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DOI: 10.1016/j.intacc.2010.01.001

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Abstract

The purpose of this study is to show the importance of the business contexts of individual countries to understand corporate accounting practices in international settings. Using data from five countries, we show that while agency theory constructs are effective in explaining accounting practices in corporate settings that have a strong agency orientation, such as that of the United States, it is necessary to go beyond such constructs to understand accounting practices in other corporate settings. Given the variety of international business settings, we use a generic theory, institutional theory. To conduct this examination into cross-country accounting practices, we focus on an earnings quality measure based on accrual accounting practices, the abnormal accruals component of accounting earnings. We provide evidence to support the view that with varying business settings we are likely to see diversity in accounting practices that result in different levels of accruals or accruals based earnings quality. © 2010 University of Illinois.

Author Keywords

Agency theory; Financial reporting quality; France; Germany; Japan; Thailand; USA

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