Abstract

Even though, International Accounting Standards 37 (IAS 37) emphasises the need for the recognition of contingent liability during preparation of financial statements, accountants are sceptical when applying the standards. This may be due to the fact that it reduces the reported income of an entity. Using vignette experimental questionnaire this paper explored the perception of 188 senior Accountants in Nigeria on whether they should recognise contingent liability in their financial statements. Responses were gathered and analysed using Kruskal-Wallis non parametric test. The findings showed no significant difference between the groups of respondents in respect of recognition contingent liability. That is greater percentage of respondents in each group similarly avoid to recognise contingent liability in their financial statements. The paper recommends that preparers of financial statements should improve their accounting judgement for proper application of IAS 37 and preparation of quality financial statements. Similarly, company's management should on its own part improve the judgment capacity of their accountants for the production of reliable and comparable financial statements.

Keywords: Contingent Liability, Accounting Judgements, Financial Reports, Behavioural Accounting, Financial Statements, Judgement and Decision Making.

Introduction

Accounting judgment is a sub-field of behavioural accounting and therefore, influences action or behaviour of accountants. It is seen as a process of applying human cognitive ability to treat uncertain transactions and events during preparation of financial statements. The process is carried out by preparers of financial statements taking into consideration the current and future financial environment and risk characteristics of an entity. It is used in analysing, estimating and selecting principles, methods, and models in financial reporting (Dai, 2010).

This paper focuses on accounting judgments that take the form of predictions about the future. More specifically, the focus is on accounting judgments that underlie the recognition of contingent liability. The rationale for this is that contingent liability to a company is a present obligation that arise from past events which is recognise in financial statements if it is probable that an outflow of resources embodying economic benefits will be required to settle.

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the obligation or the amount of the obligation can be measured reliably (IAS 37). The word 'probable' in the standards may lead to different recognition of contingent liability by preparers.

Even though preparers of financial statements are guided by IAS 37 (Provisions, Contingent Liabilities, and Contingent Assets) in the event of contingent liability recognition, the application of the standard however, requires preparers to make accounting judgment on probability expressions such as ‘probable’ (in the case of recognising a contingent liability) based on the facts surrounding the contingencies. Here preparers of financial statements will make accounting judgments on carrying amounts of liabilities that are not readily apparent from other sources; and could not be measured with certainty. They are to determine the amounts of such contingencies on a reasonable basis, so as to ensure that financial statements are reliably presented.

IAS 37 requires an entity to recognise a contingent liability along with a decrease in financial accounting income if the possibility of an outflow of resources embodying economic benefits is probable. The idea behind the decrease in reported income which is associated with recognition of contingent liability may render preparers of financial statements to interpret the expression 'probable' as 'less likely to occur' even if it the circumstance is 'most likely to occur'. Previous researches by (Doupinik & Richter, 2003; Doupinik & Riccio, 2006; Tsakumis, 2007) looked at the variation in the interpretation probability expressions such as 'probable' as used in the standards and found variations in response by accountants. Those researches were however conducted in the developed economy, by extending the coverage to Nigeria a gap in knowledge is expected to be filled. On this note, this paper sought to answer the question as to whether or not there is a significant difference in the accounting judgments of preparers of financial statements on recognition of contingent liability in Nigeria.

The paper particularly leans its' assumption on the premise of Prospect Theory (PT) as justification. The theory holds that there are persistent biases motivated by psychological factors that influence people's choices under conditions of uncertainty (Kahneman & Tversky, 1979).

**Conceptual Issues**

Judgement and Decision Making (JDM) is a branch of cognitive psychology that lies at the crossroads of cognitive psychology and economics. Much of cognitive psychology focuses on providing descriptive evidence of how people think but does not address whether these behaviours are consistent with normative models of how they should think. In contrast, JDM research often explicitly compares people’s actual decisions to economics-based models of normative decisions. JDM research also differentiates itself from other research in cognitive psychology because of its focus on readily observable outputs. This focus makes JDM research highly relevant to applied disciplines such as accounting. It is normally looked at on how people make decisions under conditions of uncertainty, and how problem framing affects decision-making (Trotman, Tan, & Ang, 2011).

JDM research in accounting is related to JDM of individuals such as managers, investors, auditors, and preparers of financial statements. Investors here for example may decide which stocks to buy and managers make decisions on accounting methods of recording transactions. Hence, it can be said that individual JDM practice permeate almost all the issues on which
accounting practitioners and theorists are focused, which justifies the study of individual accounting judgments (Пад & Стојановић, 2014).

Consideration of issues in JDM in accounting is based on the study of quality as their conceptual foundations. Focus on quality reflects the fact that theorists and practitioners often prefer to know more than just whether JDM differs among individuals or between different time periods; they are more interested in getting answers to questions such as whether individuals are successful in accomplishing a given task and, even more specifically, who these individuals are. Thus, theorists may, for instance, be driven by a desire to improve JDM in all employees including the top performers (Боннер, 2008).

Focusing on quality as a problem that needs to be investigated, the most common type of study is the one dealing with the quality of JDM as the dependent variable. Such a study can simply describe the current state of the quality of JDM in certain individuals and in a given task. A more important goal of such study is to understand the factors producing variation in quality through examining the efficiency of methods for improving JDM quality whenever it is lower than generally acceptable. A study may also deal with quality as an independent variable. Dependent variables that could be affected by the quality of JDM include the economic consequences for individuals who create JDM and the companies they work for, as well as economic consequences for third parties who use the JDM of such individuals. For example, a study could examine the effect of variations in the quality of analysts’ forecasts on their earnings and income based on their work, and a study could also examine the effect of investors’ variations depending on the analysts’ forecast and, consequently, return on investments (Пад & Стојановић, 2014).

Empirical Review

Допник & Риччо (2006) examined the context in which probability expressions are used in accounting standards and how they affect accountants’ interpretations of those expressions. Specifically, they expect accountants in a high conservatism country to assign a higher (lower) numerical probability to verbal probability expressions that determine the threshold for the recognition of items that increase (decrease) income than accountants in a low conservatism country. They also expect accountants in a high secrecy country to assign higher numerical probabilities to verbal probability expressions that establish the probability threshold for the disclosure of information than accountants in a low secrecy country. They survey professional accountants in Brazil (higher conservatism and higher secrecy) and in the United States (lower conservatism and lower secrecy) to test hypotheses. They obtain some support for the first conservatism hypothesis related to the recognition of income-increasing items, but no support for the second conservatism hypothesis related to income-decreasing items. They obtain stronger results in support of hypothesis related to secrecy and disclosure. Таскумис (2007) hypothesised that Greek Accountants will be more likely (less likely) to recognise contingent liabilities (assets) than U.S. Accountants (H1); and that Greek.

Accountants will be less likely to disclose the existence of both contingent assets and liabilities than U.S. Accountants (H2). The results do not support H1. No significant differences are found between Greek and U.S. Accountants’ recognition decisions involving both contingent assets and liabilities. However, supplemental analyses show that U.S. accountants consistently exhibited more conservatism than Greek accountants. In line with
expectations, Greek accountants are less likely to disclose information (i.e., were more secretive) than U.S. accountants, providing strong support for H2.

Doupnik & Richter (2003) investigate the effect of language-culture and linguistic translation on the interpretation of verbal uncertainty expressions found in International Accounting Standards. Data are collected from US Certified Public Accountants and German-speaking (chartered or certified accountants) to test three hypotheses. One group of German speakers evaluated uncertainty terms expressed in German and another group in English. The results indicate significant differences in interpretation across the three groups. Some differences are attributed to a language culture effect and others to a translation effect, with the language-culture effect being more pervasive.

Prior researches investigated how similar accounting task can be judged differently by accountants from different environments. Similarly, this paper investigates how differently Nigerian accountants recognised contingent liability in their financial statements. It is in that respect the following hypothesis is developed.

**H01:** There is no significant difference in the accounting judgments of preparers of financial statements on recognition of contingent liability in Nigeria.

**Methodology**

The population for this study was five hundred and ninety one (591) senior accountants who are the heads of finance, treasury and credit control in Nigerian companies. Multi-stage sampling technique was adopted. Listed companies were stratified based on Nigerian Stock Exchange (NSE) categorisation of eleven sectors. Forty percent (40%) of companies from each sector was randomly sampled. The procedure resulted to 79 companies being sampled. In each of these 79 companies therefore, three (3) senior accountants were purposively sampled as the target respondents. This translate to the sample size of 237 (3x79) senior accountants studied. Out of which about 188 responses were returned completed. This represents approximately 80% of the issued questionnaire.

The study used primary source of data by issuing closed ended vignette experimental questionnaire to the sampled population and used five point Likert-Scale to easily gather responses. Pilot study and threats to reliability and validity tests were conducted on the study. In analysing the data, descriptive statistics using cross tabulation was used to explain the overall responses of respondents in relation to each of the variables identified. Kruskal-Wallis test was used in testing the hypothesis.

**Analysis of Demographic Characteristics of Respondents**

Three demographic characteristics of the respondents were surveyed, namely: job title, working experience and frequency of using IAS 37. These characteristics were considered as the background information of respondents and useful for the analysis. The response frequencies are explained below:
Table 4.2: Frequency of Respondents’ Demographic Characteristics

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Job Title</strong></td>
<td></td>
</tr>
<tr>
<td>Head of Finance</td>
<td>63</td>
</tr>
<tr>
<td>Head of Treasury</td>
<td>60</td>
</tr>
<tr>
<td>Head of Credit Control</td>
<td>65</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>188</td>
</tr>
<tr>
<td><strong>Working Experience</strong></td>
<td></td>
</tr>
<tr>
<td>Less than 5 years</td>
<td>44</td>
</tr>
<tr>
<td>5-9 years</td>
<td>32</td>
</tr>
<tr>
<td>10-14 years</td>
<td>42</td>
</tr>
<tr>
<td>15-19 years</td>
<td>43</td>
</tr>
<tr>
<td>20-25 years</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>188</td>
</tr>
<tr>
<td><strong>Frequency of Using IAS 37</strong></td>
<td></td>
</tr>
<tr>
<td>Often</td>
<td>95</td>
</tr>
<tr>
<td>Seldom</td>
<td>7</td>
</tr>
<tr>
<td>Never</td>
<td>188</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey, 2015

It can be seen that the frequency of respondents under job title on Table 4.2 shows a total of 188 respondents. Out of which 63 were senior accountants who were the heads of finance, 60 were senior accountants who were the heads of treasury and 65 were senior accountants who were the heads of credit control. This represents 33.5%, 32% and 34.5% respectively. This indicates nearly equal distribution of the respondents’ groups.

It can also be deduced from the table under working experience that out of 188 respondents 44 have less than 5 years’ experience, 32 have 5 to 9 years of working experience, 42 have 10 to 14 years of working experience, 43 have 15 to 19 years of experience and 27 have 20 to 25 years of working experience. This represents 23.4%, 17.0%, 22.9%, and 14.4% respectively. That reveals a large portion of respondents with working experience between 1 to 10 years which is enough to understand the effect of accounting judgements determinants on the recognition of contingent liability. This is so because the age bracket of 1 to 20 years of experience is normally considered as the working age that does most of the organisations’ work.

Finally table 4.2 shows a frequency of using IAS 37 by the respondents. Out of the total number 188 respondents, 86 of them often use IAS 37; 95 of them seldom use the standard and 7 of them never use the standard. This represents 45.7%, 50.5% and 3.75% respectively. That shows that greater number of respondents have more than once used IAS 37 in their
professional practice. Thus, indicates greater idea of the concept. This helps in data gathering and analysis.

Test of Hypothesis
The hypothesis was tested using responses from three groups of senior accountants in Nigeria in relation to their judgement on contingent liability recognition as stated by IAS 37. The hypothesis is restated as follows:

**H₀₁:** There is no significant difference in accounting judgments of preparers of financial statements on recognition of contingent liability in Nigeria.

This study uses Kruskal-Wallis tests to determine the significant difference that exist between the groups of senior accountants in accounting judgments during recognition of contingent liability in Nigeria. Cross tabulation and percentages of the respondents' views on how they judge recognition of contingent liability is expressed below.

Table 4.3: Responses as to whether or not Senior Accountants Would Recognise Contingent Liability in Their Company's Financial Statements

<table>
<thead>
<tr>
<th></th>
<th>Definitely Would Recognise</th>
<th>Would Recognise</th>
<th>Neutral</th>
<th>Would not Recognise</th>
<th>Definitely Would not Recognise</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of Finance</td>
<td>11 (17.5%)</td>
<td>5 (7.9%)</td>
<td>22 (34.9%)</td>
<td>15 (23.8%)</td>
<td>10 (15.9%)</td>
<td>63 (100%)</td>
</tr>
<tr>
<td>Head of Treasury</td>
<td>10 (16.7%)</td>
<td>15 (25.0%)</td>
<td>20 (33.3%)</td>
<td>3 (5.0%)</td>
<td>12 (20.0%)</td>
<td>60 (100%)</td>
</tr>
<tr>
<td>Head of Credit Control</td>
<td>20 (30.8%)</td>
<td>3 (4.6%)</td>
<td>12 (18.5%)</td>
<td>24 (36.9%)</td>
<td>6 (9.2%)</td>
<td>65 (100%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41 (21.8%)</strong></td>
<td><strong>23 (12.2%)</strong></td>
<td><strong>54 (28.7%)</strong></td>
<td><strong>42 (22.3%)</strong></td>
<td><strong>28 (14.9%)</strong></td>
<td><strong>188 (100%)</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey, 2015

It can be deduced from Table 4.3 that 11 out of 63 senior accountants who are the heads of finance reported that they would definitely recognise the contingent liability. 5 out of them indicated that they would recognise the contingent liability, 22 out of them were neutral on the recognition of contingent liability, and 15 out of them indicated that they would not recognise the contingent liability and the remaining 10 out of them indicated that they would definitely not recognise the contingent liability. This represents 17.5%, 7.9%, 34.9%, 23.8%, and 15.9% respectively.

