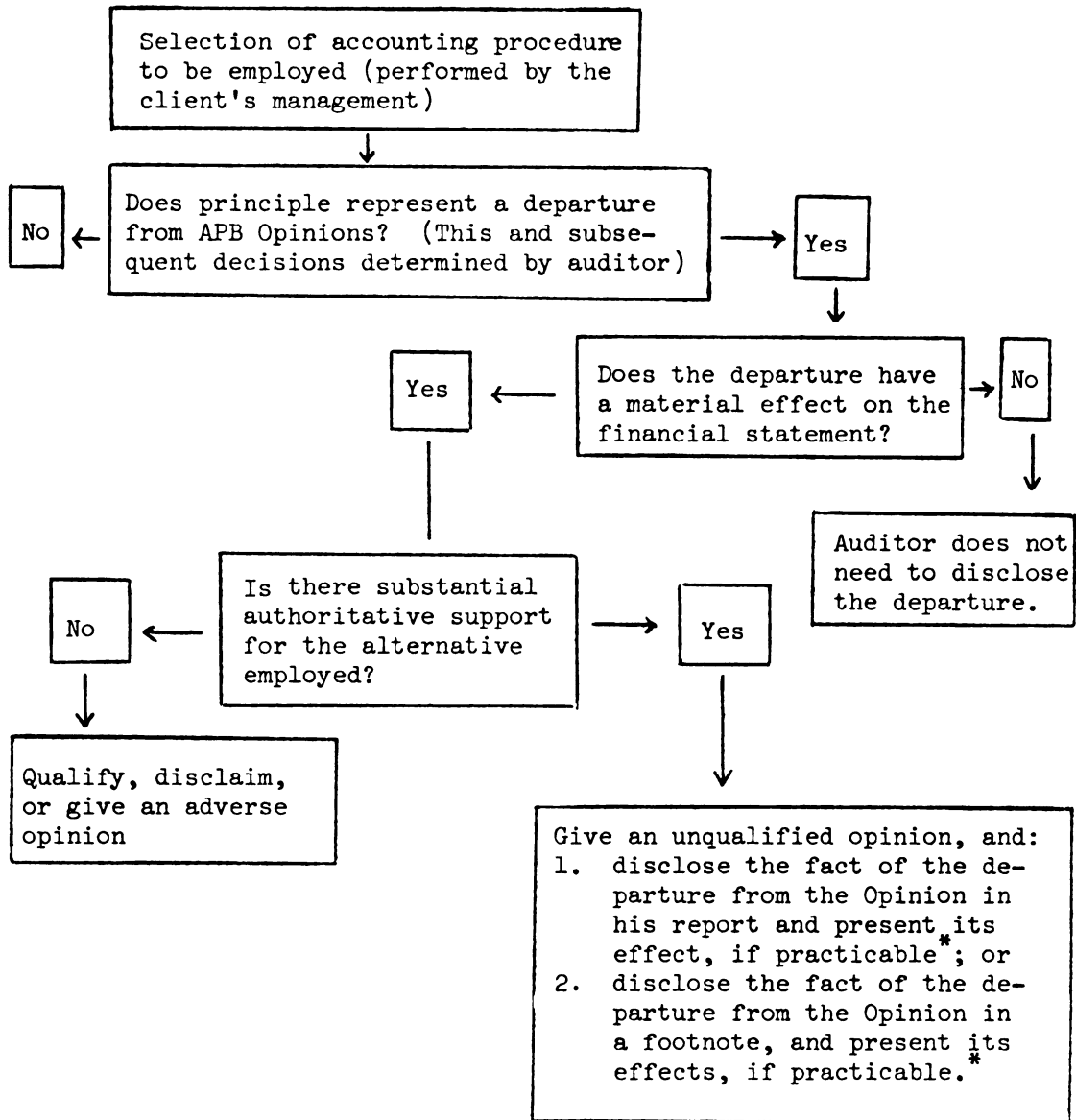
If he concludes that the principle does not have substantial authoritative support then he must "either qualify his opinion, disclaim an opinion, or give an adverse opinion as appropriate" (40). A paradigm of the decision process just described is presented in Figure I.

The preceeding discussion indicates that when the management of a client of a CPA, or CPA firm, chooses to employ an accounting principle which deviates from a Board Opinion, and the effect of the deviation is material, the independent auditor theoretically has one of four possible courses of action which he may select to follow.

1. He may decide that the departure has substantial authoritative support and therefore conclude that it is a generally accepted accounting principle. In this case he would proceed to employ the principle, issue an unqualified opinion, and disclose the existence of the departure and its

¹It should be noted here that the Council, in the Special Bulletin, stated that substantial authoritative support can exist for accounting principles which differ from Opinions of the APB (see Appendix 1-A, pp. 14). They also pointed out that any auditor who chooses to adopt a principle which deviates from those supported in the Opinions accepts the sole responsibility for justifying the use of the principle, and must conclude that the procedure does have substantial authoritative support before he can employ it (40).

²If practicable, he must disclose the approximate effect of the departure upon the financial statements. If it is not practicable to determine the approximate effect, this fact must be expressly stated.



* In those cases where it is not practicable to determine the approximate effects on the financial statements, this fact should be expressly stated.

FIGURE I

A Diagram of the Decision Process Confronting the Auditor Relative to the Accounting Principles The Client Has Employed in Preparing His Financial Statements

effect either in his report or in a footnote to the financial statements.

2. He may, although he recognizes that the departure does have a material effect, elect not to disclose the departure as required.
3. He may exert pressure upon his client and attempt to persuade the client to employ an alternative procedure which has the support of the APB. If the auditor is successful in this effort the client would employ a preferred alternative.
4. Where the client's management ignores the recommendations of the auditor and persists in employing a principle which represents a departure, the auditor may qualify his opinion, disclaim an opinion, or give an adverse opinion.

For purposes of this study, a major assumption is being made relative to the four modes of behavior just stated. This assumption is that the CPAs practicing as independent accountants will not perceive mode 1, establishing that a material departure has substantial authoritative support, as a viable alternative. Although some evidence exists which would appear to provide strong support for this assumption, data will be gathered during this investigation which should enable one to determine the extent of the validity of this assumption.

The reasons for making the assumption that mode 1 is not a practical alternative, and that therefore, auditors would choose not to employ it, will be set forth in the succeeding paragraphs. The reader should take care in recognizing that the contention here is not that the auditor could not, in fact, find evidence that the departure does have substantial authoritative support. Rather the view here is that professional considerations will invariably loom so heavily in the decision process that, except for very rare cases, the auditor will not

perceive alternative 1 as existing in the psychological set of alternatives from which he believes he may choose.

The primary reason for assuming this position with respect to alternative 1 is because it is felt here that the independent accountant would rarely, if ever, as a practical matter, attempt to support an alternative accounting principle which his primary professional organization has, in effect, rejected. In stating that a departure has substantial authoritative support, the auditor is going on record publicly as having accepted sole responsibility for the consequences which might result from the employment of a divergent principle. If problems do arise (such as a law suit, etc.) the auditor would be in the unenviable position of having supported a practice which the AICPA through the APB has publicly denounced, and the chances of receiving any assistance (in the form of expert witnesses, etc.) from within the profession would probably be small. In other words, supporting a departure acts to isolate the auditor professionally.

The consequences of such an action on the part of the CPA could be disastrous. It appears that the risks that the auditor assumes by isolating himself from the support of his main professional organization are so great that under almost no circumstances would he elect to support an accounting principle which represents a material departure from an APB Opinion. Rather he would choose to employ either alternative 3 or 4 set forth above, and either attempt to persuade his client to abandon the departure in favor of one which has the approach of the APB, or, if he is unsuccessful in this effort, his only other alternative would be to either qualify, disclaim, or give an adverse opinion.

A review of the literature was undertaken in an attempt to determine whether there was evidence available which would either tend to support or reject the contention just stated. This search did not uncover any evidence either pro or con. Contact was then made with partners in several CPA firms who have offices located nationwide. Each partner was asked if, in his firm's analysis and review of published financial statements, they compiled statistics which might assist in a determination of how valid the contention that auditors would resist stating that principles which represent departures from Opinions have authoritative support appears to be. Partners of two of these firms stated that their firms do make objective efforts to gather this type of information, but that their firms had not discovered one instance where the auditor has claimed substantial authoritative support for a principle which represented a material departure from a Principles Board Opinion. Such evidence adds strong support in favor of the assumption being herein discussed.

It might be argued, however, that the preceding evidence cited indicates that, rather than following alternatives 3 or 4, the independent accountant may employ alternative 2, i.e., fail to disclose procedures which represent material departures. The fact that alternative 2 results in even greater risks than alternative 1 would suggest that this possibly is highly unlikely.

Therefore, the conclusion must be that when the auditor is faced with a situation where management desires to employ an accounting principle which represents a material departure from an APB Opinion, the auditor will elect to persuade his client to employ an acceptable

alternative. If he is successful in this effort he would issue an unqualified opinion. However, if his client chose to ignore his recommendations, and persisted in employing the departure, the auditor would qualify, disclaim, or give an adverse opinion in his auditor's report. In a practical sense, these alternatives are viewed here as the only two modes of behavior that are open to the independent CPA when he is dealing with material departures from Board Opinions.

2.2 A Situation of "Forced Compliance"³

The interesting aspect of the discussion above is that whether or not the individual CPA agrees with the position taken by the APB in one of its Opinions, the risk of not complying with the pronouncement is sufficient to force the CPA to follow the dictates of the Opinion. In other words, the effect of the October, 1964, Special Bulletin is to force the auditor to act in one of two ways, either of which, in a behavioral sense, indicates support for each and every Opinion issued by the Board. This occurs regardless of whether the auditor believes that the position taken by the APB is appropriate or not. Thus, for those individuals who, at the time the APB issues an Opinion, had an unfavorable attitude toward the procedure(s) selected by the Board as preferable, the fact that in carrying out his professional duties the auditor is forced to choose between two alternative modes of behavior, either of which implies support for the APB position, places this person in a dilemma. On the one hand he believes that one procedure is most appropriate, but on the other hand, in terms of his overt behavior, he

³This term will be used as short hand notation to describe the situation where the auditor publicly complies with the APB Opinion without private acceptance of that position (11:85).

must behave so as to support another procedure. Such a situation implies that the auditor is in a state of imbalance. His attitude toward the procedure and his behavior relative to it are in conflict. He believes one thing, yet he must behave in a manner which contradicts these beliefs.

2.3 Review of the Literature Relative to Psychological Conflict

It will be recalled that the primary focus of this research effort will be upon those individuals from among the members of the AICPA who are practicing as independent certified public accountants and whose attitudes and beliefs about a particular accounting principle are in opposition to the position taken by the APB at the time of the release of its Opinion.

As was indicated in the previous section of this chapter, a situation of conflict will exist for these CPAs. Although they favor one procedure, their behavior must be counter-attitudinal, since they are "forced" to behave in a manner which supports, what is for them, an unattractive accounting principle.

For purposes of developing the theoretical structure of this study, it seemed most appropriate to review the psychological literature which relates to situations of conflict under conditions of "forced compliance".

In recent years, a substantial amount of literature has been written relative to the existence of conflict between what an individual knows or believes in and what he does. (That portion of the literature which the author deems as most relevant to this study is presented in the bibliography.) Several theories have been developed in an attempt

to gain an understanding of this type of conflict situation and the consequences that ensue from it. They usually appear under the labels of balance theory (19), congruity theory (29), consistency theory (28), cognitive dissonance theory (11), incentive theory (34), and reactance theory (6). These theories vary in many respects, particularly with respect to the extent to which the concepts employed in constructing the theories have been operationally defined. Some of the theories employ concepts and constructs which are so abstract as to make application of these theories to the real world very difficult. After evaluating the various theories cited above, in an attempt to determine which one seemed to present the best explanation for the situation at hand, and therefore would probably promote the best theoretical guidance for a study under the conditions postulated above, it was concluded that Leon Festinger's theory of cognitive dissonance (11, 12) would be the most fruitful.

2.4 A Summary of the Theory of Cognitive Dissonance

Psychological literature relative to conflict emphasizes that the individual strives for consistency within himself. In the situation under study, we have postulated that there exists a state of inconsistency between beliefs and overt behavior. Where the auditor has a favorable attitude toward an accounting principle which represents a material departure from an APB Opinion his behavior will be in belief discrepant in that he will behave in a manner which supports the APB's position. Theorists have postulated that under circumstances where this type of inconsistency is present, the individual experiences discomfort (11:2). In the face of this discomfort a drive mechanism

is set into motion which works toward reducing this psychological discomfort. Research based on these postulations have provided substantial support for the theory (12).

Because of the logical connotation inherent in the word inconsistency, Festinger has chosen to replace it by the term dissonance. Likewise, he replaces consistency with consonance.

Festinger sets forth the following formal definitions in establishing the framework of his theory of cognitive dissonance.

1. (Cognitions are) any knowledge, opinion, or belief about the environment, about oneself, or about one's behavior (11:3).
2. Two (cognitions) are in a dissonant relation if, considering these two alone, the obverse of one element would follow from⁴ the other. To state it a bit more formally x and y are dissonant if not x follows from y (11:13).
3. If, considering a pair of (cognitions), either one does follow from the other, then the relation between them is consonant (11:15).
4. ...under circumstances where one cognitive element implies nothing at all concerning some other (cognition), these two elements are irrelevant to one another (11:11).

To illustrate the above definitions, assume that an auditor is confronted with a situation where a client desires to employ an accounting procedure which represents a departure from APB Opinions and that the auditor is favorably disposed toward this same procedure. The auditor's cognition that he favors the procedure which represents a

⁴The term "follow from" as it is employed here is used not so much to imply causation as it is logical derivation. Festinger is not saying that a certain attitudinal posture would cause a certain behavior, but rather that if we observe a person who possesses a certain attitude (favorable or unfavorable) toward an accounting principle we would logically expect his overt behavior relative to the principle to reflect this attitudinal stance.

departure is dissonant with the cognition that the APB views this procedure as unacceptable. On the other hand, if the client had chosen to employ a procedure which the APB supported in its Opinions and the auditor was favorably disposed toward this procedure, the auditor's cognition that this procedure is favorable to other procedures is consonant with the cognition that the APB also views this alternative as preferable to others. The cognition that the auditor likes blonds is irrelevant to the cognition that he favors a certain accounting principle.

With the above definitions established, Festinger sets forth the substance of the theory of cognitive dissonance as follows:

1. There may exist dissonant or "nonfitting" relations among cognitive elements (11:31).
2. The existence of dissonance gives rise to pressures to reduce the dissonance and to avoid increases in dissonance (11:31).
3. Manifestations of the operation of these pressures include behavior change, changes of cognitions, and circumspect exposure to new information and new opinions (11:31).

Festinger summarizes the basic hypotheses of his theory in the following manner: "The existence of dissonance, being psychologically uncomfortable, will motivate the person to try to reduce the dissonance and achieve consonance" (11:3). "...the magnitude of the dissonance will be a function of the importance of the (cognitions). The more these (cognitive) elements are important to, or valued by the person, the greater will be the magnitude of a dissonant relation between them" (11:16). Therefore, the greater will be the pressure to reduce the dissonance.

2.5 Application of the Theory of Cognitive Dissonance to the Framework of This Study

At the time an Opinion is released by the APB, the individual can possess a favorable or unfavorable attitude toward the accounting principle the Board recommends. For the individual who maintains a favorable attitude, the relative cognitive elements are consonant. He believes that the advocated procedure is preferable and his overt behavior (in terms of behavioral modes 3 and 4 set forth above) will reflect a positive stance. Thus we would expect that the issuance of an Opinion by the APB would probably act to reinforce the attitude of the individual toward the principle in question and to therefore make the consonance even stronger.

Concerning the individual who possesses an unfavorable attitude toward the principle selected as appropriate by the Principles Board in its Opinion, there would be a dissonant relationship produced in this individual at the time the Board releases the Opinion. The dissonance exists because cognitions of his attitude being unfavorable conflict with his overt behavior which, we postulated earlier, must be in conformance with the Opinion. Figure II illustrates the consonance-dissonance relationship between the auditor's attitude toward the accounting principle in question and the overt behavior (adoption or rejection) demanded by the APB.

The paradigm illustrates that the Opinion will advocate the use of some alternative(s) and reject others as undesirable. Thus the independent accountant could conceivably experience consonance or dissonance with respect to the alternative(s) rejected and experience

Behavior Required by the APB Opinion Relative to the Accounting Prin- ciple Which is the Subject of the Opinion		CPA's Prior Attitude Toward the Accounting Principle Which is the Subject of the Opinion	
		Nonuse (-)	Use (+)
Unfavorable (-)	I Consonance (-, -)	↑	II Dissonance (-, +)
	III Dissonance (+, -)		IV Consonance (+, +)
Favorable (+)			

Note: The arrows indicate that the psychological pressure will operate to force an individual out of a dissonant state into a consonant state. Presumably this move from dissonance to consonance is accomplished through adjustment of the individual CPA's attitude toward the principle in question.

Source: (32: Chapter 10).

FIGURE II

Four Dissonant-Consonant Relationships Arising as a Result
of the Interaction of a CPA's Prior Attitude Toward an
Accounting Principle and Overt Behavior Required by
the APB as a Result of the Release of an APB Opinion

consonance or dissonance with respect to the alternative(s) that is (are) advocated (adopted) by the Board. To illustrate this, take quadrant III as an example. This quadrant indicates that at the time the APB issued an Opinion which rejected the use of a particular accounting principle, the individual in question had a favorable attitude toward this same principle. The cognitions of his attitude toward the principle and the cognitions of his overt behavior relative to this principle will be dissonant. This dissonance will produce pressure to increase consonance and reduce the dissonance. As indicated by the arrow, the result of this pressure will cause an attitude change in the individual relative to the accounting principle under discussion. The individual will introduce cognitions into his system which cause his attitude to become unfavorable toward the principle and as this process is carried forward cognitions of attitude and behavior will become more consonant.

