ELSEVIER

Available online at www.sciencedirect.com

SciVerse ScienceDirect

The International Journal of Accounting 47 (2012) 198 – 225

The International Journal of Accounting

Does the Control-based Approach to Consolidated Statements Better Reflect Market Value than the Ownership-based Approach?

Audrey Wen-hsin Hsu[a,*], Rong-Ruey Duh[a], Kang Cheng[b]

[a] *Department of Accounting, National Taiwan University, Taipei, Taiwan*
[b] *Morgan State University, United States*

Received 4 August 2010

Abstract

Motivated by the recent Discussion Paper (DP) issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) on how to define reporting entities, this study investigates the value relevance of consolidated statements under the ownership-based approach of U.S. Accounting Research Bulletin No. 51 (ARB 51) and the control-based approach of International Accounting Standard No. 27 (IAS 27). The results show that consolidated financial statements based on a broader definition of control provide more useful accounting information than those based only on majority-ownership control. We also address one concern raised in the DP, namely, whether a reporting entity should use the common control model to include entities that are under common control of an individual investor or family. The results suggest that accounting standard boards should include the common control model in defining the group reporting entity for firms with complex ownership structures.
© 2012 University of Illinois. All rights reserved.

JEL classification: M41; M48
Keywords: Consolidated statements; Control-based approach; Reporting entity; Ownership-based approach; Ownership structure; ARB 51; IAS 27

1. Introduction

The objective of this study is to evaluate whether consolidated financial statements under the control-based approach exhibit higher value relevance than statements under

* Corresponding author.
E-mail address: Audrey.hsu@management.ntu.edu.tw (A.W. Hsu).

0020-7063/$ - see front matter © 2012 University of Illinois. All rights reserved.
doi:10.1016/j.intacc.2012.03.003

the ownership-based approach. On May 29, 2008, the International Accounting Standards Board (IASB) issued a Discussion Paper (DP), "Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity." This DP was jointly developed by the Financial Accounting Standards Board (FASB) and IASB as part of deliberations on the reporting entity concept for the two boards' common conceptual framework. In the DP, the two boards consider whether they should define the composition of a group reporting entity based on a broader definition of control than ownership.[1] The reasoning is that, if a group reporting entity comprises the controlling entity (the parent) and its controlled entities (i.e., subsidiaries), majority ownership (i.e., over 50%) is not a necessary condition for attaining control. Instead, they propose defining control based on a "controlling entity model,"[2] which defines control as the parent's power over another entity and the ability to obtain benefits (or to reduce the incidence of losses). To obtain feedback on these proposals, the FASB and IASB presented a series of questions and called for comments.

As an alternative way to respond to the "call for comments," our study attempts to provide some direct and empirical evidence using field data on whether consolidated statements based on different reporting entity criteria affect investors' decisions. Prior literature (Abad et al., 2000; Goncharov, Werner, & Zimmermann, 2009; Harris, Lang, & Möller, 1994; Niskanen, Kinnunen, & Kasanen, 1998) has generally agreed that consolidated statements are more value-relevant than unconsolidated statements or parent information. However, it has not examined whether the definition of the reporting entity's boundaries can affect the value relevance of consolidated statements.[3]

We examine the issue using a unique setting in Taiwan, where all listed firms were required to use the ownership-based approach to define group reporting entities before 2005 and the control-based approach from 2005 on. All listed firms in Taiwan have been required to prepare consolidated statements since Taiwan's SFAS No. 7, *Consolidated Financial Statements* (TSFAS 7), was issued in 1985. When first issued, TSFAS 7 was equivalent to U.S. Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (ARB 51), which defines the reporting entity based on ownership. Under Taiwan's project to align its standards with IAS (currently IFRS), however, TSFAS 7 was revised to follow IAS No. 27, *Consolidated Financial Statements* (IAS 27), effective since 2005.[4] IAS 27 defines group reporting entities based on the controlling entity model, in which

[1] The DP raises specific questions for respondents. Q5 in the DP: "Do you agree that the composition of a group reporting entity should be based on control? If not, why? For example, if you consider that another basis should be used, which basis do you propose and why?"

[2] Q6 in the DP: "Assuming that control is used as the basis for determining the composition of a group reporting entity, do you agree that the controlling entity model should be used as the primary basis for determining the composition of a group entity? If not, why?"

[3] Some studies investigate the exception rules to consolidation of "non-homogeneous subsidiaries" under ARB 51 before the introduction of SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries*. They generally conclude that the limitation of excluding a significant subsidiary from consolidation makes assessment of future cash flows more difficult (Benis, 1979; Heian & Thies, 1989; Mohr, 1988).

[4] The focus of the paper is on the IAS 27 (2003) revision. Although IAS 27 has been amended as results of amendments in other IFRSs in 2004, 2006, 2007, and revised in 2008, no change is made to the criteria of control-based approach. Throughout the paper, reference is made to IAS 27 (2003) as TSFAS 7 was amended following IAS 27 (2003).

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات