

**Cascino, Clatworthy, Gassen, García Osma and Imam:
The Usefulness of Financial Accounting Information: Evidence from the Field**

Github repository: https://github.com/joachim-gassen/use_fai

Additional Materials

E-mail Templates and Consent Forms for Survey Experiment

Exhibit AMA1: Email Template Used to Approach Investment Professionals

Re. ICAS/EFRAG Research Project

Dear XXXXX

I am a member of the research team involved in the ICAS/EFRAG project into professional investors' use of information, and am writing to arrange a convenient time and location to conduct an interview. Thank you for kindly agreeing to participate in our research.

We expect the interviews to take around 45 minutes at or near your place of work and no preparation is required in advance.

The team is very flexible, so if you were able to email me back to suggest two or three possible dates/times, together with your preferred location for the interview, we would be very grateful.

Thank you once again for your valuable cooperation.

With best wishes,

XXXXX

Exhibit AMA2: Background Letter



Dear XXXXX,

Thank you for agreeing to participate in our pan-European academic study of professional equity investors' financial information usage. The research is funded by the Institute of Chartered Accountants of Scotland (ICAS) and the European Financial Reporting Advisory Group (EFRAG) and involves researchers from six leading universities from four countries.

The study aims to inform the debate on the IASB Conceptual Framework by assessing professional investors' opinions of financial reporting information. Improved understanding of such issues can assist in the efficient allocation of capital, yet to date, research in this area is relatively limited. The study therefore covers important accounting policy issues and we expect the results to be of interest to standard setters, regulators, academic researchers and the professional investment community.

Participation in the research is entirely voluntary, involving an interview lasting around 45 minutes and not requiring any preparation time. Should you agree to participate, you will be free to withdraw from the research at any stage, including during the interview. The interviews entail a very short fictional case study designed to elicit investors' views of financial reporting information, as well as a small number of open-ended questions.

We would like to record the interviews to facilitate appropriate analysis of the material at a later stage in the research. Although we do not anticipate any sensitive material to be covered in the interviews, your responses will remain strictly confidential and any results we report will not contain any identifying information. All data will be held securely at the University of XXXXX and will be safely encrypted.

The team conducting the research comprises XXXX (*Position, University*), XXXX (*Position, University*), XXXX (*Position, University*), XXXX (*Position, University*), and XXXX (*Position, University*). Each team member has a track record of publishing their research in leading international journals and the results of their last joint project were presented to several accounting standard setters, including the International Accounting Standards Board.

We very much appreciate your cooperation and participation in this project. We look forward to meeting you in XXXXX on XXXXX at XX.XX.

Yours sincerely,

XXXXX

Exhibit AMA3: Ethical Consent Form

ETHICAL CONSENT FORM

Study of Professional Investors' Use of Information

Thank you very much for agreeing to participate in our research. We appreciate this very much.

This research study aims to assess professional investors' opinions of financial reporting information. Improved understanding of such issues can assist in the efficient allocation of capital, yet research in this area is relatively limited. Participation in the research is entirely voluntary, involving an interview lasting around 45 minutes and not requiring any preparation time. Should you agree to participate, you will be free to withdraw from the research at any stage, including during the interview, and without giving a reason. Please feel free to ask any questions about the research.

The interviews entail a short fictional case study designed to elicit investors' views of financial reporting information, as well as a small number of open-ended questions. We would like to record the interviews to facilitate appropriate analysis of the material at a later stage in the research. Although we do not anticipate any sensitive material to be covered in the interviews, your responses will remain strictly confidential and any results we report will not contain any identifying information. All data will be held securely at the University of XXXXX and will be safely encrypted.

Please answer the following questions to the best of your ability

HAVE YOU:

- | | YES | NO |
|--|--------------------------|--------------------------|
| • Been given information explaining the nature and purpose of the study? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Had an opportunity to ask questions and discuss this study? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Received satisfactory answers to all questions you asked? | <input type="checkbox"/> | <input type="checkbox"/> |
| • Received enough information about the study for you to make a decision about your participation? | <input type="checkbox"/> | <input type="checkbox"/> |

DO YOU UNDERSTAND:

- | | | |
|---|--------------------------|--------------------------|
| • That you are free to withdraw from the study and free to withdraw your data prior to final consent at any time? | YES | NO |
| | <input type="checkbox"/> | <input type="checkbox"/> |

I hereby fully and freely consent to my participation in this study

I understand the nature and purpose of the research involved in this study.

I understand and acknowledge that the investigation is designed to promote scientific knowledge and that the University of XXXXX will use the data I provide for no purpose other than research.