According to the theory, the dissonance experienced, in and of itself, will cause the individual to develop a drive toward its reduction. Festinger points out that the strength of this drive will be a function of the amount of dissonance (11:18), which, in turn, is a function of the importance of the cognitive elements which are dissonant (11:90).

It is assumed here that the drive for dissonance reduction in the situation under examination will be strong. The reasons for this assumption are that: 1, The cognitive elements which are dissonant (attitude and overt behavior) relate to the CPAs professional life, and 2, the professional activities are a very important segment of the

professional man's life. It is by way of his professional activities that he earns his livelihood and anything that has an impact on how he carries out these activities is going to have important implications for him in his professional life style. It would therefore be expected that the elements which are dissonant are very important to the CPA and, as a result, the dissonance experienced would be relatively large and the drive to reduce it would be commensurately strong.

Festinger states that in situations of forced compliance, with the dissonance thus established, the individual may reduce it in the following ways:

1. Subsequent change of private opinion (attitude) to make it consonant with the overt behavior (11:97).
2. Magnification of the punishment (avoided) to increase the consonance with the overt compliant behavior (11:97).

2.6 Attitude Change and Dissonance Reduction

The first method of dissonance reduction suggests attitude change as a means of achieving consonance among cognitions. This can be accomplished by decreasing the number of dissonant relations and/or by increasing the number of consonant relations (11:94).

The individual may change his attitude and thus reduce dissonance by systematically re-evaluating the qualitative aspects of the principle involved and by re-assessing the relative merits of the specific pros and cons in an ex-post fashion. In this process he would elevate those qualitative aspects that would make his cognitions about beliefs and behavior more consonant and suppress those aspects that would result in increased dissonance.

Such an approach relies on the prior knowledge the individual has accumulated relative to the principle under question. Recent research has shown that this method of dissonance reduction can be very important (12:42-43). Indications are that the individual who possesses the greater prior knowledge will have more information available with which he can introduce cognitions which will result in attitude change and thus reduce dissonance. There is evidence available which also indicates that this individual will realize more rapid dissonance reduction through attitude change than will the individual who does not possess as much prior knowledge.

Another means of achieving this attitude change, and hence, dissonance reduction, by the means of introducing cognitions is to seek out new information sources (where prior knowledge does not provide a basis for introducing enough cognitions to produce the attitude change). Attitude change here can be achieved by seeking out information sources, both interpersonal and mass media,⁴ which are favorable toward the Board's position in its pronouncement. In this manner, positive cognitions are introduced into the cognitive structure. The greater the number of positive elements that are introduced the more one's opinion changes, and therefore, the smaller will be the dissonance felt.

2.6.1 Type of Information Sources and Dissonance Reduction

Research somewhat related to dissonance reduction through attitude change (31, 32) provides indications that those who rely most heavily

⁴Interpersonal communication is defined as direct face-to-face exchange between individuals. Mass media communication sources would include sources such as technical journals, books, newspapers, etc.

on mass media communication sources in the early stages of the process of dissonance reduction will experience the greatest amount of attitude change, and this change will occur more rapidly than for those who rely on interpersonal communication sources.

Closely allied but conceptually distinct from the interpersonal-mass media dichotomy of information sources are the concepts of cosmopolitaness-localiteness of information sources. A cosmopolite information source is one which is external to a particular social system while a localite information source is contained with the system (31:102).

Research reported by Rogers (31:102) indicates that individuals who rely primarily upon cosmopolite information sources may experience a more rapid and greater absolute alteration in their attitudes while those who employ localite sources will probably require a longer time period in which to reduce the dissonance by changing their attitudes.

2.6.2 Personality Types, Demographic Variables, and Dissonance Reduction

Aside from classifying information sources according to the cosmopolite-localite dichotomy, one can also classify individuals according to this scheme. A cosmopolite person can be defined as one who has a substantial orientation external to his immediate social system. He frequently attends national and regional professional association meetings where he develops acquaintances with people from outside his immediate social environment. On the other hand, the localite person does little traveling and has very few contacts with professional people outside his immediate social system.

Research reported in Rogers (31: various) indicates the cosmopolite person will achieve a greater amount of attitude change in a shorter period of time than will the localite individual. Indications are that the cosmopolite individual encounters more sophisticated information sources and thus is exposed to arguments which provide him with a basis for internalizing stronger positive cognitions than is the localite person.

Other research efforts have met with mixed success in attempting to employ demographic variables (such as age, education level, income level, hierarchical position, type of firm that employs the individual, size of firm which employs him, number of years the individual has held a CPA certificate, etc.) as means of explaining the variance in the extent of attitude change between individuals. To a limited extent, some of these variables will be studied in this research project.

2.6.3 Time and Dissonance Reduction

Thus far, the implication has been that, for those individuals for whom the APB's position in its Opinion is counter-attitudinal, cognitive dissonance will come into existence at the time an Opinion is released. This is the conclusion that would be demanded by Festinger's original exposition (11) of cognitive dissonance theory. However, recent research which has been carried out under Festinger's direction (12:42), indicates that dissonance may not appear until the CPA has to actually employ the accounting procedure which is advocated in the Opinion. Thus, the drive for dissonance reduction through attitude change may not occur until some time after the Opinion is released. One would therefore expect, on the basis of this evidence, that since the employment

of the prescribed accounting alternative will probably take place over time (increasing employment as time passes) then it is likely that dissonance will be experienced and thus attitudes will change over time and not immediately after the Opinion is released.

2.7 Magnification of Punishment Avoided and Dissonance Reduction

The second method of reducing dissonance as set forth above, that of magnifying the punishment avoided, is less apparent and appears to be somewhat less efficient than attitude change.

Under this approach, the individual experiences no change in attitude. If he had an unfavorable opinion toward the particular accounting procedure before the APB Opinion was released, even though the APB now comes out in favor of this procedure, the individual's unfavorable attitudinal position is maintained after the Opinion's release. Rather, this individual introduces consonant elements into his cognitive structure by reasoning that the punishment avoided by complying with the APB Opinion is well worth the compliance. In doing this he is increasing the number of consonant relations between cognitions of overt behavior and cognitions of the punishment avoided. The greater the amount of these positive cognitions, the less strong is the dissonant relationship between the cognitions of attitude and behavior. This approach of dissonance reduction under situations of forced compliance therefore postulates that the positive cognitions will substantially swamp the dissonant cognitions.

Although the major emphasis toward dissonance reduction in this study will be toward attitude change, (in the belief that magnification of punishment avoided will occur in very few, if any, cases)

measurements will be taken in order to determine to what extent individuals do magnify the punishment avoided as a means of reducing dissonance.

2.8 Further Considerations

Before setting forth the specific hypotheses being examined through this study some further considerations about attitude change should be explored.

When this study was originally envisioned it was anticipated that the APB Opinion which would serve as the intervening variable would address itself to several accounting alternatives which were available to account for some specific financial information. It was further expected that from among this group of alternatives some would be supported in the Opinion as appropriate for practice while others would be viewed by the Board as inappropriate under any circumstance and would effectively be eliminated from practice by the APB. Essentially then, the primary purpose of this investigation was to determine how the CPAs reacted to the elimination of certain accounting procedures from practice. In other words, did those CPAs who favored the application of procedures which the APB subsequently eliminated from practice through an Opinion change their attitude in such a way as to view these eliminated alternatives with less favor? Further, the question of how those individuals who were unfavorable toward the procedures would react when the APB subsequently issued the Opinion eliminating them was to be explored.

As was indicated earlier the APB Opinion which was eventually released by the Principles Board and served as the basis for this study

was APB Opinion No. 16, Business Combinations. As it turned out, this Opinion did not eliminate any accounting procedures from practice. Rather the effect of the Opinion was to drastically curtail the application of the pooling of interests method of accounting for business combinations, but not to eliminate it. The Opinion established that only when twelve rather restrictive conditions were met could pooling of interests accounting be employed.

Up to the time of the release of Opinion No. 16, pooling of interests accounting was employed in the large majority of cases to account for business firms who had combined their activities. Thus the effect of the Opinion will be to drastically reduce the number of combinations which will be accounted for employing pooling of interests and substitute in place of the pooling method the purchase method of accounting for these effects.

Because of the nature of the Opinion studied then, it was expected that those who favored the use of the pooling method over the purchase method prior to the release of the Opinion would not, subsequent to the release of the Opinion, become unfavorable toward this procedure since it was not in fact eliminated from practice by the Opinion. Rather, since the use of the pooling procedure was only curtailed it would be expected that those who favored its application prior to the release of the Opinion would be less favorably disposed toward its use after the Opinion's release. In turn, it was expected that those CPAs whose prior attitudes were unfavorable toward pooling would not experience reinforcement in these prior attitudes upon the release of the Opinion since pooling was not eliminated from practice. Instead, since the Opinion established that in certain restricted situations pooling was

to be employed instead of the purchase method, it would be expected that those individuals who had unfavorable attitudes toward pooling would develop less unfavorable attitudes toward this procedure. In other words, their attitudes would probably still remain unfavorable towards pooling after the release of the Opinion, but would be significantly less strongly unfavorable.

2.9 Hypotheses

Based on the evidence presented relative to those CPAs who work in public accounting, one is able to generate several hypotheses which, when tested, should provide the answer to the primary question of concern in this study: To what extent is the APB, through its Opinions, successful in changing attitudes and beliefs among the membership of the AICPA?

Additional hypotheses are presented which, when tested, should provide some knowledge of the process of attitude change and the factors instrumental to this process.

A. Relative to those CPAs whose attitudes are unfavorable toward pooling of interests prior to the release of any formal pronouncement of the APB on the subject, the following hypothesis is set forth:⁵

A1: Those subjects whose Pre-Opinion attitudes were unfavorable toward the pooling of interests method will experience a favorable change in attitudes after Opinion No. 16 is released and these changes will be significant.

⁵These hypotheses as stated here represent predictions based on the a priori model. The null form of these hypotheses were employed in carrying out the statistical tests described in Chapter IV.

B. Relative to those practitioners who, prior to the release of a pronouncement, maintained a favorable attitude toward pooling of interests, the following hypothesis will be tested:

B1: Those subjects whose Pre-Opinion attitudes were favorable toward the pooling of interests method will experience unfavorable change in attitudes after Opinion No. 16 is released and these changes will be significant.

C. If significant changes in attitudes are observed, the following hypotheses will be tested in an attempt to isolate some of the variables which might assist in understanding this phenomenon of attitude change.

C1: Attitude change will be positively related to the importance of the issue to the respondent.⁶

C2: Attitude change will be positively related to the amount of knowledge the respondents possess about the technical issues underlying the controversy surrounding the use of pooling of interests or purchase accounting prior to the release of any pronouncement.

C3: Attitude change will be positively related to the cosmopolitanism of the respondents.

C4: Attitude change will be positively related to the amount of mass media information sources employed by the respondents.

C5: Attitude change will be positively related to the cosmopolitanism of the information sources employed by the respondents.

C6: Attitude change will be positively related to the amount of formal education possessed by the respondents.

⁶In other words, those respondents who believe that it is important that the APB issue a pronouncement in an attempt to reduce the controversy relating to the use of pooling of interests will experience a greater attitude change after the release of the pronouncement than will those subjects who attach less importance to the settling of this issue.

- C7: Attitude change will be negatively related to the hierarchical positions of the respondents.
- C8: Attitude change will be negatively related to the age of the respondents.
- C9: Attitude change will be positively related to the size of the CPA firms who employ the respondents.
- C10: Attitude change will be negatively related to the number of years the respondents have held a CPA Certificate.

These hypotheses will be tested employing primarily the statistical procedures described in Siegel (37: various).

CHAPTER III

THE RESEARCH DESIGN

3.1 The Basic Research Design

The basic design of this research study is a "before-after experiment." It is described as "before-after" because measurements of the dependent variable, attitude, were taken both before the intervening variable (APB Opinion No. 16) was introduced and after it was introduced. It is called an "experiment" because the Pre-Opinion attitude measurement served as the control measure for each individual included in the sample.

The subjects of the reserach project consisted of a random sample of individuals selected from the population chosen to be the object of the study. The data employed in carrying forth the investigation were secured from the sample subjects via means of mailed questionnaires. The data collected were utilized to test the hypotheses set forth in the previous chapter. These tests were carried out employing, primarily, appropriate nonparametric statistical techniques.

3.2 Sample Selection Procedure

The population which was selected to serve as the subjects for this investigation were the members of the American Institute of Certified Public Accountants who were practicing as independent certified public accountants. At the time of the initiation of this project, the AICPA

had a total membership of approximately 64,000 individuals. Of this number 39,893 were practicing as independent CPAs, while the remainder were employed in industrial accounting. Of the 39,893 practicing accountants, 7,791 were individual practitioners. This latter group was deleted from the population because of the usual nature of their practice. Individual practitioners rarely perform audits and issue opinions on an organization's financial statements. Thus, APB Opinions are likely to have little bearing upon the professional activities of these individual practitioners.

Deletion of the individual practitioners left 32,102 potential subjects in the population. From this group, a sample of 1,000 subjects was randomly selected to serve as the basis for gathering the data needed to carry this study to fruition.

3.3 Data Collection Procedure

Mailed questionnaires were utilized as the means for securing the data needed to test the hypotheses set forth in this research project. Copies of the four questionnaires sent to the sample subjects at various time intervals (as described later) throughout the course of the study are contained in Appendix 3-A to this Chapter. The four questionnaires utilized are identified as follows:

The Pre-Opinion Questionnaire

The Post-Exposure Draft Opinion Questionnaire

The Questionnaire to Test for Sensitizing of Respondents
in the Main Sample

The Post-Formal Opinion Questionnaire

Figure III below is a representation of the respondent groups circularized and sets forth the points in time when measures were taken on each of these groups.

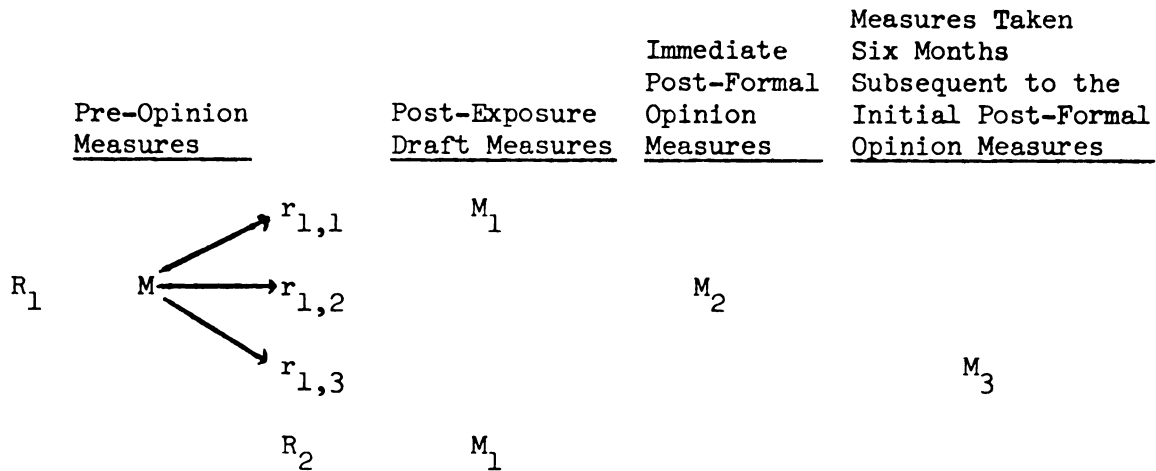


FIGURE III

Respondent Groups Circularized in the Study and
Measures Taken on Each of These Groups

As Figure III indicates, a random sample (R_1) of individuals was taken from the population of 32,102 practicing CPAs. This sample consisted of 1,000 individuals. Indications were received by late 1969 that the APB was likely to release a formal Opinion or expose a tentative Opinion on the subject of business combinations early in 1970. Since the design of the experiment called for examining the effect of Opinions upon CPAs, (particularly the impact of Opinions upon the CPAs' attitudes toward the accounting procedure which was the subject of the Opinion) measures of certain variables had to be obtained prior to the release of any such Opinion. Therefore, the Pre-Opinion Questionnaire (see Appendix 3-A) was circularized among the sample subjects (R_1) in December, 1969, and January, 1970, and measure M was secured

at that time. Measure M then represents the data secured on certain variables (particularly attitudes toward pooling of interests accounting) prior to the release of any pronouncements on the subject of business combinations by the APB.

A total of 412 responses were secured from this circularization and a second request which followed it. Of these 412 responses, 374 were usable while 38 had to be discarded, primarily because the respondents failed to complete the portion of the questionnaire containing the attitude scale statements.

The 374 individuals who responded to the Pre-Opinion Questionnaire were then stratified according to the attitudinal measures secured via that questionnaire. These respondents were then assigned on a random basis to three separate test groups ($r_{1,1}$; $r_{1,2}$; and $r_{1,3}$) in proportion to the number of individuals contained in each stratum of the total group, and in a manner such that the three test groups consisted of the following number of individuals:

$$\begin{array}{rcl} r_{1,1} & = & 186^1 \\ r_{1,2} & = & 94 \\ r_{1,3} & = & \underline{94} \\ \text{Total responses} & & \\ \text{out of } R_1 & = & \underline{\underline{374}} \end{array}$$

It was anticipated that this assignment process would produce three test groups whose attitudinal parameters would be equal to each other

¹For a discussion of the reasons for the assignment of a differing number of subjects to each response group see Chapter IV, p. 83.

and equal to the parameters of the total group who responded to the Pre-Opinion Questionnaire.

In order to insure that, in fact, each of the three test groups ($r_{1,1}$; $r_{1,2}$; and $r_{1,3}$) were equal to each other and equal to the total response group (374 out of R_1) in terms of the attitudinal measures, (i.e., that there were no significant differences between the groups on measures of central tendency, dispersion, skewness, etc.), Kolmogorov-Smirnov two-sample tests were run comparing each group to each of the remaining groups. The hypothesis being tested was that there were no differences in the distributions of attitude scores between the four groups. Employing a two-tailed test, at a significance level of .05, the stated hypothesis could not be rejected for any of the tests.² Thus it was concluded that the three test groups were, in fact, equal to each other and equal to the total initial response group when compared on the basis of attitude measures.

The purpose for establishing three test groups out of the initial response group was to try to insure the highest possible response rate to the questionnaire which would be circularized in later phases of the study. Since attitudes, and the changes therein, were being treated as the dependent variable in this investigation, it was necessary to gather

²The actual test statistics generated in the analysis ranged between .83 and .94. Thus one can conclude that if the null hypotheses that the groups are equal were rejected, one would be rejecting a true hypothesis from 83 to 94 per cent of the time.

information on this variable at three points in time³ subsequent to the point when data were secured from the initial (Pre-Opinion) response group (R_1). This was necessary in order to secure information about how the various publications affected attitudes over time.

Of course, if one had taken the initial respondents (374) and attempted to elicit additional responses from them at three future points in time, it could be expected that the response rate on each successive questionnaire would rapidly deteriorate. To circumvent this problem then, the original respondents out of the R_1 sample were divided into the three test groups ($r_{1,1}$; $r_{1,2}$; and $r_{1,3}$) and a separate test group was employed to secure the necessary data at each of the three points in time as indicated in Figure III.

The individuals who responded to the Pre-Opinion Questionnaire were also employed in the later phases of the data collection because involved in this research effort was an attempt to isolate and ascertain the impact of some of the variables which appear to play a role in determining the extent and rapidity of any attitude change. In order to secure information pertinent to this aspect of the study, it was necessary to know whether a subject's attitude prior to the release of any pronouncement by the APB was favorable or unfavorable toward the particular accounting principle under investigation, (pooling of interests

³The three points in time subsequent to the taking of the initial Pre-Opinion measures were as follows:

1. Subsequent to the publication of an Exposure Draft Opinion which occurred in February, 1970.
2. Subsequent to the publication of a Formal Opinion which occurred in August, 1970.
3. Six months subsequent to the measures taken in 2.

in this case) and then to examine how his attitude changed subsequent to the release of the pronouncement and compare the extent of this change with measurements taken on other variables.

In summary then, the following schedule indicates the samples which were circularized in the study, their sizes, the number of usable responses obtained, and the times when the circularizations took place.

<u>Samples Circularized</u>	<u>Sample Size</u>	<u>Number of Usable Responses from Sample</u>	<u>Time at Which Questionnaires Were Circularized and Data Was Gathered</u>
R_1	1000	374	December, 1969 - January, 1970
$r_{1,1}$	186	123	May-June, 1970
$r_{1,2}$	94	65	September - October, 1970
$r_{1,3}$	94	*	*

* As will be explained in the following Chapter the need for gathering the data from circularization of test group $r_{1,3}$ was negated because of the type of results obtained from test groups $r_{1,1}$ and $r_{1,2}$. Thus, questionnaires were never sent to group $r_{1,3}$.

FIGURE IV

Information on Respondent Groups Circularized in the Study

Figure III indicates that an additional independent random sample (R_2) was employed in the study to secure data subsequent to the release of the Exposure Draft Opinion by the Principles Board. The purpose served by this sample will now be explained.

Because the experimental design calls for measurements on individuals both before and after the release of a publication, the

possibility exists that the "before" measurement may have sensitized people with respect to the accounting principle which was the subject of the publication, and this sensitization thus could have had an impact on the amount of attitude change experienced by those individuals upon the release of the various pronouncements. This sensitization could have had either one of two effects. It could have caused people to experience a greater attitude change than they would have had had no "before" measures been taken, or the sensitization could have operated to reduce the amount of attitude change.

To determine whether sensitization had apparently occurred and, if so, what effects it was producing on attitude change, a second independent random sample (R_2) of 100 subjects was drawn from the population. The individuals contained within this sample were mailed a questionnaire subsequent to the release of the Exposure Draft Opinion by the APB and measurement M_1 was secured. Fifty-one usable responses were obtained from this mailing. The data gathered from this sample of individuals (who had received no previous questionnaires) were then compared to the data gathered from group $r_{1,1}$ (a group who had received a Pre-Opinion Questionnaire) to determine whether the two groups differed significantly in terms of measures of their attitudes. The null hypothesis tested was that the two groups were equal. A Kolmogorov-Smirnov two-sample test indicated that the hypothesis could not be rejected at the .05 level of significance.⁴ Therefore, it was concluded that the administration of the Pre-Opinion Questionnaire to the respondents

⁴The test statistic generated in the analysis was .31. Thus it could be concluded that if the null hypothesis that the groups are equal were rejected, one would be rejecting a true hypothesis 31 per cent of the time.

did not significantly sensitize these individuals to the subject of pooling of interests.

3.4 The Questionnaires

Copies of the four questionnaires employed in the data gathering phase of this study are presented in Appendix 3-A of this Chapter. The object of the ensuing discussion is to present a description of the purpose of each section of the questionnaire and the measurement techniques which were employed in developing each section.

3.4.1 Part I - The Attitude Scale

The primary measurement device which was employed in the questionnaires was an attitude scale developed using the method of successive intervals (categories). For a good summary description of this method see Guilford (17:457-458). A more detailed description is contained in Chapter 10 of the same book.

This scaling technique produces an interval scale on which one can measure attitudes with respect to the particular psychological concept under question. In the present study the psychological concept under investigation was pooling of interests accounting.

The process of developing the attitude scale proceeded as follows. First a point outline of APB Opinion No. 16 was secured when it was in the later stages of its development. This outline indicated the probable content and thrust of the Opinion. Based on this information (as well as journal articles, research studies, etc., relating to pooling of interests accounting) a large number (98) of simple statements about the accounting principle treated in the Opinion were

prepared. A group of 33 judges were then asked to take these statements and separate them on 11 carded lettered A through K. They were instructed that those statements which were to be placed on card A were the ones they judged to indicate the most unfavorable sentiments toward the accounting principle in question. Statements which seemed to express the most favorable sentiments toward the principle were to be placed on card K. The middle, or card F, was described as the "neutral" card on which statements that expressed neither favorable or unfavorable sentiments were to be placed. Varying degrees of increasing favorableness indicated by the statements were represented by cards G to K and varying degrees of unfavorableness by cards F to A.

Using the data thus obtained from the judges, the frequencies and proportions of the statements falling in each of the 11 categories were determined. From the cumulative proportion distributions determined for the set of statements, the width of the intervals making up the psychological continuum was calculated. With the psychological continuum thus determined, one could project each of the cumulative distributions (for each statement) on the continuum. The scale values of the statements were then taken as the medians of the corresponding cumulative proportion distributions on this continuum.

Measures of dispersions about the median were calculated in order to determine the extent of agreement among the judges who have performed the ranking. A large value for the dispersion factor indicated that the statement was probably being interpreted in several different ways, and was therefore ambiguous and should be discarded.

Additional statistical tests were carried out in testing the internal consistency (and determining the significance of any

inconsistency) of the attitude scale. These tests are described in Guilford (17:230-232). Essentially, these tests provided a means for determining whether certain assumptions upon which the process of calculating the scale values of the statements are based have apparently been satisfied. Chief among these is the assumption that the responses of the 33 judges to the attitude statements were normally distributed for each statement when they are projected on the unknown psychological continuum. The results of the internal consistency test showed strong support for this assumption of normality.

This method of scale construction has been widely employed (9, 17). Strong evidence exists that the attitudes of the judges toward the psychological concept being scaled do not effect their judgments as to the degree of favorableness or unfavorableness contained in a particular statement. Also, substantial evidence exists which indicates that scales developed using this method of construction correlate very highly (on the order of .98 or .99) with scales developed using the strongest scaling procedure, the method of paired comparisons.

In terms of temporal factors, studies have shown that a set of statements scaled at points in time as far apart as 18 years had a correlation of .99 (17:132).

From the statements employed to develop the attitude scale, 14 were selected to be included in the Pre-Opinion Questionnaire to comprise the instrument by which the respondents attitude was measured. The statements included were approximately equally dispersed over the range of the scale and were presented in random order on the questionnaire. The statements selected were the ones with the lowest possible

dispersion about the scale value. If a choice was to be made among several statements with approximately the same scale value, preference was given to the one with the lowest dispersion, that is, the one believed to be the least ambiguous.

The respondent was asked to indicate on the questionnaire those three statements with which he most agreed. Taking the statements with which the respondent had agreed, an attitude score was obtained by calculating the arithmetic mean of the scale values of these statements.

For the Post-Exposure Draft and Post-Formal Opinion Questionnaires, a comparable form of the attitude scale employed on the Pre-Opinion Questionnaire was developed by selecting another 14 statements from the group originally scaled such that the scale values and dispersions were approximately equal to those included in the Pre-Opinion Questionnaire. Thus the questionnaires administered subsequent to the Pre-Opinion Questionnaire had the same attitude scale as the first, but the individual statements comprising the scale were different. This approach insured that a respondent would not select the same statements on the succeeding questionnaires that he did on the first questionnaire simply because he could recall which statements he selected on the first questionnaire.

3.4.2 Part II - Importance of the Issue to the Respondent

One of the hypotheses which was tested in this study states that the extent of attitude change will be a function of the importance the respondent attaches to the issues surrounding the accounting principle under consideration; pooling of interests accounting. It is hypothesized that those individuals who view the controversy surrounding

pooling of interests accounting as important will experience a greater attitude change than those who view it as unimportant. It was necessary to ask only one question in order to secure the data necessary to test this hypothesis. That question was developed employing a Lickert-type scale as the means of measuring the intensity of the importance the respondent attaches to the issue. This question was included in the Pre-Opinion Questionnaire, and appears as item 15 on that questionnaire.

3.4.3 Part III - The Extent to Which the Respondent Views the Alternative of Establishing that Substantial Authoritative Support Exists for a Material Departure from APB Opinions as a Viable Alternative

The theoretical structure of this study rests on the assumption that the independent CPA will, only in very rare cases, attempt to establish that a material departure from APB Opinions has substantial authoritative support. The discussion in Chapter II indicated that the reason for taking this position is that the auditor would assume too great a professional risk by supporting an accounting principle which his primary professional group has seen fit to reject. The contention here is that the independent accountant would not choose to isolate himself professionally.

Since it is an assumption, it was necessary to gather data which would provide a basis for testing the assumption's validity. The data were gathered employing a set of several belief statements asking the respondent whether he believes that the average independent CPA would view the alternative under discussion here as a viable alternative. A series of statements was presented to the respondent and he was asked

to indicate whether he agreed or disagreed with each statement and how strongly. Here again, a Lickert-type scale was employed, this time to measure the intensity of the respondents agreement or disagreement with the statements. Statements 16 through 20 on the Pre-Opinion Questionnaire served as the basis for securing the information which was employed to ascertain the validity of the assumption herein discussed.

3.4.4 Part IV - Extent of Prior Knowledge

The study postulates that the respondent's attitude will, in certain ways, be a function of the prior knowledge he possesses about pooling of interests accounting. Question 21 of the Pre-Opinion Questionnaire was employed as the means for establishing the extent of the respondent's knowledge about pooling of interests accounting specifically, and accounting for business combinations in general. Part (a) of the question attempted to establish the level of the respondent's knowledge and Part (b) provided information which hopefully could be employed to test the veracity of the response to Part (a).

3.4.5 Part V - Cosmopolitaness of Respondent

It was hypothesized in this investigation that there would be a relationship between the cosmopolitaness of the respondent and the amount of attitude change and speed with which his attitude would change. As indicated earlier, cosmopolitaness measures the extent to which an individual's professional orientation is external to his immediate social and work environment.

Questions 16 through 20 and question 22 on both the Post-Exposure Draft Questionnaire and the Post-Formal Opinion Questionnaire were

employed as a basis for measuring the intensity with which each respondent possessed the attributes of localiteness or cosmopoliteness.

3.4.6 Part VI - Characteristics of Information Sources Employed by the Respondent

Several of the hypotheses set forth in Chapter II postulate a relationship between the speed and extent of attitude change and the types of information sources utilized by the respondent in his work activities. The characteristics of the information sources measured were the cosmopoliteness--localiteness and mass media--interpersonal nature of the sources.

It will be recalled that a cosmopolite information sources is one which is external to the individual's immediate social system, while a localite source is contained within the system. Interpersonal communication is direct face-to-face exchange while mass media communication consists of journal articles, books, etc. (i.e., formal media).

The identical set of questions consisting of numbers 21(a) through 24(b) appearing on both the Post-Exposure Draft Questionnaire and the Post-Formal Opinion Questionnaire provided the basis for ascertain the characteristics of the information sources utilized by each respondent.

3.4.7 Part VII - Demographic Information

Although the evidence is far from conclusive, there are some indications in the research literature that one may be able to make predictions about the extent and direction of attitude change based on information relating to demographic variables. The object of this section of the questionnaire was to secure the data necessary to

provide a basis for determining whether a relationship does exist between the demographic variables and attitude change in the situation under study.

The identical sets of questions numbered 25 through 30 on both the Post-Exposure Draft Questionnaire and the Post-Formal Opinion Questionnaire were utilized to secure information needed for the tests discussed above.

3.5 Statistical Procedures

The formal mathematics involved in the primary statistical techniques which were utilized to test the hypotheses set forth in this study are presented in Siegel (37: various). The discussion here is aimed at setting forth the function which will be served by each of these statistical procedures.

The obtained values of sample statistics invariably differ somewhat, and the problem confronting the researcher is to determine whether the differences among the samples signify genuine population differences or whether they represent merely chance variations such as are to be expected among several samples taken from the same population (37:184). In this research project the Kolmogorov-Smirnov two-sample test and the Wilcoxon Matched-Pairs Signed-Ranks test will be employed to determine the extent to which variations among groups in attitude measures represent real population differences. These tests will enable one to determine the probability that the observed differences in attitude values could have resulted from chance variations among the groups.

The Spearman rank correlation coefficient and the Pearsonian correlation coefficient measure the degree of association between two

(or more) variables in a sample, and the significance of those associations in the population from which the sample is drawn.

The Spearman test, as well as the Pearsonian analysis will be employed in this study to determine whether any association exists between the dependent variable, attitude, and the various independent variables which are under examination, and the probability that these associations represent genuine associations between the variables in the population.

Where appropriate, the contingency coefficient (37:196) will also be utilized as a basis for measuring the extent of association between two sets of variables.

APPENDIX 3-A

APPENDIX 3-A

THE PRE-OPINION QUESTIONNAIRE

CPA SURVEY QUESTIONNAIRE

A series of fourteen statements is set forth below. Each statement relates to the concept of pooling-of-interests accounting. Would you please read each statement and select those three with which you most agree. Indicate which three statements you have chosen by placing an "X" in the blank in front of the number identifying each of these statements.

- | | |
|---|--|
| <p>_____ 1. An "authentic" pooling of interests rarely results when two or more firms are combined.</p> <p>_____ 2. The lack of objectivity existent in establishing current values for assets makes pooling of interests accounting attractive since historical costs are just brought forward.</p> <p>_____ 3. Pooling of interests is proper in accounting for business combinations in most circumstances.</p> <p>_____ 4. Pooling-of-interests accounting for business combinations should be eliminated entirely as an acceptable accounting procedure.</p> <p>_____ 5. Accounting practitioners find pooling-of-interests accounting to be a theoretically sound method of accounting for business combinations.</p> <p>_____ 6. If I had to take a stand, I would say I favor purchase accounting slightly over pooling in most situations.</p> <p>_____ 7. I believe that accountants should take the opportunity afforded by a business combination to adjust historical costs to current values.</p> | <p>_____ 8. Financial statement users tend to distrust accounting information because procedures such as pooling of interests tends to distort such information and thereby produce incomparability in financial statements.</p> <p>_____ 9. To eliminate completely pooling-of-interests accounting would be to throw out the baby with the bath water, since, there are some situations in which a true pooling of interests takes place.</p> <p>_____ 10. Because of the potentiality for abuse and deception arising from pooling, it should be eliminated as a generally accepted accounting procedure.</p> <p>_____ 11. All in all, I guess I'm indifferent as to whether accountants use purchase or pooling in accounting for business combinations.</p> <p>_____ 12. All business combinations are, in fact, poolings rather than purchases, and should be accounted for as such.</p> <p>_____ 13. Under some limited circumstances it is appropriate to account for business combinations by employing the pooling-of-interests concept.</p> <p>_____ 14. Pooling of interests is the only appropriate method of accounting for business combinations.</p> |
|---|--|

Below is presented a group of statements. As you will notice, following each statement a series of seven spaces is set forth with a word under each. On each side of the page two additional words appear, Disagree on the left side of the page and Agree on the right.

