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Financial Reporting and the Accounting Expectations Gaap

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Abstract

The overall goal of financial reporting is to provide high quality financial information regarding reporting entities that is useful for informed decision making. Considering most organizations have multiple groups of stakeholders which often have differing and competing informational needs, as well as expectations and desired outcomes, the accounting expectations gap has become a topic of current debate in many business circles. Historically, the accounting expectations gap has centered around the role of the auditor and audit responsibility. The financial accounting expectations gap encompasses what the preparers of the statements and auditors believe they should contain and includes what stakeholders believe the financial statements should contain. The purpose of this paper is to extend and apply existing literature to the financial reporting expectations gap and bridge the gap in between the two approaches. The conclusions, recommendations, and implications reached are generalizable and appropriate for use in developing best practice solutions.

Keywords: Shareholders perspectives**,** Stakeholder theory, Human information processing, Behavioral Accounting

1. Introduction

In accounting literature, the term expectations gap was first noted in 1974 even though the roots of the accounting and auditing professions have been traced back as far ancient Egypt and Greece. As noted in Liggio (1974) and Aljaaidi and Salmen (2009) the accounting expectations gap has been generally defined "as the difference between the levels of expected performance as envisioned by the independent accountant and by the user of the financial statements". Lawrence and Weber (2016) argued that organizations have multiple groups of stakeholders which often have differing and competing informational needs, as well as expectations and desired outcomes. They further addressed the notion that the complexity of expectations differs significantly when organizations have a global footprint. To understand the complexities of the accounting expectations gap it is necessary to review the purpose of the accounting report and the related financial statement disclosures.

The accounting report involves a transaction where the issuers of the financial statements will provide a report, including the requisite disclosures, to prospective users who in turn will use that information to enhance their financial decision making. The users of financial reports differ expansively and include but are not limited to investors, creditors, governmental agencies and any other potential stakeholder either within the organization or without. Due to the number and size of fraudulent reporting cases, questions have arisen as to whether the accounting profession is working as required. As such, the expectations gap examines what the society reasons that accountants should carry out and what accountants think they can do is difficult to close. Financial reporting offers financial information regarding the reporting entity that is beneficial to the present and potential investors, financiers, and other creditors who use to make decisions in their capacity as providers of capital. The information provided in the report may also be beneficial to other users of financial reporting who are non-investor stakeholders. In this regard, the accounting expectation gap can be restated as the difference between the thoughts held by the public and the actual financial audit definition as stated above. The gap explains the difference between what an auditor is required to do and what is expected by users.

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Given that the auditor does not test every transaction while conducting an audit, the auditor is required to employ at a minimum, sampling methods to test certain transactions. This is to provide a basis to be able to reasonably assure that the financial statements portray a true and fair view of the entity. While this does not guarantee that every error has been detected, it does in part explain why there is an expectation gap. This gap might also occur because of the absence of transparency and integrity among auditors and audit controls that should enlighten the public concerning the procedures of accounting and financial audits. Furthermore, they might fail to inform the community about accounting standards and laws as well as reportage of financial issues and disclosure.

On the other hand, the gap that exists on the public's part is often because of misconstructions. Generally, the factors that influence the persistence of the audit expectation gap in financial reporting include unreasonable expectations of auditors as perceived by the society. According to Singleton (2006), very few individuals are aware that financial statement audits aimed at providing reasonable assurance of the material misstatement existence or absence. They also fail in the case where there is a recording of transactions as well as presentations of financial statements in conformity with generally accepted accounting standards or not. Notably, there is a general assumption by the public that in financial audit fraud should be caught. The reliance of financial auditors to some level of management representations make it impractical and unreasonable for them to practically and reasonable have a perfect, absolute and unquestionable determination of financial statement as reliable and within the required form.To narrow the possible expectation gap, a uniform guideline should be employed in the audit practice in which all auditors are obliged to determine the materiality threshold. The auditor should evaluate materiality by employing different materiality levels for different purposes. Additionally, the audit firm should ensure that all detected misstatements be rectified whether they are material or not. Furthermore, all the materiality errors discovered by the audit team and the effect on the final financial statements should be fully disclosed in the audit report.