I understand the data I provide will be **anonymous**. No link will be made between my name or other identifying information and my study data.

I understand that the University of XXXXX may use the data collected for this study in a future research project but that the conditions on this form under which I have provided the data will still apply.

Participant's signature: _____ Date: _____

Name in BLOCK Letters: _____

PLEASE NOTE THAT THIS CONSENT FORM WILL BE KEPT SEPARATELY FROM YOUR RESPONSES.

Final consent

Having participated in this study

I agree to the University of XXXXX keeping and processing the data I have provided during the course of this study. I understand that these data will be used only for the purpose(s) set out in the information sheet, and my consent is conditional upon the University complying with its duties and obligations under the Data Protection Act.

Participant's signature: _____ Date: _____

Name in BLOCK Letters: _____

If you have any concerns related to your participation in this study, please direct them to the Chair of the University of XXXXX Research Ethics Committee, Dr XXXXX (email address).

PLEASE NOTE THAT THIS CONSENT FROM WILL BE KEPT SEPARATELY FROM YOUR RESPONSES.

Interview Guidelines and Survey Instrument for Survey Experiment

- Interview Guidelines -

1. Preparation for Interview

- Take with you each of the following:
 - Recording equipment with spare batteries
 - A couple of pens and a notebook
 - The ethical consent form
 - A couple of hard copies of this document
 - A copy of the case **with the appropriate condition (1, 2, 3 or 4)** (ask XX which one for your interview).
- Each interviewee gets assigned an ID; each ID has been a pre-randomized assigned case. Ask XX for this.
- If possible, choose a setting with few distractions. Avoid loud noises and/or bright lights and ensure the interviewee is comfortable, with access to a table to complete the materials.

2. General Notes for the Interviewer

- Make sure the interviewee is comfortable and does not feel “examined” by a professor at any point in time (make ice-breaker jokes if needed).
- Please, make sure the interviewee has understood the *general* nature of the research project as outlined on the ethics form, but **DO NOT disclose our research objective OR THE FACT THAT WE HAVE FOUR DIFFERENT CONDITIONS FOR OUR CASE** as this will immediately spoil the survey.
- Make sure that the recording of the answers works. Then focus on your interview partner. Take notes where feasible but do not let your note taking interrupt the flow of the interview.
- After the interview: Make any notes on your written notes, e.g., to clarify any scribbles; ensure you fill out any notes that don’t make sense, etc.
- Summarize the main qualitative findings of the interview. Write down any observations made during the interview. For example, where did the interview occur and when, was the respondent particularly nervous at any time? Were there any surprises during the interview? Do not identify the interviewee here though in case your notes get lost.

3. Intro

- Introduce yourself, then proceed to the interview flow.

4. Interview Flow

- Explain the format of the interview: “Most of this interview will be based on a highly simplified and fictional case. Please bear with us where the case lacks the detail you would face in a real-world investment decision.”
- Read out the first box of the **Ethical Consent Form** and pass the form to the respondent to complete.
- Let the interviewee fill out the ethical consent form. Ask whether he/she wants to make a copy of the form after the interview. Make sure that she/he does not complete the second part of the form yet.
- **Section 1:** It is not necessary to pass this to the interviewee. Instead ask him/her the questions and take notes. Some questions might not be appropriate for your interviewee. Adjust the questions so that we get a clear idea about the occupation of your interview partner.
- After completing Section 1, hand the **predetermined randomized version** of the case to the interviewee. Say: “Take your time going through the case and let me know when you have finished. Feel free to ask clarifying questions.”
- While the interviewee reads the case and asks questions, make sure just to provide clarifying information. Let the recording running so that we can measure the time that the person spent reading the case. If you stop the recording, you have to take the reading time. Just let the recorder run.
- After the interviewee has finished reading the case, go through the case with her/him paragraph-by-paragraph, highlighting the relevant content and asking whether anything is unclear.
- **Section 2:** Prior to completing the questions of section two explain the concept of relevance and representational faithfulness with the words given in the instrument. Ask whether the subject understood the terms and provide additional guidance if needed. You should fill out the form for her/him and read the questions. In any case: DO NOT SUGGEST ANY NUMBERS.
- **Section 2:** You should read the statements to and fill out the form for your interview partner. When doing so, encourage subjects to “**think aloud**”. In any case: DO NOT SUGGEST ANY NUMBERS. If people fail to give the reason for their judgements, motivate them to explain their decisions. This might also imply asking them why they ranked one line item higher than the other or why they assessed relevance and the representational faithfulness differently for one line item. Ask clarification questions only after they answered the respective question.
- **Section 3:** Again, you should fill out the form for her/him. In any case: DO NOT SUGGEST ANY ANSWERS
- **Section 4:** You should fill out the form for her/him. In any case: DO NOT SUGGEST ANY ANSWERS.
- **Section 5:** Ask the respondent to complete **Final Consent** box in the **Ethical Consent Form**.

5. **Outro**

- First-preliminary results will most likely be available Q1 2015 and disseminated by ICAS and EFRAG.

- REQUEST OF RESPONDENT “PLEASE DO NOT DISCUSS THE DETAILS OF OUR STUDY WITH COLLEAGUES” as we need respondents to think afresh when presented with the case. Collect the case material from the participant.
- Thank respondent very much for their very valuable time and cooperation.

- Survey Instrument -

Section 1: Experience and education

We would like to ask you a few questions about your experience and personal demographics. These data are important to help us understand potential differences in reported answers across groups.

Please briefly characterize your professional occupation _____

Number of years of professional experience overall _____

Number of years of experience in *current* occupation _____

Number of firms you analyse in the average year for investment-related decisions _____

Do you mainly analyse public (listed) companies or private companies? _____

Do your job responsibilities involve some aspect of financial reporting
(besides using it for investment decision-making)

| | |
|-----|----|
| YES | NO |
|-----|----|

What is your *current* **industry** focus, if any? _____

What is your *current* **geographic** focus, if any? _____

Approximate value of funds under your direct management: _____

What is your typical investment holding period? _____

Approximately how many stocks do you hold? _____

Besides your occupation: Do you have any other relevant experience as a professional investor?

Now, we have some very few questions about the firm you are working for

Relative to the size of its competitors, do you consider your firm to be

| | | | | |
|------------|-------|--------|-------|------------|
| VERY LARGE | LARGE | MEDIUM | SMALL | VERY SMALL |
|------------|-------|--------|-------|------------|

Approximate value of funds under management for the whole firm

Finally, some questions about yourself

Formal background and qualifications (degree, professional qualifications)

Highest education _____

What is your highest accounting qualification? _____

Gender _____

Age 20-25 26-30 31-35 36-40 41-45 46-50 51-55 56-60 Over 60

Section 2: The Case: Evaluating the usefulness of financial accounting information

In the following, we will be asking you questions about the decision usefulness of financial accounting information. To structure your thoughts, consider the following terminology: usefulness comprises two main dimensions: relevance and representational faithfulness. Relevance is the information's ability to influence decision-making, assuming that it is faithfully represented. Information is considered to be faithfully represented if it is complete, neutral and free from errors.

1. For my objective in the case, I assess the following financial accounting information items to be **relevant**:

1=strongly agree ... 4=neither agree nor disagree ... 7=strongly disagree

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Revenue | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| EBITDA | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Net income | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Book value of property, plant and equipment | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Book value of financial instruments | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Book value of intangible assets (other than goodwill) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Book value of goodwill | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Book value of pension liabilities | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

Notes

2. For my objective in the case, I assess the following financial accounting information items to be **faithfully represented**:

| | 1=strongly agree | ... | 4=neither agree nor disagree | ... | 7=strongly disagree | | |
|---|------------------|-----|------------------------------|-----|---------------------|---|---|
| Revenue | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| EBITDA | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Net income | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Book value of property, plant and equipment | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Book value of financial instruments | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Book value of intangible assets (other than goodwill) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Book value of goodwill | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Book value of pension liabilities | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

3. Overall, for my objective in the case, I assess the financial accounting information overall to be:

| | | | | | | | |
|------------------------------------|---|---|---|---|---|---|---|
| <i>(i) relevant</i> | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| <i>(ii) faithfully represented</i> | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

1=strongly agree ... 4=neither agree nor disagree ... 7=strongly disagree

Notes

Section 3: The Case: Additional information that you consider to be useful

Besides financial accounting information, what kind of additional information would you like to obtain for your assigned case perspective? Please name the three most important sources:

1. _____
2. _____
3. _____

Given your above reply, if you had € 100,000 to allocate to obtain this relevant information, please indicate how you would assign the money, allocating an amount to the items you identified above as well as to improve the decision usefulness of available financial accounting information.

If you identified fewer than three items, please allocate the € 100,000 between the elements identified.

| Amount in € allocated for obtaining first type of additional information | Amount in € allocated for obtaining second type of additional information | Amount in € allocated for obtaining third type of additional information | Amount in € allocated for improving the decision usefulness of available financial accounting information |
|--|---|--|---|
| | | | |

Notes

Section 4: Additional Questions

Thank you for addressing the questions. Please also answer this short list of additional questions.

1. It is very likely that the financial statements of the case are in full compliance with the relevant accounting standards.