First, I would like to have you read each statement and determine whether you agree or disagree with it. If you disagree with the statement place an "X" in one of the three spaces to the left of the center box. For example, if you disagree strongly, then you would place an "X" in the space over the word "strongly."

On the other hand, if you agree with the statement place an "X" in one of the spaces to the right of the center box, depending upon whether you agree slightly, moderately, or strongly.

If you neither agree nor disagree with the statement, place an "X" in the center box over the word "neutral".

Place an "X" in only one space per statement. Please respond to every statement.

15. Considerable controversy surrounds the issue of accounting for business combinations. Do you agree that the issues involved are so important that unless the accounting profession resolves this controversy it could suffer serious consequences?
- Disagree : _____ : _____ : _____ : Neutral : _____ : _____ : Agree
- Strongly Moderately Slightly Slightly Moderately Strongly
16. The October, 1964, Special Bulletin approved by the Council of the AICPA states that substantial authoritative support can exist for accounting principles which differ from the Opinions of the Accounting Principles Board. Would you agree, however, that this Special Bulletin has had the effect of eliminating, to a large extent, the use of accounting principles which represent material departures from APB Opinions?
- Disagree: _____ : _____ : _____ : Neutral : _____ : _____ : Agree
- Strongly Moderately Slightly Slightly Moderately Strongly
17. Assume that the client of a CPA, in preparing a set of financial statements for publication, employs an accounting procedure which represents a departure from APB Opinions, and that this procedure has a material impact on these statements. Assume further that the CPA satisfies himself that this accounting procedure does have substantial authoritative support, even though it represents a departure from the APB's stand in its Opinions. Do you agree with the interpretation that the October, 1964, Special Bulletin implies that, in this situation, if the CPA decides to issue an unqualified opinion on these statements and disclose the impact of the departure he accepts complete and sole responsibility for any consequences (legal, professional, etc.) which might ensue as a result of having taken this course of action?
- Disagree: _____ : _____ : _____ : Neutral : _____ : _____ : Agree
- Strongly Moderately Slightly Slightly Moderately Strongly
18. Do you agree that in issuing an opinion about a set of financial statements, a CPA would have few reservations about issuing an unqualified opinion, even though an accounting procedure which represents a material departure from APB Opinions had been employed in developing these statements?
- Disagree : _____ : _____ : _____ : Neutral : _____ : _____ : Agree
- Strongly Moderately Slightly Slightly Moderately Strongly

(Continued on reverse side)

THE PRE-OPINION QUESTIONNAIRE (Cont'd.)

19. A CPA is confronted with a situation where a client has employed an accounting procedure in preparing a set of financial statements which represents a departure from APB Opinions. He has determined that the financial statements differ materially from what would have been presented had the APB's recommended procedure been employed. The CPA recognizes that according to the requirements of the Special Bulletin of October, 1964, as one alternative, he may determine that the departure has substantial authoritative support and thereby issue an unqualified opinion, as long as he discloses the impact of this departure in a footnote or in a separate paragraph in his report.

(a) Do you agree that by adopting this course of action, the CPA would be isolating himself from his primary professional organization, since the APB has stated in an Opinion that this accounting procedure is not preferable?

Disagree : _____ : _____ : _____ : ☐ : _____ : _____ : _____ : Agree
 Strongly Moderately Slightly Neutral Slightly Moderately Strongly

(b) Do you agree that by pursuing this alternative the CPA subjects himself to such a substantial professional risk that he is likely not to perceive the alternative as being at all acceptable to him?

Disagree : _____ : _____ : _____ : ☐ : _____ : _____ : _____ : Agree
 Strongly Moderately Slightly Neutral Slightly Moderately Strongly

Please answer the following questions as indicated in the body of the question.

20. Assume that the APB, in one of its Opinions, states that a certain accounting procedure is unacceptable. Assume also that the client of a CPA insists on employing this procedure in preparing a set of financial statements for publication. Which of the following alternatives do you think the CPA is most likely to resort to under the circumstances if the use of the departure has a material impact on the statements? (Place an "X" in front of the item you believe is most likely.)

- _____ 1. Attempt to establish that this departure has substantial authoritative support, and on this basis issue an unqualified opinion in the auditor's report.
 _____ 2. Recommend to the client that he employ an APB accepted alternative procedure, and if he refuses, issue an adverse or qualified opinion, or withhold an opinion.
 _____ 3. Ignore the fact that the procedure employed represents a departure from APB Opinions and has a material effect on the statements, and issue an unqualified opinion in the auditor's report.

- 21(a). Would you please provide a personal assessment of the extent of your knowledge concerning the pros and cons of the technical issues underlying the controversy surrounding the use of pooling or purchase in accounting for business combinations by placing an "X" before the appropriate item below?

- _____ 1. Very strong (Your knowledge of the literature on these issues is so extensive that you could cite the arguments of specific authors in support of a particular position on these issues.)
 _____ 2. Strong (Your knowledge of the literature is such that you are aware of all the issues involved in the controversy, but you could not cite specific authors and their arguments.)
 _____ 3. Above average (You have read most of the literature relating to this controversy, and therefore, know most of the arguments pro and con.)
 _____ 4. Average (You have read some of the literature and skimmed a substantial portion of the rest and are aware of a large number of arguments pro and con.)
 _____ 5. Slight (You have read some of the literature relating to this controversy but are aware of only a few fundamental arguments pro and con.)
 _____ 6. None (You cannot recall having read any of the literature which discussed this controversy.)

- (b) Depending on your response in part (a) of this question, would you please cite two or three of the publications (title of article, manuscript, etc.) which you have read which relate to the controversy surrounding pooling and purchase accounting?

1. _____
 2. _____
 3. _____

THE POST-EXPOSURE DRAFT QUESTIONNAIRE

CPA SURVEY QUESTIONNAIRE II

PART I

A series of fourteen statements is set forth below. Each statement relates to the concept of pooling-of-interests accounting. Would you please read each statement and select those three with which you must agree. Indicate which three statements you have chosen by placing an "X" in the blank in front of the number identifying each of these statements.

- | | |
|--|--|
| <p>____ 1. Not all business combinations are exchange transactions. Therefore, pooling of interests should be used in those situations where firms have combined but an exchange transaction hasn't taken place.</p> <p>____ 2. Pooling of interests accounting for business combinations is preferable to purchase accounting because a pooling of interests results in similar values (historical cost less depreciation) being shown for all the assets of the combined entity.</p> <p>____ 3. Pooling treatment in business combinations results in a significant understatement of asset values in the financial statements.</p> <p>____ 4. It's difficult to find even one journal article giving much support to pooling-of-interests, so how can the profession continue to give support to this accounting procedure?</p> <p>____ 5. Pooling-of-interests accounting is a curse upon the profession.</p> <p>____ 6. In the large majority of mergers and consolidations one of the parties can clearly be described as being dominate and therefore, can be considered to have purchased the other firm(s) involved. Thus, in the large majority of cases pooling is inappropriate.</p> | <p>____ 7. Pooling of interests accounting should not be used because circumstances conducive to its use do not exist.</p> <p>____ 8. The rapid growth in the use of pooling in the last ten years simply supports the fact that this method is, by far, the best means for accounting for business combinations.</p> <p>____ 9. I'd give up my practice before I'd admit that pooling should be eliminated by the profession.</p> <p>____ 10. Pooling-of-interest accounting is easier to implement than purchase accounting because it doesn't require subjective asset valuations. Therefore, pooling-of-interests should be encouraged.</p> <p>____ 11. The pooling concept has been abused, but there are situations in which it would appear that pooling is an appropriate means for accounting for business combinations.</p> <p>____ 12. Pooling does have a few drawbacks.</p> <p>____ 13. I don't care whether business combinations are treated as poolings-of-interests or purchases or both.</p> <p>____ 14. The purchase approach of accounting for business combinations should be immediately abandoned in favor of the pooling approach.</p> |
|--|--|

PART II

Please answer the following questions as indicated in the body of each question.

- | | |
|--|---|
| <p>15. (a) Do you recall having seen a set of published financial statements where the auditors, either in their report or in a footnote, stated that the client had employed an accounting principle which represented a material departure from an APB Opinion, but that the auditors stated that they believed that substantial authoritative support existed for the departure, and on this basis they issued an unqualified opinion?
Yes _____ No _____</p> <p>(b) If your answer is yes, would you please indicate the name of the corporation or corporations involved and the year(s) covered by the financial statements.
(1) Name of corporation(s) _____

(2) Year(s) _____</p> <p>16. (a) Are you a member of any professional accounting organizations or societies other than the AICPA? (For example, The American Accounting Association, The National Association of Accountants, The Financial Executives Institute, a state society of CPAs, etc.)
Yes _____ No _____</p> <p>(b) If your reply to 16 (a) is yes, would you please list these organizations in the spaces provided below?

_____</p> | <p>17. (a) Have you attended any national, regional or state conventions or meetings (see definitions below*) of professional accounting organizations or societies during the last 12 months?
Yes _____ No _____</p> <p><i>*In answering this question, employ the following definitions:</i>
<i>National meeting</i> — Where those in attendance came from all parts of the country.
<i>Regional meeting</i> — Where those in attendance came from several states in one region of the country.
<i>State meeting</i> — Where those in attendance came from all parts of a particular state.</p> <p>(b) If your answer to 17 (a) is yes, would you please indicate the number of these meetings and conventions you have attended in the last year by placing the appropriate number opposite each of the categories listed below?
National _____ Regional _____ State _____</p> <p>18. (a) Have you attended any meetings of local (see definition below*) professional accounting organizations or societies or meetings of local chapters of national, regional or state organizations or societies since December, 1969?
Yes _____ No _____</p> <p><i>*In answering this question, employ the following definition:</i>
<i>Local meeting</i> — Where those in attendance came from a restricted contiguous area. For example, a local chapter of the NAA or a local chapter of a state society, etc.</p> <p>(b) If your answer to 18(a) is yes, would you please indicate the number of such meetings you have attended since December, 1969?
Number of local meetings _____</p> |
|--|---|

(Continue on reverse side)

THE POST-EXPOSURE DRAFT QUESTIONNAIRE (Cont'd.)

19. (a) How many times in the last six months have the duties involved in your work required you to travel out of town?

- (b) What was the total amount of time spent on the out-of-town assignments in the last six months?

20. (a) Aside from official out-of-town professional activities relating to your work, do you ever drop in at other CPA firms or call on former associates when you are in other cities? Yes _____ No _____
- (b) If your answer to 20 (a) is yes, how many times has this happened in the last six months?

21. (a) When you need information or guidance about problems involving accounting or auditing matters, to which of the following do you usually turn? (Place an "X" in front of those items which are most appropriate.)

LITERATURE SOURCES:

- _____ 1. AICPA publications.
- _____ 2. Publications of national professional accounting organizations other than the AICPA. For example, the Accounting Review, the NAA Bulletin, etc.
- _____ 3. Publications of your state society of CPA's.
- _____ 4. Publications of your firm.
- _____ 5. Reference books.
- _____ 6. Other (please specify) _____

PERSONAL SOURCES:

- _____ 7. Professional associates from the office in which you are employed.
- _____ 8. Professional associates from within your firm but located in other cities.
- _____ 9. Professional associates from other firms located within your city.
- _____ 10. Professional associates from other firms located in other cities.
- _____ 11. Other (please specify) _____

- (b) Which of the information sources that you have checked in part (a) of this question has proven most valuable to you? Second most valuable? Third most valuable? (Respond by placing a 1, 2, and 3 respectively in front of the appropriate items listed in part (a).)

22. To what extent do you seek counsel or guidance on professional matters relating to accounting or auditing problems from other individuals at national, regional, state, or local professional association meetings? (Respond by placing an "X" opposite the appropriate response under each of the four headings.)

	National Meetings	Regional Meetings	State Meetings	Local Meetings
Never	_____	_____	_____	_____
Infrequently	_____	_____	_____	_____
Occasionally	_____	_____	_____	_____
Frequently	_____	_____	_____	_____

23. To what extent do you think the presentation of papers at these meetings has been of value to you in your work? (Please check appropriate response.)

Never	Occasionally
_____	_____
Infrequently	Frequently
_____	_____

24. (a) A list of professional accounting journals is presented below. If you subscribe to the journal place an "X" next to the journal under the column headed "Subscribe." If you usually read the journal place an "X" beside the journal in the column headed "Read Usually." If you occasionally read the journal place an "X" in that column. If you neither subscribe to nor read the journal leave the blanks unchecked.

	Subscribe	Read Usually	Read Occasionally
1. The Accounting Review	_____	_____	_____
2. The Journal of Accountancy	_____	_____	_____
3. Management Services	_____	_____	_____
4. The Federal Accountant	_____	_____	_____
5. The Financial Executive	_____	_____	_____
6. The Internal Auditor	_____	_____	_____
7. The NAA Bulletin	_____	_____	_____
8. Journal of your state society	_____	_____	_____
9. Publications of your firm	_____	_____	_____
10. Others (please specify)	_____	_____	_____
11. _____	_____	_____	_____
12. _____	_____	_____	_____
13. _____	_____	_____	_____
14. _____	_____	_____	_____

- (b) Which publication cited in part (a) of this question has proven most useful to you in your work? Second most useful? Third most useful? (Respond by placing a 1, 2, and 3 respectively in front of the appropriate items listed in part (a).)

25. What position do you hold in the firm which employs you?

Individual practitioner	_____	Senior	_____
Partner	_____	Semi-Senior	_____
Principal	_____	Junior	_____
Manager	_____	Other (please specify title)	_____

26. Please place an "X" in the space beside the category which corresponds to your age.

_____ A. 20 through 25 years	_____ E. 41 through 50 years
_____ B. 26 through 30 years	_____ F. 51 through 55 years
_____ C. 31 through 35 years	_____ G. Over 55 years
_____ D. 36 through 40 years	

(Continue on next page)

THE POST-EXPOSURE DRAFT QUESTIONNAIRE (Cont'd.)

27. Place an "X" in the blank next to the category which corresponds to the amount of formal education you have completed.
- | | |
|--|---|
| <input type="checkbox"/> A. Grade school or less | <input type="checkbox"/> D. Some college |
| <input type="checkbox"/> B. Some high school | <input type="checkbox"/> E. Graduated from college |
| <input type="checkbox"/> C. Graduated from high school | <input type="checkbox"/> F. Some graduate schooling |
28. Please place an "X" in the blank next to the category which corresponds to the number of years that have elapsed since you received your first CPA Certificate.
- | | |
|---|---|
| <input type="checkbox"/> A. 0 through 3 years | <input type="checkbox"/> D. 10 through 15 years |
| <input type="checkbox"/> B. 4 through 6 years | <input type="checkbox"/> E. 16 through 25 years |
| <input type="checkbox"/> C. 7 through 9 years | <input type="checkbox"/> F. over 26 years |
29. In your present position, how many people do you directly supervise on the average? _____
30. (a) Approximately how many staff men (auditors, tax specialists, management services, etc.) are employed by the firm for which you work? _____
- (b) Approximately how many staff men are employed within the office in which you work? _____
- (c) What is the approximate size of the population in the city where your office is located? _____
31. Have you had an opportunity to read the Exposure Draft of the proposed Opinion on Business Combinations and Intangible Assets released by the AICPA on February 23, 1970?
- Yes _____ No _____
32. What probability would you attach to the likelihood that this Exposure Draft on Business Combinations and Intangible Assets will, with few minor alterations, become a formal Opinion of the APB? (Please respond by placing an "X" in the space opposite the percentage range which corresponds to your answer.)
- | | |
|---|--|
| <input type="checkbox"/> 0 - 10 Per cent | <input type="checkbox"/> 51 - 60 Per cent |
| <input type="checkbox"/> 11 - 20 Per cent | <input type="checkbox"/> 61 - 70 Per cent |
| <input type="checkbox"/> 21 - 30 Per cent | <input type="checkbox"/> 71 - 80 Per cent |
| <input type="checkbox"/> 31 - 40 Per cent | <input type="checkbox"/> 81 - 90 Per cent |
| <input type="checkbox"/> 41 - 50 Per cent | <input type="checkbox"/> 91 - 100 Per cent |

THE QUESTIONNAIRE TO TEST FOR SENSITIZING OF RESPONDENTS IN THE MAIN SAMPLE

CPA SURVEY QUESTIONNAIRE

A series of fourteen statements is set forth below. Each statement relates to the concept of pooling-of-interests accounting. Would you please read each statement and select those three with which you most agree. Indicate which three statements you have chosen by placing an "X" in the blank in front of the number identifying each of these statements.