The issue gravitating around the debate on expectations gap relates to the varying and erratic meanings accorded the description of an audit by financial statement users, the audit profession and the public in general. Cahan, van Staden and Yip (2011) argued that the audit expectations gap occurs when the understanding of external auditors about their duties and role is compared with the expectations of the public and user groups. Having reviewed the role of stakeholders in a corporation under the previous section, the researcher adopts the terms users and public to mean stakeholders in relation to an entity for the purposes of this study. To this end, is becomes necessary to make a distinction between the expectations that stakeholders have concerning an audit on one hand and the perception that the auditor holds on the other side. Marianne (2006) argues that beyond stakeholders, an auditor may perceive a somehow varying interpretation or fail to comply with standards put in place by the audit profession.

Considering the subjective elements of the expectations gap can be transformed into being more objective through the consideration and analyses of every component including financial reporting and tax. According to Marianne (2006) this transformation is also achievable through the consideration of measures that can be undertaken to minimize the expectation gap created by every element. The illogical expectations from stakeholders can be converted into logical expectations of financial statements' users. This is because there is a higher feasibility level in educating financial statements' stakeholders since not every one of them can utilize and interpreting financial information (Beneish and Yohn, 2008). Upon undertaking measures to lower the expectation gap's components, there can be comparisons of the logical stakeholders' expectations of financial statements against the expectations of a standard. Consequently, there would be a more stable and objective-oriented evaluation of the expectations gap (Marianne, 2006).

Often commentators attribute the expectations gap to stakeholder confusion, education or lack of understanding. (Kieso, Warfield and Weygand, 2016). In an early study Porter (1993) conducted an analysis of the entire expectations gap into three distinct elements consisting of deficient standards at fifty per cent, illogical expectations and thirty-four per cent and substandard performance at sixteen per cent. Considering the ease of revision of deficient standards and therefore the relative ease of minimizing this element, it makes sense to consider deficient standards as the most objective element. Consequently, this renders substandard performance and illogical expectations the more subjective elements. Despite illogical expectations being subjective, they still account for a considerable expectations gap's proportion and should therefore not be ignored according to Marianne (2006). Substandard performance should not be ignored either, until all probable measures have been exhausted in attempts to minimize this element.

Explanatorily, the substandard performance component constitutes problems that come from individual auditors. However, deficient standards stem from the audit profession whereas unreasonable expectations root from other stakeholders and the public in general. To raise confidence among investors in the financial reporting practices of corporations, the United States require all public companies to attest to the efficiency of their internal controls over financial reporting. The internal controls involve a system of checks and balances designed to prevent and detect fraud and errors. This essay will focus on financial reporting of an organization with respect to the shareholders' perspective, utilization of the stakeholder theory, human information processing and behavioral accounting.

Shareholders perspectives

Shareholder perspective is an idea that evaluates the focus of business establishment, a notion that lies in the economic rationale of business operation. According to Wit (2015), it is a common notion that companies are initiated to serve the objectives of the owners such as profit making, expansion of the business or becoming an employer as well as a wide spread investor. In this view, the shareholder should take it to his/her best interest to ensure the value of stock increases and other objective realization through pursuing the profitable business approaches otherwise known as shareholder value perspective. Contrarily, there is an opposing pole of individuals, the state leadership, banking sector, workers, suppliers, and the community that works against the shareholder's objective. As a result of this spectrum, there is need for the company to take responsibility and come up with business processes, which are parallel with the shareholder's interests and values (Wit, 2005). This perspective puts a lot of emphasis on profit making while it sacrifices responsibility making the organization appear as it is basically as instrument of the owner. In that case, the achievement of the entrepreneur is measured through aspects such as dividends, the share profit and economic benefit with the stakeholder management holding the position of a means in itself.

In a situation where matters of social responsibility are not considered because they are of no value to the firm, Wit (2005) noted that the best services to the community occur when an individual pursues self-interest and economic efficiency, but the corporation is very keen to see and identify anything that is placed on its operations by other stakeholders who are not the shareholders of the business operation. All in all, the cooperation only sees the stakeholders as expedient but disregards serving then for the aim are in maximizing the shareholder value, as restricted to what is lawfully acceptable. The individuals and state leadership are given the responsibility of employing, local communities, ensuring there is social advancement, the environment is taken care of and the client's wellbeing is considered because the company does not see that as part and parcel of its objective or line of operation. This maintenance of a market-based relationship between the stakeholder and company while pursuing maximum profit and results lead to optimal wealth for the stakeholder.

Stakeholder theory

Stakeholder's theory is an ideology, which has diverged from an exclusively co-operate-centric perspective where stakeholders are considered as subjects to be managed in the direction of a more networked, relational and process-centric perspective of firm-stakeholder involvement that considers interdependence, authority and mutual working environment (Ali, 2016). As a theory, it has received development and justification based on the descriptive correctness, instrumental influence and normative soundness. The theory describes a relational situation between the firm, stakeholders and managers in the descriptive accuracy point of view. Then when it comes to instrumental power, there is an assumption that the stakeholders interest must be considered by the managers for the firm's objective function can be achieved (Tullberg, 2013).

The third consideration offers a normative explanation, which prescribes to the managers what they must do while the fourth line puts focus on the metaphorical stakeholder's use. Stakeholder theory is found on several dimensions (Saint, n.d.). For instance, there is the normative approach, which basing on the corporate social responsibility treatment, the principles of fiduciary and corporate legitimacy there can be a stakeholder that retains the capacity to affect the firm hence becoming derivatively legitimate (Tullberg, 2013). Alternatively, a stakeholder can earn legitimacy as a result of the moral obligation otherwise referred to as normative. According to Ali (2016), the organization, therefore has a moral duty of fairness towards the normative stakeholders bearing on the fact of being human. Apart from the two stakeholders there is a 'derivative' one associated with a group with who the manager has to account for the actions and claims because of the prevailing effects upon the firm and its normative stakeholders.

The attention earns legitimacy because of the capacity to affect the firm and other stakeholders. The derivative stakeholders have an obligation they owe others yet there is no duty to them in an operation that is rather systematic (Ali, 2016). In metaphoric terms, it is expressed that an extensive dialogue is worth in the management of an organization as well as in its planning, which involves the strategies to satisfy the firm's needs instead of narrowly directing all energy towards shareholder profits or stockholders. Based on the analytic approach, stakeholder theory looks at a instrumental aspect that facilitates a firm in achieving the objectives as well as enhance leaders in meeting the fiduciary duties towards shareholders (Saint, n.d.). With such a realization, the cooperative has an agreement with the stakeholders on the joint trust funding and cooperation foundation hence competing aggressively over those who lack this provision. In this case stakeholders could fall under clients, labor or shareholders because of sharing a common meaning, firm's expectations as well as having an influential power over them and that makes it necessary that when an issue is addressed it matches with the practice of the cooperative (Tullberg, 2013). Besides, there should be adoption of behavioral norms that allow managers to act as various shareholders no mere shareholders, making a firm as competitive as possible in terms of social capital. Optionally, managers need not to carry themselves about as if stockholding is very significant in the company's success. A descriptive dimension builds the stakeholders theory as an ideology that engulfs the nature of the company, the methods through which the managers think about management, the extent to which board members reflect upon the corporate's constituent interests and the real management of such matters.

There are two significant models of stakeholder management theory (Mohs, 2016). According to Fort and Schipani (2000) the Stakeholder model describes corporate governance as the top management process that manages and mediates value creation for value transference among the various corporate claimants. Bettner, Carcello, Haka, and Williams (2015) describes the Caux Principle or model as the responsibility of corporation is beyond shareholders and towards stakeholders. In a research study Travis (2002) noted that by combining these two theories advances the notion that there are many linkages between the components of globalization and positive and negative change and that the linkages are driven by the assessment of the stakeholder's interests can develop into a void between the stakeholders. Considering that both domestic and multinational entities are the instruments of economic integration, they are further responsible for the positive productivity related wealth effects. From the argument raised in (Mohs, 2016), it is advanced that the dominant forces which shape both corporate governance and other prospects are those related to the economic integration, democratization and stakeholder mediation linkages. Business organizations do not exist for their own purpose; they exist for a specific social purpose. They are not an ends they are a means (Drucker. 2008). Within the organization that specific social purpose, is economic performance.

As discussed in Mohs (2016) Stakeholder theory was first introduced in the nineteen eighties and later consolidated in the nineties particularly through the works of many researchers such as Clarkson (1995) and Frooman (1999). Freeman's (1984) work which is broadly appreciated as the foundation of the theoretical landmark, defining how stakeholders who hold similar rights or interests make up a group each. Initially, stakeholder theory established its position among managerial professionals and academics as a new management model that incorporates more than just employees, clients, suppliers and shareholders. Instead, it includes all parties with potential interest in the activities of an organization (Clarkson, 1995). Arguably, the concept of stakeholder management acts to make sure that corporations identify, consider and scrutinize the characteristics of groups and individuals that affect or are affected by the activities and behaviors of an organization (Alves, Mainardes and Raposo, 2012). In general stakeholders have expectations, experience impact of relating with the firm, scrutinize results achieved and behave in accordance with their assessments to weaken or strengthen their links (Berger and Shrivastava, 2010).