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

1=strongly agree, ..., 4=neither agree nor disagree, ..., 7=strongly disagree

2. In the case, managers are likely to manipulate earnings information.

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

1=strongly agree, ..., 4=neither agree nor disagree, ..., 7=strongly disagree

3. The firm in the case faces potentially serious corporate governance issues.

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

1=strongly agree, ..., 4=neither agree nor disagree, ..., 7=strongly disagree

4. Is your objective in the case to:

a) Assess the value of the firm

☐

b) Assess the performance of the management for the current year

☐

5. Is managerial incentivisation in the case based on:

a) Internal production data

☐

b) Financial accounting data

☐

6. Relevance vs. Representational Faithfulness

Throughout the case, I have asked you to assess the relevance and representational faithfulness of different financial statement items. Relevance and representational faithfulness are the two key elements of ‘decision usefulness’ in the conceptual framework of the IFRS.

Could you describe the difference between these two elements for me, in your own words?

Do you find the two elements useful to assess the decision usefulness of financial accounting information?

7. Corporate governance

How important are the following aspects of corporate governance for you when assessing the decision usefulness of financial accounting information?

- Auditing

- Managerial Compensation

- Ownership structure

- Other governance aspects (please elaborate)

8. Is there any other issue related to the usage of information for decision-making in general or the usefulness of financial accounting information for decision making in particular that you would like to elaborate on?

Thank you! This ends the structured interview!

Notes

Case materials as presented to survey experiment subjects

Picture yourself as one of the owners of a large European private firm. Your objective is to (assess the value of the firm)(assess the performance of the management for the current year). The firm operates in the manufacturing sector and generates income via its own products and by holding a stable long-term portfolio of minority investments in firms operating in similar industries. The firm has a history of positive earnings and cash flows. Its outlook is stable and moderately positive. The current financial structure is presented below.

Summary Balance Sheet (€ m)

| | |
|-------------------------------------|---------------------|
| Cash | 208 |
| Receivables | 212 |
| Inventory | 105 |
| Financial investments | 634 |
| Plant and equipment | 416 |
| Goodwill | 443 |
| Other intangible assets | 432 |
| Total assets | <u>2,450</u> |
| Trade payables | 216 |
| Pension liabilities | 435 |
| Long term debt | 628 |
| Equity | 1,171 |
| Total liabilities and equity | <u>2,450</u> |

Annual Income Statement (€ m)

| | |
|-------------------------------|-------------------|
| Revenue | 2,185 |
| Cost of sales | (1,382) |
| Other expenses | (416) |
| Investment income | 148 |
| EBITDA | 535 |
| Depreciation and amortization | (114) |
| Goodwill impairment | (58) |
| EBIT | 363 |
| Interest expenses | (80) |
| Taxes | (123) |
| Net income | <u>160</u> |

Accounting policy information

The financial statements are prepared using IFRS. The firm uses a historical cost basis except that financial instruments are measured at fair value and certain other assets and liabilities are included on an alternative basis – most significantly, pension liabilities.

Summary of selected accounting policies

Plant and equipment and other intangible assets are measured at cost. The value of goodwill is tested for impairment on an annual basis. Financial investments are measured at fair value, with changes in fair value directly reflected in net income. Pension liabilities are the net of the present value of defined benefit plan obligations and external plan assets.

Key areas of judgment and estimation uncertainty

The key areas of estimation uncertainty and of judgment required in applying the firm's accounting policies are:

- The firm holds a number of minority investments in firms that are not listed on public equity markets. These investments are measured at fair value, requiring the use of managerial estimates.
- The firm has significant intangible assets. Judgment is required to decide whether intangible assets should be recognised and in determining goodwill and intangible asset impairments.

- The accounting valuation of the pension liability is based on assumptions determined with independent actuarial advice and is assessed annually.

Auditing and corporate governance information

The firm is audited by a leading audit firm. The corporate governance is of a high standard and comfortably passes a quality level that would be required from a publicly-listed firm of the same size. In fact, the CGFA Institute, a well-reputed independent group that evaluates corporate governance and makes this information available to current and future investors, has rated the firm as an industry leader in corporate governance quality, assessing the quality of the firm corporate governance as seen below.

Independent assessment of the firm's corporate governance quality

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|----|

1=Lowest standard

10=Highest Standard

Ownership structure and managerial compensation

The current owners of the firm are a small group of closely cooperating professional institutional investors. These owners monitor the management of the firm and they rely on individually negotiated target plans based on (internal production)(financial accounting) data for managerial incentivisation. This year, management will receive a generous bonus as they have exceeded their target (production efficiency)(net income) levels.