- | | |
|--|--|
| <p>____ 1. Not all business combinations are exchange transactions. Therefore, pooling-of-interests should be used in those situations where firms have combined but an exchange transaction hasn't taken place.</p> | <p>____ 7. Pooling-of-interests accounting should not be used because circumstances conducive to its use do not exist.</p> |
| <p>____ 2. Pooling-of-interests accounting for business combinations is preferable to purchase accounting because a pooling of interests results in similar values (historical cost less depreciation) being shown for all the assets of the combined entity.</p> | <p>____ 8. The rapid growth in the use of pooling in the last ten years simply supports the fact that this method is, by far, the best means for accounting for business combinations.</p> |
| <p>____ 3. Pooling treatment in business combinations results in a significant understatement of asset values in the financial statements.</p> | <p>____ 9. I'd give up my practice before I'd admit that pooling should be eliminated by the profession.</p> |
| <p>____ 4. It's difficult to find even one journal article giving much support to pooling-of-interests, so how can the profession continue to give support to this accounting procedure?</p> | <p>____ 10. Pooling-of-interest accounting is easier to implement than purchase accounting because it doesn't require subjective asset valuations. Therefore, pooling-of-interests should be encouraged.</p> |
| <p>____ 5. Pooling-of-interests accounting is a curse upon the profession.</p> | <p>____ 11. The pooling concept has been abused, but there are situations in which it would appear that pooling is an appropriate means for accounting for business combinations.</p> |
| <p>____ 6. In the large majority of mergers and consolidations one of the parties can clearly be described as being dominate and therefore, can be considered to have purchased the other firm(s) involved. Thus, in the large majority of cases pooling is inappropriate.</p> | <p>____ 12. Pooling does have a few drawbacks.</p> |
| | <p>____ 13. I don't care whether business combinations are treated as poolings-of-interests or purchases or both.</p> |
| | <p>____ 14. The purchase approach of accounting for business combinations should be immediately abandoned in favor of the pooling approach.</p> |

THE POST-FORMAL OPINION QUESTIONNAIRE

CPA SURVEY QUESTIONNAIRE II

A series of fourteen statements is set forth below. Each statement relates to the concept of pooling-of-interests accounting. Would you please read each statement and select those *three* with which you most agree. Indicate which three statements you have chosen by placing an "X" in the blank in front of the number identifying each of these statements.

- | | |
|--|--|
| <p>____ 1. Not all business combinations are exchange transactions. Therefore, pooling-of-interests should be used in those situations where firms have combined but an exchange transaction hasn't taken place.</p> <p>____ 2. Pooling-of-interests accounting for business combinations is preferable to purchase accounting because a pooling of interests results in similar values (historical cost less depreciation) being shown for all the assets of the combined entity.</p> <p>____ 3. Pooling treatment in business combinations results in a significant understatement of asset values in the financial statements.</p> <p>____ 4. It's difficult to find even one journal article giving much support to pooling-of-interests, so how can the profession continue to give support to this accounting procedure?</p> <p>____ 5. Pooling-of-interests accounting is a curse upon the profession.</p> <p>____ 6. In the large majority of mergers and consolidations one of the parties can clearly be described as being dominant and therefore, can be considered to have purchased the other firm(s) involved. Thus, in the large majority of cases pooling is inappropriate.</p> | <p>____ 7. Pooling-of-interests accounting should not be used because circumstances conducive to its use do not exist.</p> <p>____ 8. The rapid growth in the use of pooling in the last ten years simply supports the fact that this method is, by far, the best means for accounting for business combinations.</p> <p>____ 9. I'd give up my practice before I'd admit that pooling should be eliminated by the profession.</p> <p>____ 10. Pooling-of-interest accounting is easier to implement than purchase accounting because it doesn't require subjective asset valuations. Therefore, pooling-of-interests should be encouraged.</p> <p>____ 11. The pooling concept has been abused, but there are situations in which it would appear that pooling is an appropriate means for accounting for business combinations.</p> <p>____ 12. Pooling does have a few drawbacks.</p> <p>____ 13. I don't care whether business combinations are treated as poolings-of-interests or purchases or both.</p> <p>____ 14. The purchase approach of accounting for business combinations should be immediately abandoned in favor of the pooling approach.</p> |
|--|--|

PART II

Please answer the following questions as indicated in the body of each question.

- | | |
|--|--|
| <p>15. (a) Do you recall having seen a set of published financial statements where the auditors, either in their report or in a footnote, stated that the client had employed an accounting principle which represented a material departure from an APB Opinion, but that the auditors stated that they believed that substantial authoritative support existed for the departure, and on this basis they issued an unqualified opinion?
Yes _____ No _____</p> <p>(b) If your answer is yes, would you please indicate the name of the corporation or corporations involved and the year(s) covered by the financial statements.
(1) Name of corporation(s) _____

(2) Year(s) _____</p> <p>16. (a) Are you a member of any professional accounting organizations or societies other than the AICPA? (For example, The American Accounting Association, The National Association of Accountants, The Financial Executives Institute, a state society of CPAs, etc.)
Yes _____ No _____</p> <p>(b) If your reply to 16 (a) is yes, would you please list these organizations in the spaces provided below?

_____</p> | <p>17. (a) Have you attended any national, regional or state conventions or meetings (see definitions below*) of professional accounting organizations or societies during the last 12 months?
Yes _____ No _____</p> <p><i>*In answering this question, employ the following definitions:</i>
<i>National meeting</i> — Where those in attendance came from all parts of the country.
<i>Regional meeting</i> — Where those in attendance came from several states in one region of the country.
<i>State meeting</i> — Where those in attendance came from all parts of a particular state.</p> <p>(b) If your answer to 17 (a) is yes, would you please indicate the number of these meetings and conventions you have attended in the last year by placing the appropriate number opposite each of the categories listed below?
National _____ Regional _____ State _____</p> <p>18. (a) Have you attended any meetings of local (see definition below*) professional accounting organizations or societies or meetings of local chapters of national, regional or state organizations or societies since December, 1969?
Yes _____ No _____</p> <p><i>*In answering this question, employ the following definition:</i>
<i>Local meeting</i> — Where those in attendance came from a restricted contiguous area. For example, a local chapter of the NAA or a local chapter of a state society, etc.</p> <p>(b) If your answer to 18 (a) is yes, would you please indicate the number of such meetings you have attended since December, 1969?
Number of local meetings _____</p> |
|--|--|

(Continue on reverse side)

THE POST-FORMAL OPINION QUESTIONNAIRE (Cont'd.)

19. (a) How many times in the last six months have the duties involved in your work required you to travel out of town? _____
- (b) What was the total amount of time spent on the out-of-town assignments in the last six months? _____

20. (a) Aside from official out-of-town professional activities relating to your work, do you ever drop in at other CPA firms or call on former associates when you are in other cities? Yes _____ No _____

- (b) If your answer to 20 (a) is yes, how many times has this happened in the last six months? _____

21. (a) When you need information or guidance about problems involving accounting or auditing matters, to which of the following do you usually turn? (Place an "X" in front of those items which are most appropriate.)

LITERATURE SOURCES:

- _____ 1. AICPA publications.
- _____ 2. Publications of national professional accounting organizations other than the AICPA. For example, the Accounting Review, the NAA Bulletin, etc.
- _____ 3. Publications of your state society of CPA's.
- _____ 4. Publications of your firm.
- _____ 5. Reference books.
- _____ 6. Other (please specify) _____

PERSONAL SOURCES:

- _____ 7. Professional associates from the office in which you are employed.
- _____ 8. Professional associates from within your firm but located in other cities.
- _____ 9. Professional associates from other firms located within your city.
- _____ 10. Professional associates from other firms located in other cities.
- _____ 11. Other (please specify) _____

- (b) Which of the information sources that you have checked in part (a) of this question has proven most valuable to you? Second most valuable? Third most valuable? (Respond by placing a 1, 2, and 3 respectively in front of the appropriate items listed in part (a)).

22. To what extent do you seek counsel or guidance on professional matters relating to accounting or auditing problems from other individuals at national, regional, state, or local professional association meetings? (Respond by placing an "X" opposite the appropriate response under each of the four headings.)

	National Meetings	Regional Meetings	State Meetings	Local Meetings
Never	_____	_____	_____	_____
Infrequently	_____	_____	_____	_____
Occasionally	_____	_____	_____	_____
Frequently	_____	_____	_____	_____

23. To what extent do you think the presentation of papers at these meetings has been of value to you in your work? (Please check appropriate response.)

Never _____ Occasionally _____

Infrequently _____ Frequently _____

24. (a) A list of professional accounting journals is presented below. If you *subscribe* to the journal place an "X" next to the journal under the column headed "Subscribe." If you *usually read* the journal place an "X" beside the journal in the column headed "Read Usually." If you *occasionally read* the journal place an "X" in that column. If you neither subscribe to nor read the journal leave the blanks unchecked.

	Subscribe	Read Usually	Read Occasionally
1. The Accounting Review	_____	_____	_____
2. The Journal of Accountancy	_____	_____	_____
3. Management Services	_____	_____	_____
4. The Federal Accountant	_____	_____	_____
5. The Financial Executive	_____	_____	_____
6. The Internal Auditor	_____	_____	_____
7. Management Accounting	_____	_____	_____
8. Journal of your state society	_____	_____	_____
9. Publications of your firm	_____	_____	_____
10. Others (please specify)	_____	_____	_____
11. _____	_____	_____	_____
12. _____	_____	_____	_____
13. _____	_____	_____	_____
14. _____	_____	_____	_____

- (b) Which publication cited in part (a) of this question has proven most useful to you in your work? Second most useful? Third most useful? (Respond by placing a 1, 2, and 3 respectively in front of the appropriate items listed in part (a)).

25. What position do you hold in the firm which employs you?
- | | | |
|-------------------------|-------|------------------------------------|
| Individual practitioner | _____ | Senior _____ |
| Partner | _____ | Semi-Senior _____ |
| Principal | _____ | Junior _____ |
| Manager | _____ | Other (please specify title) _____ |

26. Please place an "X" in the space beside the category which corresponds to your age.

_____ A. 20 through 25 years	_____ E. 41 through 50 years
_____ B. 26 through 30 years	_____ F. 51 through 55 years
_____ C. 31 through 35 years	_____ G. Over 55 years
_____ D. 36 through 40 years	

(Continue on next page)

THE POST-FORMAL OPINION QUESTIONNAIRE (Cont'd.)

27. Place an "X" in the blank next to the category which corresponds to the amount of formal education you have completed.
- | | |
|--|---|
| <input type="checkbox"/> A. Grade school or less | <input type="checkbox"/> D. Some college |
| <input type="checkbox"/> B. Some high school | <input type="checkbox"/> E. Graduated from college |
| <input type="checkbox"/> C. Graduated from high school | <input type="checkbox"/> F. Some graduate schooling |
28. Please place an "X" in the blank next to the category which corresponds to the number of years that have elapsed since you received your first CPA Certificate.
- | | |
|---|---|
| <input type="checkbox"/> A. 0 through 3 years | <input type="checkbox"/> D. 10 through 15 years |
| <input type="checkbox"/> B. 4 through 6 years | <input type="checkbox"/> E. 16 through 26 years |
| <input type="checkbox"/> C. 7 through 9 years | <input type="checkbox"/> F. over 26 years |
29. In your present position, how many people do you directly supervise on the average? _____
30. (a) Approximately how many staff men (auditors, tax specialists, management services, etc.) are employed by the firm for which you work? _____
- (b) Approximately how many staff men are employed within the office in which you work? _____
- (c) What is the approximate size of the population in the city where your office is located? _____
31. Have you had an opportunity to read the Opinions on Business Combinations and Intangible Assets approved for release by the APB on July 31, 1970?
- Yes _____ No _____

CHAPTER IV

RESULTS

4.1 Results of the Test of the Assumption of "Forced Compliance"

A major aspect of Chapter II dealt with theoretical considerations about how a CPA would react to APB Opinions. That discussion established that regardless of his own predisposition toward a particular accounting principle the CPA would allow a client (in those situations where the Board had issued an Opinion on the subject) to employ only accounting principles which had the support of the APB. Even though the Special Bulletin of October, 1964, stated that the auditor could establish that substantial authoritative support did exist for a procedure which represented a material departure from the Board's Opinions, it was assumed that the auditor would not, for various reasons discussed, view this alternative as a viable one open to him. Rather, it was argued in Chapter II that the CPA would try to persuade the client to employ an alternative procedure which had the support of the Board. If he were unsuccessful in this effort the auditor would qualify, disclaim, or issue an adverse opinion in his report.

Employing the data gathered via statements 16 through 20 of the Pre-Opinion Questionnaire, a test was carried out to ascertain the validity of this assumption of "forced compliance." These statements were aimed at determining whether the CPA believes he could allow the client to employ an accounting procedure which represents a material

departure from APB Opinions (but which the CPA believes has substantial authoritative support), or whether he believes such a course of action possesses such grave professional risks so as not to be open to him. In other words, does he believe he is forced to employ only APB recommended procedures where the Board has issued a pronouncement on such procedures?

The data collected on these statements from the 374 initial respondents were analyzed employing a Kolmogorov-Smirnov one sample test. The null hypothesis tested was that the proportion of respondents agreeing and disagreeing with these belief statements is equal. In other words, the null hypothesis assumes that the proportion of individuals viewing this as a situation of forced compliance would not be significantly greater than the proportion who do not view it as a situation of forced compliance. The statistic indicated that this null hypothesis could be rejected at the .01 level of significance. Since the direction of the responses indicated support for the assumption (295 vs. 79), the null hypothesis was rejected in favor of the alternate hypothesis that forced compliance did exist.

Questions 15(a) and (b) appearing on the Post-Exposure Draft Questionnaire and the Post-Formal Opinion Questionnaire were also employed as a basis for assessing whether, in fact, instances of published financial reports existed where the auditor claimed substantial authoritative support for a procedure which represented a material departure from an APB Opinion.

Of the 177 respondents in these two response groups who answered these questions, seven indicated that they had encountered published

financial reports which claimed support for such a material departure. Of the seven affirmative responses, six subjects could not recall the name of the corporation to which these financial reports related. The remaining individual cited Indiana Telephone Corporation as an example of a report where the auditor had claimed support for a material departure from an APB Opinion.

The aspect of Indiana Telephone Corporation's published financial statements which the respondent is apparently pointing to as a departure is the presentation in these statements of financial information adjusted for general price-level changes. This price-level adjusted information is given equal prominence in the statements with historical cost and the adjusted figures are covered by the auditor's opinion.

Rather than getting involved here in an extended discussion of whether, in fact, Indiana Telephone Corporation's financial statements were prepared employing procedures which represented material departures from APB Opinions (or effective Accounting Research Bulletins), let us assume that this is the case. Certainly strong arguments could be developed contradicting this assumption. The point of the discussion here, however, is that even if this treatment does represent a material departure for which the auditor claimed substantial support, it is the only instance of such a situation which could be specifically cited by the 177 subjects who responded to this question.

The fact that only one questionable instance of an auditor claiming substantial authoritative support for a departure could be uncovered (keeping in mind that disclosures of such departures have been required for over six years), adds strong support to the statistical evidence

just presented that auditors believe that they are forced to comply with the pronouncements of the APB, and allow the client to apply only APB approved procedures.

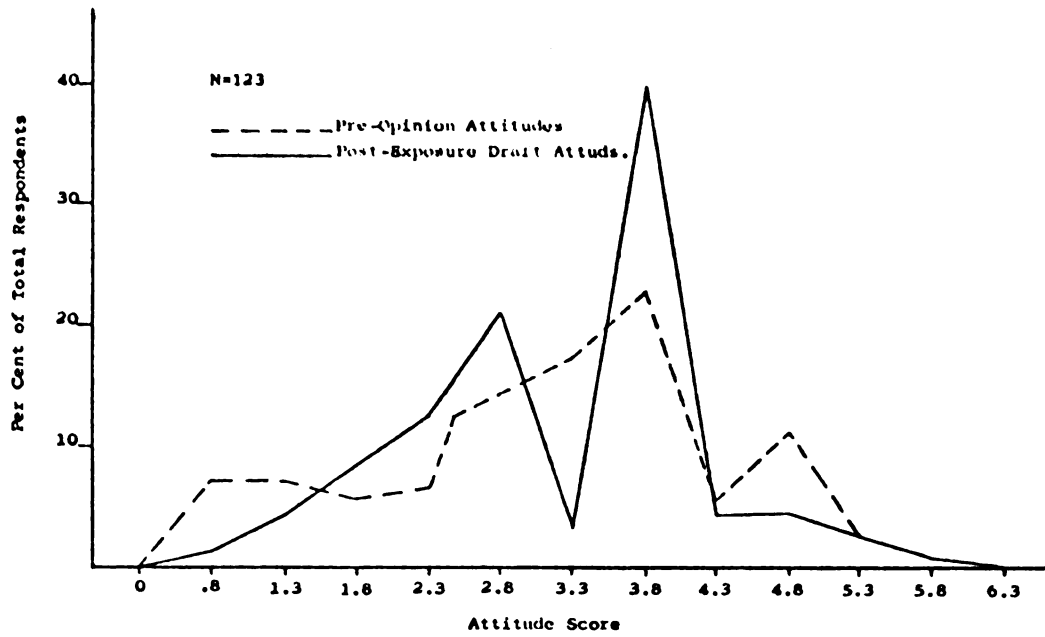
4.2 Results of the Analyses of Attitude Change

As discussed in Chapter II two hypotheses relating to attitude change were examined in this study. These hypotheses were stated as follows:

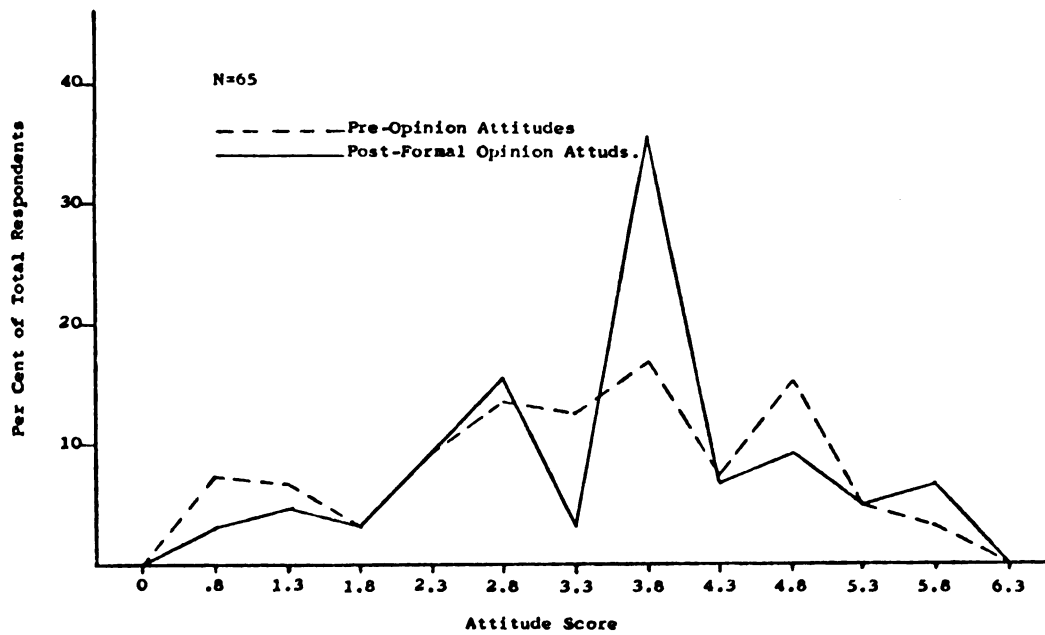
A1: Those subjects whose Pre-Opinion attitudes were unfavorable toward the pooling of interests method will experience a favorable change in attitudes after Opinion No. 16 is released and these changes will be significant.

B1: Those subjects whose Pre-Opinion attitudes were favorable toward the pooling of interests method will experience an unfavorable change in attitudes after Opinion No. 16 is released and these changes will be significant.

Figure V presents the frequency distributions of attitude values for two groups before the release of pronouncements by the APB and after their release. Part (a) of Figure V sets forth the distributions of attitude scores for response group $r_{1,1}$ (the Post-Exposure Draft response group) as measured before the release of the Exposure Draft Opinion on Business Combinations and after its release. Part (b) of this Figure presents the distributions of attitude scores for response group $r_{1,2}$ (the Post-Formal Opinion response group) as measured before the release of the Formal Opinion on Business Combinations, and after its release. (See Figure IV on page 53 for information relating to these two response groups.) A value of 3.3 on the horizontal axis on the charts represents the neutral point on the attitude scale. Values



Graph A - Distribution of Attitude Scores For The Post-Exposure Draft Response Group



Graph B - Distribution of Attitude Scores For The Post-Formal Opinion Response Group

FIGURE V

Frequency Distributions of Pre and Post-Communication Attitude Scores

to the left of this point represent unfavorable attitudes toward the pooling of interests concept. Attitudes become more unfavorable the further one moves to the left from the 3.3 point. Values to the right of the 3.3 point represent favorable attitudes toward pooling with increasingly favorable attitudes being reflected the further one moves to the right of the 3.3 point.

Inspection of the charts contained in Figure V reveals several interesting facts about the effects on attitudes of the respective pronouncements issued by the APB.

First, it should be noted that the average value for the attitude scores of each distribution as measured before the release of each pronouncement (via the Pre-Opinion Questionnaire) does not differ materially from the average value as measured after each pronouncement was released (via the Post-Exposure Draft Questionnaire for Part (a) and the Post-Formal Opinion Questionnaire for Part (b) of Figure V). Application of the Komogrov-Smirnov two-sample test¹ to the data to determine whether the distributions of attitude scores measured before each pronouncement was released was significantly different from the distributions of attitude scores measured after the pronouncements' releases, for each of the two response groups, indicated that the null hypotheses that the distributions were equal in terms of all parameters (central tendency, dispersion, skewness, etc.) could not be rejected. Relative to the Post-Exposure Draft group (graph (a) in Figure V), the analysis indicated that the observed differences between the "pre" and

¹Statistical analysis of each of the four distributions indicated that the responses were not normally distributed. Therefore, this non-parametric test was substituted for the more traditional parametric t test.

"post" distributions of attitudes were not significant at the .10 level.² For the Post-Formal Opinion group (graph (b) in Figure V), the statistic indicated that the differences between the "pre" and "post" distributions of attitudes were likewise not significant at the .10 level. Thus, based on this analysis alone, one would have to conclude that neither the Exposure Draft of the Opinion nor the Formal Opinion itself produced a significant change in attitudes as measured before the release of these communications.

However, further inspection of the frequency distributions indicates that some material differences seem to exist between each of the pre and post-communication distributions of attitudes. First, in both groups the proportion of respondents who maintained an (approximately) indifferent attitude (3.1 to 3.5 category) toward pooling before each communication's release decreased materially after their release. Likewise, the proportion of individuals who professed having extremely unfavorable or extremely favorable attitudes toward pooling declined substantially.

Since both the exposure draft of the Opinion and the formal Opinion itself indicated that in the future the applications of the pooling procedure would apparently be drastically reduced (but that this procedure would not be eliminated from practice), the following changes, as hypothesized, seem to be taking place in attitudes. Those individuals whose pre-communication attitudes were strongly favorable toward pooling, and therefore indicated that they would prefer the use of the

²An alpha level of .10 is being employed in this study as a cut-off for ascertaining whether the differences observed in the data represent true differences in the population.

pooling method of accounting for business combinations under most circumstances, have now received indications from the APB that in the future they may apply the pooling procedure in only a relatively few restricted instances. Thus, in the majority of cases, where in the past the respondent might have allowed the use of pooling of interests, he is now going to have to require the use of purchase method. Unless his attitude changes toward pooling his behavior will now be, in many cases, counter-attitudinal. But, as can be observed, his attitude does change. Since pooling has been restricted, his attitude toward this procedure becomes less favorable. Interestingly, however, since the procedure was not eliminated from practice and could potentially be applied in a few cases, the respondent's attitude after adjustment remains slightly favorable toward this procedure.

Those individuals who maintained an extremely unfavorable attitude toward pooling experience a similar shift in attitudes. Where their attitudes were strongly unfavorable toward pooling before the release of the pronouncements, indicating that their predispositions were to not employ the pooling procedure, they are now told that in certain restricted circumstances (when twelve specific conditions are met) they have no choice except to account for a business combination using pooling of interests. Thus, since under certain limited circumstances they are now required to use pooling their attitudes shift to a position reflecting less unfavorable attitudes toward pooling.

Finally, for those respondents who indicated by their pre-communication attitudes that they were substantially indifferent toward the use of pooling, we observe that subsequent to the release of the

pronouncements they alter these attitudes of indifference to ones which are either slightly favorable or unfavorable.

Of course these observations had to be tested to determine whether these attitude shifts were statistically significant, and to determine whether hypotheses A1 and B1 were supported by the data.

4.2.1 Statistical Tests of Attitude Measures Taken on the Post-Formal Opinion Response Group ($r_{1,2}$)

Relative to the Post-Formal Opinion group (graph (b) of Figure V) the hypotheses were tested as follows. First, the distribution of attitude scores as measured via the Pre-Opinion Questionnaire were broken down into three categories defined thusly:

<u>Attitude Score</u>	<u>Group Identification</u>
Less than 2.6	Unfavorable attitudes
Between 2.6 and 4.0	Indifferent attitudes
Greater than 4.0	Favorable attitudes

The attitude score of each of the individuals within each of these groups was then compared with his attitude score as determined via the Post-Formal Opinion Questionnaire employing the Wilcoxon Matched-Pairs Signed-Ranks test. For the group whose Pre-Opinion attitudes were unfavorable the statistical test indicated that there was a significant change in these attitudes in the direction of being less unfavorable. Specifically, the statistic indicated that one could reject the null hypothesis of no difference between Pre-Opinion unfavorable attitude and Post-Formal Opinion attitude scores with a .0007 probability of

making an error. Hypothesis A1 is therefore confirmed for the Post-Formal Opinion response group.

For the group whose Pre-Opinion attitudes were favorable the same statistical test produced results of similar statistical significance. That is, there was a significant shift in attitudes subsequent to the release of the Formal Opinion in the direction of less favor toward pooling. Here again, the statistic indicated that the null hypothesis of no difference between the Pre-Opinion favorable attitude and Post-Formal Opinion attitude scores could be rejected with a .0056 probability of making an error. Thus, hypothesis B1 is also confirmed for the Post-Formal Opinion response group.

For the group whose Pre-Opinion attitudes reflected relative indifference, application of this Wilcoxon test comparing the Pre-Opinion and Post-Opinion attitude scores established that the attitude changes of this group were not significant. The statistic indicated that if one rejects the null hypothesis of no difference and assumes that the difference observed represents a true difference in the population he would make an error 21 per cent of the time.

4.2.2 Statistical Tests of Attitude Measures Taken on the Post-Exposure Draft Response Group ($r_{1,1}$)

Before discussing the results of the application of the statistical tests to this group of respondents, elaboration on the nature and purpose of an exposure draft of an APB Opinion should be undertaken.

An exposure draft of an Opinion, if published by the APB, has as its purpose the object of receiving comments from the accounting

profession, and other interested parties, relative to a proposed Opinion the APB intends to vote upon. Essentially, the exposure draft presents the Opinion in the form in which the APB expects to vote on it. However, before submitting the proposed Opinion to a vote to decide whether it should be issued or not, the Board sometimes attempts to get feedback on the positions set forth in the proposed Opinion. In these situations it issues what is called an exposure draft of the proposed Opinion and requests interested parties to react to it.

In the past, Opinions voted into effect by the Principles Board have not always been preceded by the circularization of an exposure draft of the Opinion. Therefore, when this study was undertaken there was no basis for determining whether the Opinion which would become the intervening variable in the investigation would be preceded by an exposure draft. Plans were made however to secure measures on attitudes and other relevant variables subsequent to the release of an exposure draft if one should precede the issuance of a formal Opinion. As it turned out, an exposure draft of the Opinion on business combinations was issued in February, 1970. Response group $r_{1,1}$ was employed to secure the information necessary to assess the impact of this exposure draft. It will be recalled from Chapter II that the size of the response group employed in this post-exposure draft circularization was 186, while response groups $r_{1,2}$ and $r_{1,3}$ contained 94 individuals each. The reason a greater number of subjects was included in this response group ($r_{1,1}$) was because expectations were very high subsequent to the release of the exposure draft that a formal Opinion on the subject of business combinations might never be issued. This situation apparently

existed because of the great amount of controversy which surrounded the subject. Thus, on the chance that no further pronouncements would be forthcoming on the subject from the APB, it was decided that in order to gather as much information as possible on the effects of the exposure draft (yet allow enough subjects remaining in case further pronouncements did materialize) that one-half of the subjects who responded to the Pre-Opinion Questionnaire would be employed to gather data on the effects of the exposure draft, while the remaining 50 per cent would be withheld from use to test further pronouncements, if issued.

Statistical testing of the data gathered from the Post-Exposure Draft group was similar to the tests applied to the Post-Formal Opinion group. That is, the distribution of attitude scores as measured via the Pre-Opinion Questionnaire for this subject group were divided into three separate categories as follows:

<u>Attitude Score</u>	<u>Group Identification</u>
Less than 2.6	Unfavorable attitudes
Between 2.6 and 4.0	Indifferent attitudes
Greater than 4.0	Favorable attitudes

Then, comparing the Pre-Opinion attitude scores (as measured in December, 1969, and January, 1970) with the Post-Exposure Draft scores (as measured in May-June, 1970) by means of the Wilcoxon Matched-Pairs Signed-Ranks tests one could determine whether the attitude changes between these two points in time were statistically significant.

Application of this test to the unfavorable group indicated that their attitudes changed to less unfavorable attitudes and that this

change was statistically significant. The probability of observing a chance occurrence of a change as great as the one actually observed was approximately zero.

For the group whose attitudes were favorable toward pooling before the release of the Exposure Draft of the Opinion, the Wilcoxon test indicated that attitudes changed significantly toward a less favorable level. The statistic indicated that this change was significant at approximately the zero level also.

Those individuals whose pre-exposure draft attitudes were substantially indifferent did not experience a significant change in attitudes. The statistic disclosed that if one rejected the null hypothesis of no difference between the pre and post-exposure draft attitude scores he would be rejecting a true hypothesis approximately 22 per cent of the time.

4.2.3 Some Further Statistical Analyses of Attitude Change

The analyses carried out in sections 4.2.1 and 4.2.2 indicate that the attitude changes observed as a result of the issuance of both the Exposure Draft of the Opinion and the Formal Opinion confirm hypotheses A1 and B1. The subjects in both cases altered their unfavorable attitudes toward pooling to positions reflecting less unfavorability, and those who possessed favorable attitudes experienced a reduction in the favorability of their attitudes. In other words, for those individuals comprising the tails of the distributions the effect of the issuance of these pronouncements was to cause these people to moderate their pre-pronouncement attitudes.

For the subjects whose pre-communication attitudes essentially reflected indifference toward pooling, we observed in both the Post-Exposure Draft and Post-Formal Opinion groups that these attitudes of indifference generally become either slightly favorable or slightly unfavorable after each communication was released by the APB, but these attitude changes were not statistically significant.

To ascertain whether these non-significant changes in attitudes which were observed in the indifferent groups would swamp the significant attitude changes observed in the favorable and unfavorable groups some additional statistical analyses were carried out.

For this analysis the distribution of pre-communication attitudes in each response group (Post-Exposure Draft and Post-Formal Opinion) was broken down into two categories as indicated below:

<u>Attitude Score</u>	<u>Group Identification</u>
Less than 3.3	Unfavorable attitudes
Greater than 3.3	Favorable attitudes

The Wilcoxon Matched-Pairs Signed-Ranks test was then applied to the data comparing the pre-communication attitudes for each response group ($r_{1,1}$ and $r_{1,2}$) with their post-communication attitude scores.

For those individuals whose pre-communication attitudes were unfavorable (<3.3), in both the Post-Exposure Draft and Post-Formal Opinion Groups, a statistically significant attitude change is observed and it is in the direction of less unfavorable attitudes. For both response groups the null hypotheses of no difference could be rejected with effectively a zero probability of making an error.

For respondents whose pre-communication attitudes were favorable (>3.3) a statistically significant change in attitudes in the direction of less favorability was observed. For both the Exposure-Draft and Post-Opinion response groups the null hypotheses of no difference could be rejected with approximately a zero probability of making an error.

One can therefore see that when the pre-communication attitudes are broken down into two categories, rather than three, for testing purposes, statistical significance is still obtained when examining the changes in attitudes which take place. Essentially, these analyses point out the fact that the attitude changes taking place among the individuals in the tails of the distribution are so great as to swamp the non-significant changes which are being observed in the (indifference) group in the middle of the distributions.

4.2.4 Discussion of Attitude Changes Observed in Response Groups

$r_{1,1}$ and $r_{1,2}$

As was discussed earlier, during the developmental stages of this investigation there was no means available for determining whether APB Opinion No. 16 would be preceded in time by a circularization of an exposure draft of that Opinion. In fact, there were some indications that the cost of issuing exposure drafts of earlier Opinions had been so great as to cause the Board to question whether the benefits received from this process justified the large expenditure of resources required to undertake it. Based upon these factors, the design of this research project anticipated that there was a high probability that an exposure draft would not precede the formal Opinion and thus,

no hypotheses were developed relative to the impact of an exposure draft on attitudes. However, contingency plans were laid which provided for means of assessing the impact of an exposure draft given the apparent slight probability that one would be issued.

Assuming that the design of the research had anticipated the issuance of an exposure draft of the proposed Opinion, any hypotheses developed relative to attitude change would likely have predicted no significant attitude change would occur upon the issuance of the exposure draft.

It has, in fact, been determined here that a comparison of the Pre-Opinion distribution of attitudes and the Post-Exposure Draft distribution of attitudes indicates that no significant change took place in attitudes, when compared on an overall basis, after the issuance of the Exposure Draft Opinion. But, of course, the earlier discussion points out that we would not have anticipated any significant changes when undertaking such a comparison, since the Exposure Draft did not anticipate the elimination from practice of an accounting procedure, but rather anticipated that the procedure's application would be restricted in the future. Thus the hypotheses relevant to the impact of the Exposure Draft would have involved speculation about how components of this group (rather than the overall group) would have been affected by the Exposure Draft of the Opinion. But, here again, the hypotheses probably would have predicted that no significant change in attitudes would be observed as the result of the issuance of the Exposure Draft when analyzing segments of the distribution of the Pre-Opinion attitudes of this group of respondents. In other words, one

would not have expected the respondents whose Pre-Opinion attitudes were favorable or unfavorable to react in any systematic or significant manner to the release of the Exposure Draft. The primary reason no significant attitude changes would have been expected to occur upon the Exposure Draft's release are as follows:

Section 2.6.3 of Chapter II would appear to suggest this conclusion of no change emanating from the Exposure Draft. Not only is the Exposure Draft not a formal Opinion, and therefore not binding in practice, but the section cited suggests that the CPA may not be placed in a dissonant situation until he actually has to choose between the alternatives covered by the Opinion in a work-related situation.

Of course the analysis in Sections 4.2.2 and 4.2.3 of this Chapter presented evidence that attitudes did change significantly for some of the elements of the Post-Exposure Draft response group. Thus the probable hypotheses of no significant change in favorable and unfavorable attitudes in this response group would not have been supported by the data. It is because significant attitude changes were observed in not only the Post-Formal Opinion response group but also in this Post-Exposure Draft response group that the third response group ($r_{1,3}$; which was to be circularized six months after the Post-Formal response group was contacted) was not asked to respond to a questionnaire. The original reason for introducing response group $r_{1,3}$ was based on the evidence presented in Section 2.6.3 of Chapter II that there was a possibility that attitudes would not change until the CPA was forced to work with the procedures covered by the Opinion. The evidence accumulated on response groups $r_{1,1}$ and $r_{1,2}$ establish that attitudes do, in fact, change prior to such a point in time. Therefore, the data

collected from these latter two response groups precluded the need of collecting information from the individuals in $r_{1,3}$.