It can also be deduced from Table 4.3 that 10 out of 60 senior accountants who are the heads of treasury would definitely recognise the contingent liability reported in the case scenario. 15 out of them indicated that they would recognise the contingent liability, 20 out of them were neutral, and 3 out of them indicated that they would not recognise the contingent liability and the remaining 12 out of them indicated that they would definitely not recognise the contingent liability. This represents 16.7%, 25.0%, 33.3%, 5.0%, and 20.0% respectively.

Similarly it can be seen from Table 4.3 that 20 out of 65 senior accountants who are the heads of credit control would definitely recognise the contingent liability reported in the case
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scenario. 3 out of them indicated that definitely they would recognise the contingent liability, 12 out of them were neutral, and 24 out of them indicated that they would not recognise the contingent liability and the remaining 6 out of them indicated that definitely they would not recognise the contingent liability. This represents 30.8.7%, 4.6%, 18.5%, 36.9%, and 9.2% respectively.

Finally it can be seen from Table 4.3 that out of the total number of 188 senior accountants who are the heads of finance, treasury and credit control 41 out of them would definitely recognise contingent liability reported in the case scenario, 23 out of them indicated that they would recognise the contingent liability, 54 out of them were neutral, 42 out of them indicated that they would not recognise the contingent liability and the remaining 28 out of them indicated that definitely they would not recognise the contingent liability. This represents 21.8%, 12.2%, 28.7%, 22.3%, and 14.2% respectively.

From the analysis above, it could be argued that the manner in which Nigerian accountants recognise contingent liability during preparation of financial statements is the same across categories of accountants' job title. This can be seen from the pattern of responses on Table 4.3 where a total of 'definitely would recognise' plus 'would recognise' responses amounted to 34.0%, (21.8% + 12.2%). And a total of 'definitely would not recognise' plus 'would not recognise' responses amounted to 37.2% (22.3% + 14.9%); the difference of only 3.2%.

The analysis implies that Nigerian accountants are sceptical about recognition of contingent liability; as less than 50% (34.0%) of the respondents agreed to report contingent liability in their financial statements. At the same time up to 28.7% of the respondents selected neutral as their responses. This analysis indicates how the responses of senior accountants vary from one group to another regarding the recognition of contingent liability. Given these diverse views among the respondents groups, Kruskal-Wallis Tests were run to determine the significant difference between the groups.

Table 4.4: Kruskal-Wallis Tests for Significant Difference in Accounting Judgement on Recognition of Contingent Liability

<table>
<thead>
<tr>
<th>Null Hypothesis</th>
<th>Test</th>
<th>Sig.</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ho1.</td>
<td>Independent-Sample Kruskal-Wallis Test</td>
<td>.108</td>
<td>Retain the null hypothesis</td>
</tr>
</tbody>
</table>

Source: SPSS Version 20 generated result

Table 4.4 shows an Independent-Samples Kruskal Wallis tests comparing the difference in accounting judgments on the recognition of contingent liability between three groups of senior accountants in Nigerian listed companies. The result reveals significant value of 0.108 which is greater than the alpha value set at 0.05, implying no significant difference between the groups. In other words the distribution of recognition of contingent liability is the same across categories of senior accountants. Hypothesis one which says there is no significant difference in accounting judgments of the respondents on recognition of contingent liability in Nigeria is therefore retained.
The behaviour of these three groups of accountants might not be a surprise as it is consistent with the position in the literature that U.S and Greek accountants’ recognition of contingent liabilities (assets) is the same (Tsakumis, 2007). Accordingly, it could be argued that Nigerian accountants irrespective of their job schedules similarly recognise contingent liability in the same pattern.

Conclusion
The conclusion of the paper is very difficult to make accounting judgement on the recognition of contingent liability. It is noticed that preparers of financial statements’ judgements on recognition of contingent liability is the same across all categories of respondents. Greater percentage of respondents had chosen not to report contingent liability in their financial statements. Therefore, it has confirmed the assertion of prospects theory that individuals always act bias when faced with a condition of uncertainty. This behaviour makes it imperative for companies to improve the preparers of financial statements’ judgements performance for more reliable financial reporting.

Recommendation
This paper recommends that, the findings of the research be used by the preparers of financial statements. This will help them understand the effect of bias in accounting judgement and consequently improve their accounting judgement capacity.

Similarly the study recommends that companies management should on their own part improve the judgment capacity of their accountants; as this will translate to the production of reliable and comparable financial statements. Improving judgment capacity of preparers of financial statement will also result to increase in the number of investors and profitability in general.

Furthermore, it is recommended that, regulatory bodies especially Financial Reporting Council of Nigerian (FRCN) to understand how and why preparers of financial statements psychologically recognise contingent liability in a common manner. This will help the council evaluate the behavioural implications of the standard and make recommendations for its modification where necessary.
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References