An interesting, and unexpected finding of this study is the extent to which Pre-Opinion attitudes changed subsequent to the release of the Exposure Draft of the Opinion. The major changes in attitudes were expected, at the earliest, to occur after the release of the Formal Opinion (since it is the issuance of this pronouncement and not the Exposure Draft which makes the changes in application of accounting procedures binding upon the practitioners) and possibly not until sometime later when the auditor is faced with a situation in his work where he has to employ the procedures discussed in the Opinion. In fact, analysis of the data secured from the two response groups indicates that the amount of attitude change which occurred after the release of each of the pronouncements was not significantly different. Comparison of the Post-Exposure Draft and Post-Formal Opinion distributions of attitude scores (as measured after each communication was released by the APB) employing a Kolmogorov-Smirnov two-sample test indicated that the differences between these two distributions of attitude scores was not statistically significant at the .10 level. Additionally, although the attitude change observed after the release of Opinion No. 16 was, on the average, slightly greater than the attitude change which transpired after the release of the Exposure Draft, comparisons of the distributions of absolute changes in attitudes which occurred in each of these two response groups, employing the same Kolmogorov-Smirnov two-sample test, produced results indicating that differences in the average amount of attitude change experienced by the respondents in each of the groups was not statistically significant at the .10 level.

Since there are no statistically significant differences in the distributions of attitude scores, as measured after the release of each communication, or in the distribution of changes in attitudes which took place in the two response groups as the result of the release of these communications, one can probably conclude that the Exposure Draft was the agent producing the attitude changes observed in this study, and not the Formal Opinion.

An additional dimension of attitude change within the Post-Exposure Draft group was explored in the study. As was pointed out earlier, the a priori expectation was that an exposure draft of an Opinion would not have a significant impact on those subsets of individuals who maintained favorable and unfavorable attitudes toward pooling prior to the release of such a draft (of course, the preceding analyses proved this to be incorrect). However, it seemed possible, ex ante, that the attitude changes that might be observed might be related to the probability the respondent might attach to the likelihood that the exposure draft would eventually be released as a formal Opinion with few or minor alterations. It seemed logical to expect that a positive relationship might exist between attitude change and the respondent's perceived probability that the Exposure Draft, essentially as issued, would become a formal Opinion. Item number 32 on the Post-Exposure Draft Questionnaire attempted to secure information about this perceived probability. Analysis comparing this probability to the attitude change experienced, employing the contingency coefficient test, indicated the association observed (contingency coefficient: $C = .24$) between these two variables was significant at the .20 level but not significant at the .10 level. In other words,

the association observed between those two variables could be expected as a chance occurrence at least 10 per cent of the time but less than 20 per cent of the time.

Since the significance level being maintained in this study is .10, the conclusion here is that there is no significant association between the respondent's perceived expectation of the Exposure Draft becoming the Formal Opinion and the amount of attitude change experienced. However, if one were willing to take the risk of being wrong slightly more than 10 per cent of the time he could conclude that there was a significant association between these two variables and on this basis have at least a partial explanation for attitudes changing significantly subsequent to the release of the Exposure Draft but before the release of the Formal Opinion.

The data collected on the $r_{1,1}$ response group indicated that 79 per cent of the respondents placed a probability of .51 or greater on the likelihood that the Exposure Draft would (with few minor alterations) be issued as a formal Opinion, while 55 per cent placed a probability of .71 or greater on this likelihood. Thus, given that one is willing to conclude that the relationship between the probability and attitude change is significant and given that most of the respondents expected the Exposure Draft to be issued as the Formal Opinion, then the significant attitude changes observed after the release of the Exposure Draft is not so surprising. Most respondents apparently viewed it as essentially a formal Opinion so, as a result, significant attitude changes were observed after its release. This result might be reinforced by the fact that relative to the fifteen Opinions issued prior to the one examined in this study, in those situations where the APB

preceded the issuance of a formal Opinion by an exposure draft, few changes were ever made in the exposure draft when it was eventually released as a formal Opinion. As a result, CPA's may now be assuming that little change will be made in an exposure draft before it is issued as a formal Opinion and they may have come to view any exposure draft as tantamount to a formal Opinion.

4.3 Attitude Change as a Function of the Importance of the Issue to the Respondent

Hypothesis C1 and Section 3.4.2. of Chapter III specifically, and Chapter II generally, set forth the expectation in this study that there would be a positive relationship between the attitude change experienced by each respondent, and the importance he attaches to the need for the profession to resolve the issues, and thus settle the controversy, surrounding the use of the pooling of interests procedure. As indicated on page 33, Festinger's theory states that "...the magnitude of the dissonance (experienced by the individual) will be a function of the importance of the (cognitions). The more these (cognitive) elements are important to, or valued by the person, the greater will be the magnitude of a dissonant relation between them." (10:16). Therefore, the greater will be the pressure to reduce the dissonance and, presumably, the greater will be the attitude change arising out of the dissonance reduction process.

Item number 15 on the Pre-Opinion Questionnaire was presented to the subjects in the Pre-Opinion response group (R_1) and is assumed to represent a measure of the amount of importance the respondent attaches

to the issues surrounding the pooling or purchase controversy, and indirectly, to his cognitions about these issues.

Recall that the information obtained from this response group (R_1) was secured prior to the release of any pronouncements by the APB on the subject of business combinations and pooling. The information obtained from this question on importance of the issue to the respondent was then compared to the attitude change experienced by the respondents in each of the Post-Exposure Draft ($r_{1,1}$) and Post-Formal Opinion ($r_{1,2}$) response groups. The measure of the association between the importance of the issue and attitude change was determined employing the Spearman rank correlation statistical technique.

For the Post-Exposure Draft response group this analysis produced a correlation coefficient of .05. Tests of significance indicated that the null hypothesis of no association between the two variables being examined could not be rejected at the .10 level ($t = .57$, with 121 degrees of freedom).

Relative to the Post-Formal Opinion response group the correlation coefficient generated was .14. Further tests indicated that this coefficient was not significant at the .10 level ($t = 1.10$, with 63 degrees of freedom). In other words, as with the Post-Exposure Draft group, the null hypothesis of no association between the two variables could not be rejected at the .10 level.

A hasty conclusion would lead one to reject hypothesis C1 which postulated a positive relationship between these variables. However, further analysis of the response patterns to question 15, which presumably measured the importance of the issue to each respondent,

suggests that this conclusion may be inappropriate. Table I presents a profile of the responses of the subjects in each of these groups, $r_{1,1}$ and $r_{1,2}$, to question 15 on the Pre-Opinion Questionnaire. Inspection of the values in the table reveals that a great majority of the respondents in each group agreed that the issues involved in the controversy surrounding the use of the pooling or purchase methods in accounting for business combinations are so important that they must be resolved soon by the profession. Over 90 per cent of the subjects in each group agreed at least slightly with this position. Approximately 80 per cent agreed at least moderately and over 50 per cent of each group agreed strongly. Because of the unanimity of opinion among the respondents on the importance of the issues, and the resultant gravitation of the large majority of respondents into the higher two of the seven categories, the measures secured on this variable produced a

TABLE I

Profile of Responses to Item Number 15 on the
Pre-Opinion Questionnaire

<u>Response</u> <u>Category</u>	<u>Category</u> <u>Number</u>	<u>Post-Exposure</u> <u>Draft Response</u> <u>Group ($r_{1,1}$)</u>	<u>Post-Formal</u> <u>Opinion Response</u> <u>Group ($r_{1,2}$)</u>
Disagree: Strongly	1	100.0%*	100.0%*
Moderately	2	100.0	98.5
Slightly	3	95.9	97.0
Neutral	4	92.6	95.5
Agree: Slightly	5	90.2	92.5
Moderately	6	81.3	78.7
Strongly	7	52.8	51.0

* Table value represents cumulative percentage of responses in that category plus all higher categories.

distribution of responses with a very low variance. Essentially, the respondents as measured on this variable had approximately the same scores. Of course when one then attempts to compare these values with the scores on attitude change (which varied over a range of approximately 0 to 4, with few respondents experiencing the same amount of change) in order to get an assessment of the association between the two variables, the results are going to indicate a lack of association. But this probably results not from a true lack of association, but from the fact that one of the measures, in the case at hand, is essentially invariant while the other is not.

Although the Spearman rank correlation test suggests no association, partly because of the factors just discussed and partly because, in fact, significant attitude changes were observed in each of the two response groups, a more appropriate conclusion might be that an association does exist between these two variables: importance of the issue and attitude change. This conclusion seems appropriate for several reasons. Firstly, significant attitude changes were unexpectedly observed in the Post-Exposure Draft response group. This could be partially explained based on the fact that such a large percentage of the respondents in this group viewed the issues as significant, and as a result experienced substantial dissonance when faced with a pronouncement which did not support their prior opinions on the issues. Secondly, this conclusion would seem to reinforce, and be reinforced by, the findings contained in the section which immediately preceded this one. That is, a large majority of respondents believed that the Exposure Draft of the Opinion essentially represented the Formal Opinion. Coupled with the fact that an even greater percentage perceived the issues

involved as very important, an explanation of the unexpected significant attitude changes could be structured. The respondents whose prior attitudes were favorable toward pooling found that the Exposure Draft would limit (and probably reduce) the number of situations where they could employ the pooling procedure. Those subjects whose prior attitudes were unfavorable toward pooling found that now they would be required to employ the pooling procedure when certain conditions are met. Since the large majority of these individuals perceived of the Exposure Draft as the Formal Opinion, and therefore binding upon them, they were immediately placed in a dissonant state. That is, their attitudes were in conflict with the new behavior required by the pronouncement. Since they also viewed the issues involved as very important, the dissonance experienced was stronger than it otherwise would have been. Thus, the drive to reduce the dissonance was commensurately strong and the attitude changes produced were significant.

On the basis of this analysis, this section will conclude that the Spearman rank correlation coefficients calculated, and the statistical significance of these coefficients, should not be used as a basis for rejecting hypothesis C1 and concluding that there is no association between the importance of the issue and attitude change. Rather, the conclusion here is that hypothesis C1 would probably have been supported had responses to question 15 been measured on the basis of a scale allowing for finer graduations in responses. The lack of association could therefore be attributed to the coarseness of the measuring instrument employed, and not to a true lack of association.

4.4 Results of an Examination of the Relationship Between Prior Knowledge and Attitude Changes

Hypothesis C2 postulates that the amount of knowledge possessed by the subjects about pooling of interests and accounting for business combinations will be positively related to the attitude change experienced by the respondent.

The individual's attitude toward pooling of interests presumably depends, to some extent, on the cognitions he has internalized relative to pooling. Presumably, if the individual possesses an unfavorable attitude toward pooling, this attitudinal posture has been established by the individual's examining the evidence pro and con toward pooling and placing greater emphasis on those cognitions which place pooling in a negative light. Cognitions which evidence favorability toward pooling are forced to the background in this person's cognitive structure and are effectively swamped by the negative cognitions.

Conversely, the individual who possesses a favorable attitude has put greater emphasis in his cognitive structure on the positive cognitions toward pooling and effectively swamped the negative cognitions.

The individual who has not internalized any cognitions about the concept, or finds that in his cognitive structure there is a balance between the positive and negative cognitions, will probably possess an indifferent (or no) attitude toward pooling.

The important point here is that the cognitions are based on information the individual has secured, pro or con, relative to the concept to which the attitude relates.

Dissonance theory suggests that when the individual finds himself in a dissonant state, he will systematically reexamine the cognitions

he has internalized relative to the concept which is the basis for the dissonance. If attitude change is the basis for reducing the dissonance, the theory suggests that this process of reexamining the cognitions pro and con, and adjusting their relative positions in the cognitive structure, will serve as part of the foundation upon which the attitude adjustment is carried.

As an example of this process, assume an individual whose attitude toward pooling is favorable prior to the release of APB Opinion No. 16. The Opinion is released and the individual finds that he must restrict his usage of the pooling procedure. The Opinion is binding, and he must follow its dictates. Thus he will be required to alter his behavior and act in a way such that his behavior usually exemplifies non-support for pooling. His attitude is favorable toward the concept but his behavior is usually counter-attitudinal. Dissonance sets in. Since behavior can not be altered, presumably attitude change will provide the basis for reducing the dissonance. Probably, one of the first steps in adjusting his attitude is to reassess his position relative to the concept. If he has a rather wide knowledge of the issues pro and con, presumably he calls these cognitions forth and reexamines them. During this process he begins placing greater emphasis on negative cognitions and less emphasis on the formerly strong positive cognitions. The result is that his attitude is adjusted to one reflecting less favorability toward pooling.

Presumably, the more knowledge the individual possesses about the concept, the more cognitions he has already internalized, the greater and more rapid will be the resultant attitude change in the dissonant

state hypothesized. The less the amount of knowledge the individual possesses the more he will have to seek out external sources which will provide a basis for the attitude adjustment. Thus, the slower and probably less pronounced will be the process of adjustment necessary to reduce the dissonance.

Question 21(a) on the Pre-Opinion Questionnaire served as the basis for obtaining information about each respondent's prior knowledge about pooling and business combinations. Part (b) of this question was an attempt to secure information which would allow for an assessment of the veracity of the response given in part (a). However, the responses to part (b) turned out to be so sporadic and difficult to interpret that the information gathered turned out to be essentially useless in terms of its intended purpose. Thus, lacking any other basis for assessment, it is assumed here that the responses to part (a) of this question do provide a good representation of each respondent's prior knowledge.

Tests of the relationship between prior knowledge and attitude change were carried out employing the Spearman rank correlation statistical technique. Analysis of the Post-Exposure Draft response group ($r_{1,1}$) produced a correlation coefficient of .07, which is not significant at the .10 level of significance ($t = .78$, with 121 degrees of freedom). Application of this statistical technique to the Post-Formal Opinion response group ($r_{1,2}$) yielded a correlation of coefficient of -.19. Likewise, this coefficient is not significant at the .10 level ($t = -1.56$, with 63 degrees of freedom).

These findings then indicate that the null hypotheses that the association between prior knowledge and attitude change is less than or

equal to zero can not be rejected in favor of the alternate hypothesis C2, that the relationship is positive and significant.

4.5 Additional Variables Examined in an Attempt to Explain Attitude Change

Questions 16(a) through 31 on the Post-Exposure Draft Questionnaire, and questions 16(a) through 31 on the Post-Formal Opinion Questionnaire were employed as a basis in this study to gather information on additional independent variables (other than importance of the issue and prior knowledge) which, when analyzed, might give an indication as to some of the factors which seem to be influencing the attitude changes observed in this study. Note that with the exception of question 31, the remaining questions are identical on the two questionnaires. Relative to question 31, it provided a basis for determining whether the respondents in the Post-Exposure Draft group had read the exposure draft prior to completing the questionnaire, and whether the respondents in the Post-Formal Opinion group had read the formal Opinion prior to their completing the questionnaire.

Hypotheses C3 through C10 represent the postulated relationships which the data gathered through the administration of these questions were intended to test.

For purposes of analyses, the information secured from the administration of each of these questions (or sub-parts of a question, where appropriate) was analyzed as a separate variable. Table II presents the variable number used for identification purposes, the question employed to measure the variable, and a description of the variable.

TABLE II

Independent Variables Measured Via the Post-Exposure Draft
and Post-Formal Opinion Questionnaires

<u>Variable Number</u>	<u>Question Employed To Measure the Variable</u>	<u>Variable Description</u>
1	16(a) & (b)	Respondent's membership in professional accounting organizations.
2	17(a) & (b)	Attendance at conventions or meetings of national, regional, and/or state professional accounting organizations in 12 months preceding date questionnaire was completed.
3	18(a) & (b)	Attendance at meetings of local professional accounting organizations, or local chapters of national, regional, and/or state organizations in the 6 months preceding date the questionnaire was completed.
4	19(a)	Number of times work has required subject to travel out-of-town in last 6 months.
5	19(b)	Amount of time spent in these out-of-town work assignments.
6	20(a) & (b)	Extent of contact with CPA's in other towns outside of work environment.
7	21(a) (lit. sources)	Literature sources relied upon relative to problems encountered in work environment.
8	21(a) (per. sources)	Personal sources relied upon relative to problems encountered in work environment.
9	21(b) (lit. sources)	Most valuable literature sources cited in 21(a).
10	21(b) (per. sources)	Most valuable literature sources cited in 21(a).
11	22	Extent of communication on work-related matters with others at professional meetings.

TABLE II, (Cont'd.)

<u>Variable Number</u>	<u>Question Employed To Measure the Variable</u>	<u>Variable Description</u>
12	23	Extent of utility of papers presented at professional meetings.
13	24(a)	Professional journals and their utilization by the respondent.
14	24(b)	Professional journals found most useful to the subject.
15	25	Hierarchical position of respondent in his job.
16	26	Respondent's age.
17	27	Respondent's educational level.
18	28	Number of years the subject has held a CPA certificate.
19	29	Average number of respondent's subordinates.
20	30(a)	Number of professional employees in <u>firm</u> employing respondent.
21	30(b)	Number of professional employees in office in which respondent works.
22	30(c)	Population of the city in which respondent's office is located.
23	31	At the time of completing the questionnaire, had respondent read the Exposure Draft or the Formal Opinion?

These 23 independent variables were analyzed employing simple (zero-order) and multiple (twenty-second order) linear correlation analyses as a basis of assessing their relationships to the dependent variable, attitude change. These analyses were performed separately on the data secured from the two response groups.

Table III presents those variables which, when compared to the values of the dependent variable, attitude change, through application of the simple (zero-order) correlation analysis, yielded correlation coefficients (r) which were significantly greater than zero at the .10 level (as determined via the t test).

TABLE III

Variables Which Yielded Significant Simple Correlation
Coefficients (r) When Compared to the Measures
of Attitude Change

Post-Exposure Draft Response Group		Post-Formal Opinion Response Group	
Variable Number	Simple Correlation Coefficient (r)	Variable Number	Simple Correlation Coefficient (r)
5	-.2121*	4	-.2573*
10	+.1663	5	-.2307
16	+.1515	23	+.2451

* Critical values of r based on a t test employing a .10 level of significance are $\pm .148$ for the Post-Exposure Draft group and $\pm .2110$ for the Post-Formal Opinion group.

Because of the nature of the variables measured, however, the simple correlation coefficients serve only as approximate indicators of the independent variables which might be important in explaining

the changes observed in the dependent variable. Inspection of the descriptions of the variable in Table III indicates that many of these variables are probably measuring similar attributes in terms of behavioral factors and demographic information.³ Thus, although a comparison of a particular independent variable with the dependent variables might produce a statistically insignificant simple correlation coefficient, one cannot on this basis, conclude that this independent variable is not related to attitude change. In fact, an independent variable (X_1) which shows no apparent relationship to the dependent variable (Y), might be correlated with another independent variable (X_2) which, in turn, is significantly correlated with attitude change (Y). Unless the marked relation of X_2 with attitude change (Y) is removed, any underlying relation of X_1 to Y that does exist will not be clearly displayed by this zero-order analyses.

In order to overcome these shortcomings, multiple correlation analyses were applied to the two response groups. In these analyses, the relationship of each independent variable to the dependent variable was determined after holding constant the effects of the other 22 independent variables upon the dependent variable. Through these analyses (with the effects of the other 22 independent variables thus removed) the relationship of changes in attitudes with each independent variable is more accurately determined than was the case with the simple (zero-order) correlation analyses discussed earlier.

³In fact, inspection of the simple (zero-order) correlation coefficients derived from pair-wise analyses of the independent variables indicated that many of these variables did have statistically significant correlations.

Application of the multiple correlation analysis to the Post-Exposure Draft group data on these 23 independent variables yielded a multiple correlation coefficient (r) of .421 with a standard error of 1.35 and an F value of .86 (with 98 degrees of freedom). Thus, the results indicated that these 23 variables, acting jointly, "accounted for" approximately 17 per cent (r^2) of the attitude changes observed

For the Post-Formal Opinion response group a multiple correlation coefficient (r) of .602 was produced, with a standard error of 1.28 and an F value of .98 (with 41 degrees of freedom). Thus, approximately 36 per cent (r^2) of the attitude changes observed within this group appears to be "explained" by the 23 independent variables acting jointly.

Examination of the partial correlation coefficients⁴ arising out of the application of this multiple (linear) correlation analysis to the two response groups, indicates that, on the basis of the F test, not all the independent variables were individually statistically significant in terms of the amount of the observed variation in attitude change which they each "explained." Table IV presents the variables which showed significant partial correlation with the dependent variable, attitude change, for each of the response groups.

Comparison of the data contained in Tables III and IV indicates that, in fact, the simple (zero order) correlation analysis did obscure some apparent relationships between the individual independent variables and the dependent variable, since a greater number of variables showed

⁴The partial correlation coefficient of an independent variable measures the association of that variable with attitude change after the effects of the other 22 independent variables on attitude change have been held constant.

TABLE IV

Variables Which Yielded Significant Partial Correlation
Coefficients When Compared to Attitude Change

Post-Exposure Draft Response Group			Post-Formal Opinion Response Group		
Variable Number	Coefficient of Partial Correlation (Beta)	F Value	Variable Number	Coefficient of Partial Correlation (Beta)	F Value
1	+.161	2.06*	1	-.188	2.35*
2	-.135	1.65	2	-.124	1.63
4	+.128	1.47	4	-.205	1.71
5	-.257	5.46	5	-.298	2.59
6	-.123	1.92	6	+.307	3.98
11	+.200	3.21	7	+.408	6.17
13	-.213	2.32	8	-.293	1.73
16	+.316	3.54	23	+.234	3.15

* Critical values of F employing a .10 level of significance are 1.45 for the Post-Exposure Draft response group and 1.57 for the Post-Formal Opinion response group.

statistically significant partial correlations (Table IV) with the dependent variable than simple correlations (Table III).

Further analyses was carried out by eliminating the variables which did not display statistically significant partial coefficients of correlation and performing a multiple correlation analysis on the remaining 8 variables in each response group (Table IV) which did have statistically significant partial correlation coefficients. These analyses produced the following multiple correlation coefficients and related data:

<u>Response Group</u>	<u>Multiple Correlation Coefficient (r)</u>	<u>Standard Error</u>	<u>F Value</u>
Post-Exposure Draft	+.388	1.29	1.62
Post-Formal Opinion	+.454	1.19	1.79

As was discussed earlier, inclusion of all 23 independent variables "explained" only 17 per cent of the attitude changes observed in the Post-Exposure Draft group. As the information presented here indicates, 15 per cent (r^2 for the Post-Exposure Draft group) of the total variation in attitude changes (or 88 per cent ($\frac{15}{17}$) of the "explained" variation) is "accounted for" by the 8 variables which had significant partial correlations with attitude change.

Relative to the Post-Formal Opinion response group, the earlier discussion indicated that all 23 independent variables "accounted for" 36 per cent of attitude changes observed in this group. The 8 variables which had significant partial correlations with the dependent variable "accounted for" approximately 21 per cent (r^2 for the Post-Exposure Draft group) of the total observed changes in attitudes (or 58 per cent ($\frac{21}{36}$) of the total "explained" variation).

Thus, in each response group we see that a major portion of variation in attitude changes which is "accounted for" by the 23 independent variables, is, in fact, "accounted for" in each case by only 8 of these variables. However, the explanatory power of the 8 variables in each of the groups is, on the whole and on the average, quite low. The 8 variables isolated in the Post-Exposure Draft Group "account for" a total of only 15 per cent of the attitude changes observed. On the average, each of these variables "explains" less than 2 per cent of

the total change. Analyses indicated that no one variable "explains" more than 4.5 per cent of the total change in attitudes.

The 8 variables isolated in the Post-Formal Opinion group "account for" a total of only 21 per cent of the attitude changes observed. On the average, each of these 8 variables "accounts for" approximately 2.5 per cent of the total attitude change observed while no one variable "accounts for" more than 6 per cent of the total change in attitudes.

Further analyses were carried out by combining and deleting certain of the independent variables in order to ascertain whether such manipulation might result in a greater amount of explanatory power on the part of these variables. Such analyses produced no substantial improvement in either the multiple or partial correlation coefficients.

Consideration was given to undertaking curvilinear analyses of these data. Scatter diagrams were prepared displaying the relationship of each of the independent variables to the dependent variable. It was not apparent from inspection of these diagrams that curvilinear functions would more adequately describe the variations in these variables than would linear functions. Thus, curvilinear analyses were not undertaken.

The scatter diagrams of the data did indicate that for most of the variables, the measurements taken were rather widely dispersed, and did not tend to group around a relatively limited range of values, as was the problem experienced earlier with the measurements secured on importance of the issue and the extent to which respondents perceived that the exposure draft would become a formal Opinion.

Based on the analyses carried out and the data presented, the conclusion here will be that hypotheses C3 through C10 were not supported in this study. The capability of the combined independent variables to "explain" the changes observed in attitudes was rather slight. The explanatory power of the individual independent variables was very low, with no one variable "accounting for" an appreciable portion of the changes in attitudes.

This lack of capability of the independent variables to "account for" the attitude changes observed may be attributed to either of two factors. The first could be that the measurements taken on these independent variables provides valid and reliable data, and that the lack of any substantive relationships arising out of the data evidences that no true relationships exist between these variables and attitude change. This conclusion would suggest that future researchers might safely ignore these variables in similar types of research which attempt to isolate variables which play an important role in determining the amount of attitude change taking place. The second factor could be that the measurement instruments employed did not produce data which represented valid and/or reliable measures of the variables analyzed. Thus, such weak measures may have produced data which, when analyzed, obscured true relationships existing between these independent variables and attitude change. This conclusion would suggest that future researchers should attempt to develop more refined and sophisticated means for securing information on these variables.

CHAPTER V
SUMMARY AND CONCLUSIONS

5.1 Summary

The objective of this investigation was to explore the behavioral and psychological manifestations of the process of issuing Opinions on matters of accounting principles and procedures by the Accounting Principles Board of the American Institute of Certified Public Accountants. The central aspects of this research effort were addressed to the questions of the extent to which practicing certified public accountants perceive they must conform to these APB Opinions and, in turn, the impact these Opinions have upon the attitudes of these CPAs relative to the principles and procedures which are the subjects of the Opinion.

The empirical tests carried out in Chapter IV were based on an a priori model developed primarily in Chapters II and III. Briefly, this model suggested that practicing CPA's would view themselves as being placed in a situation of "forced compliance" when dealing with accounting principles about which the Principles Board had issued an Opinion. That is, the model suggested that regardless of his personal predisposition toward a particular accounting procedure, if the APB had taken a stand relative to the application of this procedure, the CPA would adopt the stand taken by the Board and would attempt to persuade his clients to do the same. Thus, where the CPA had preferred the application of an alternative procedure which the APB, through an

Opinion did not support, the model suggested that we would find the CPA altering his behavior to conform to the stand taken by the APB. That is, he would discontinue employing or recommending employment of the procedure he had previously preferred, and would require application of the Board's recommended procedure. The model thus suggested where there was conflict between the CPA's prior behavior, and subsequent behavior as "required" by the APB, one would observe the CPA altering his behavior to conform to the dictates of the Principles Board.

The central question of the a priori model was then directed at an examination of how, psychologically, the individual would facilitate this process of behavioral change, where such behavioral change was required. The model postulated that if the position assumed by the APB in the pronouncement was in conflict with the CPA's prior behavior, and the CPA thus had to alter his behavior, the CPA would be placed in a state of conflict. The accountant's prior attitude toward the particular accounting procedure would be in conflict with his altered (APB "dictated") behavior. The primary objective here was to determine whether attitudes changed to conform to the altered behavior, and if so, could some of the instrumental variables involved in this process of attitude change be isolated and examined?

The data gathered to test the a priori model of this study did enable the researcher to derive some conclusions relative to the questions posed in the investigation. Firstly, the evidence presented supported the model in terms of the question of "forced compliance." That is, the practicing CPAs do perceive that where an Opinion has been issued by the APB relative to some particular accounting procedure,

the accountants believe that they are "forced" to follow the dictates of the Opinion and subscribe to the procedures recommended by the Principles Board. Thus, in situations where the CPA's predisposition toward the application of a particular procedure are in conflict with the position taken by the APB in its pronouncement, the evidence examined indicates that the auditor will alter his behavior to conform to the suggestions of the Board. The data suggest that the practicing CPA finds himself forced into a behavioral posture which suggests support for the APB recommendations.

Secondly, for those individuals who find, based on the issuance of an Opinion by the APB, that adjustments in behavior are necessary, the data indicated that these individuals also experience a significant alteration in their attitudes relative to the accounting procedure in question. Their prior attitudes toward the particular procedure which is the subject of the Opinion will adjust in a manner such that these attitudes are not in conflict with the new behavior.

An interesting aspect of the attitude changes observed in the study is the fact that the attitude adjustments required to reflect support for the APB's position appears to take place over a time span of rather short duration. This investigator observed the reactions of the practitioners to both an exposure draft of the Opinion on business combinations and the formal Opinion itself. The exposure draft preceded publication of the formal Opinion by about six months. A somewhat unexpected finding of this investigation was that the substance of the attitude changes observed appeared to take place shortly after the release of the exposure draft of the Opinion rather than after the release of the formal Opinion itself. Two factors seemed to explain

this finding. First, the large majority of respondents believed that the exposure draft would become a formal Opinion with few, if any, alterations. As far as the subjects were concerned, the exposure draft represented the major substance of a formal Opinion which was imminent. Thus the exposure draft represented the catalyst for subsequent behavioral changes and, in turn, attitude changes which were necessary for those individuals whose prior behavior and attitudes did not evidence agreement with the stand taken by the APB in this exposure draft.

Secondly, the majority of the subjects felt that the issues involved in the question of how to properly account for business combinations were of such major importance to the accounting profession that it was necessary for the profession to assume a position which would resolve the issues and controversies as soon as possible. For those subjects who found it necessary to alter their behavior to conform to the APB's stated position on the subject, and were thus thrust into a situation where attitudes were in conflict with the newly assumed behavior, the psychological conflict experienced by these individuals was greater on the average than would otherwise be the case because they perceived the issues as being important. The more important the issues the greater the conflict felt, and in turn, the greater the drive to reduce the conflict. As a result, significant attitude changes were observed after the release of the exposure draft of the Opinion, and these changes were not significantly different statistically from the attitude changes observed in the group measured after the release of the formal Opinion. It is therefore the conclusion of this study that the attitude changes observed were triggered by the release of the

exposure draft, and additional changes were not observed as a result of the publication of the Formal Opinion.

Attempts to isolate independent variables which seemed to have a bearing on the amount of attitude change experienced by the respondents, and to explore the relationships of these variables to attitude change, did not meet with much success in this study. Although some of the variables examined showed relationships with attitude change which were significantly greater than zero, the amount of attitude change accounted for by these variables was very low.

Two possible explanations could be offered as reasons why this investigation experienced a lack of success in isolating the factors which appear to explain the attitude changes observed. The first explanation would suggest that the factors examined in this study do not, in fact, play a role in determining the amount of attitude change observed in the type of situation under investigation here. This explanation would suggest that future researchers who might be investigating attitude changes under similar circumstances might experience a greater amount of success if they directed their attention to variables other than the ones analyzed here.

The second explanation relates to problems of measurement of the independent variables. It might be argued the measurement instruments employed here were inadequate as means of providing valid and/or reliable data on the variables. This explanation would suggest that future researchers should devote attention to the development of more refined and more adequate means for securing reliable and valid information on the independent variables herein studied.

Since the factor's examined in this project were measured employing techniques which have been employed successfully in many other studies to secure information on behavioral and demographic variables, it is suggested here that the first explanation is probably more appropriate under the circumstances, and that therefore, future investigators should look towards other factors in an attempt to explain attitude changes of the type observed in this study.

5.2 Conclusions

This study has established that in the process of trying to achieve greater conformity in the application of accounting procedures through the issuance of APB Opinions, the AICPA is successful in altering the behavior of, and especially, the attitudes of practicing CPAs relative to existing accounting alternatives. It has been shown that these adjustments are in the direction that supports the position taken by the APB.

The fact that behavioral changes are reinforced by attitude changes could probably lead to the conclusion that CPAs are less likely to attempt to develop subterfuges as means of circumventing the Opinions of the APB than might be the case if these attitude changes did not accompany the behavioral changes.

Much discussion has been published in the accounting literature recently which has suggested that revisions should be made in the composition of the Principles Board and the way in which it operates. In all cases these suggestions have been based upon the personal observations of the authors, unsupported by sound empirical evidence, relative to changes which, if undertaken, would presumably enable the APB

to more efficiently achieve its stated objectives. The study reported herein, which represents the sole attempt to establish empirically and assess the impact of the APB upon the practice of public accounting, suggests that, at least in the case of the Opinion investigated, the APB is substantially achieving its stated objectives. The evidence presented should be examined critically by the profession before it considers altering the structure of or the mode of operation of the Board. Additionally, it might be wise for the profession to attempt to isolate and analyze those factors which appear to play a role in determining the amount of attitude change experienced by practitioners as a result of the issuance of Opinions. Without empirically supported evidence about what factors are important or how they operate, any suggested changes represent substantial gambles on the part of the profession, gambles which could easily result in undermining the level of success which the APB has been able to apparently achieve in reducing the diversity in the application of accounting principles in practice.

The conclusion of this research effort is that the APB is apparently experiencing success in attempting to meet its stated objectives. The empirical evidence presented in this report supports the fact that the issuance of Opinions by the Board results in behavioral and attitudinal adjustments on the part of practitioners, and that these adjustments are in the direction of achieving greater conformity in the application of accounting procedures and establishing a consensus among practitioners as to the most appropriate practice of public accounting relative to these procedures.

Readers should recognize several precautions in attempting to interpret the information herein contained and in attempting to generalize the results of this study.

Firstly, this study investigated the impact of one Opinion, APB Opinion No. 16. Any attempts to generalize the findings of this study to any other Opinions should be undertaken with extreme caution.

Secondly, the response rate to the Pre-Opinion Questionnaire approximated 40 per cent while the response rates to the Post-Exposure Draft and Post-Formal Opinion Questionnaires approximated 66 per cent each. Any assessment of the quality of the findings contained in this report should reflect consideration of these response rates.

Finally, the author would caution readers who might attempt to employ the results of this study as prescriptions for action. Although the evidence presented supports the fact that the APB is apparently meeting its objectives through the issuance of Opinions, much more knowledge is needed about the variables which are instrumental in producing this outcome before these variables can be manipulated in an attempt to achieve the present objectives more efficiently or to achieve "more desirable" objectives. It is hoped that future research will be directed at isolating and obtaining information on these instrumental variables.

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