According to Alves et al, (2012) stakeholder theory is founded on the economics, sociology, ethics and politics social sciences, with bias on literature about corporate social responsibility (CSR), organization studies and corporate planning systems theory (CPST). Freeman (1984) sought to elucidate on the fact concerning the relationship between the firm and its exterior surroundings coupled with how it behaves within the given surroundings. The research study of Frooman (1999) contends that the model introduced by Freeman (1984) to explain that aspect showed that there is mutual independence in the organization to stakeholder relationship. Various researchers (Phillips, 2010; Dunkin, Savage and Ford, 2004) concur that stakeholder theory's core assumptions are explainable in six constructs. Firstly, organizations involve themselves in relationships with numerous groups, which either are influenced by or influence them. This argument is traceable to the definition of the term stakeholder by Freeman (1984). Secondly, stakeholder theory stresses on the relationships with regards to procedures and outcomes for both the stakeholder and the organization.

Thirdly, the interest of every legal stakeholder is of intrinsic value and that there is not a single interests' set that is predominant over all the others. This third construct has been proposed in the studies by Donaldson and Preston (1995) as well as Clarkson (1995). Fourthly, the researchers contend that stakeholder theory underscores management decision-making. Fifthly, the theory pinpoints the means through which stakeholders pursue influence over the processes of organizational decision-making and consequently ensure that they are consistent with their priorities and needs. Finally, the researchers agree that organizations must endeavor to comprehend, balance and reconcile the diverse interests of participants.

Based on this wide theoretical ideology, the modalities employed by diverse groups of stakeholders during interaction with the organization can be clearly delineated. Clarkson (1995) argues that these groups are divisible into primary and secondary grouping. The former includes those with formal contractual relations with the organization such as employees, suppliers, shareholders and clients among others. The latter entails the parties who do not hold such contracts as the former, for instance the local community and governments (Clarkson, 1995). Through this, corporations are seen as an implicit and explicit relationships' network that spans both interior and exterior surroundings (Alves, Mainardes and Raposo, 2012). Moreover, advanced interest started exhibiting within these distinguished interest groups apart from owners or shareholders of the firm, with stakeholder theory's advancement (Hirsch and Morris, 2010; Forray and Goodnight, 2010).

Parallel with the progress, stakeholders gradually gravitated towards the inside and away from the organization's periphery to actively participate in the organization (Alves et. al, 2012). From an unique perspective, an explanation on the ideology of stakeholders, their participation and affiliation with the firm as contemporary features of more modern firms is offered by Andriof et al (2002). An increasing count of research projects that deal with the basic factors and strategy to stakeholder participation in the decision-making processes of organizations has characterized the previous two decades according to Asher, Mahoney and Mahoney (2005). In fact, many studies (Harrison, Bosse and Phillips, 2010; Huang, Lenc and Szczesny, 2008; Desai, 2008) recommend the stakeholder theory usage in contemporary organization milieus. Clement (2005) contends that this increased recommendation could be attributable to the surging pressures on corporations to react to various interests of stakeholder groups. Stakeholders are therefore considered likely to generate significant resources and contributions since they are in continual associations with the organization. The analyses of stakeholder participatory roles in the improvement of the quality of earnings being reported by MNCs cannot and should not be overlooked in the face of globalism and the expectations gap.

Human Information Processing and Accounting

Human information processing also known as behavioral decision-making research is a broad body of study that investigates into decision making in the accounting environment as a result of the acknowledgement of decision making as the central point of the contemporary accounting process. The emergence of this process is the interest by accountants to delve into the function played by the accounting information indecisions by the user such as lending on the commercial basis. Furthermore, they anxiously take an inquiry into complicated mapping error measures on utilities. There is an indication that every publicly accessible data about a firm is swiftly assimilated into the share costs in case of the semi strong from the effective capital marketplace. Once the share price level data is accessible, it ought to also be revealed together with the orthodox monetary data, and it ought to be left to the market to decide on whatever information to utilize.

According to Mohs 2016) the information-process approach emphasizes the encoding, storage and retrieval of information. When the human element is introduced the approach becomes more complex. Interpretation, motivation and judgment play key roles in the prioritization of information and in a business context, policy making. Jochim, Jones, and Workman (2009) further noted that information processing theory is grounded in the behavioral theory of choice. Amato, Driver, Pate, and Svensson (1996) defined choice or rational choice theory as a conceptual framework for understanding and modeling social and economic behavior. The major drawback to the application of rational choice theory to accounting information is the general lack of understanding developmental motivations (Mohs, 2016).

Marianne (2009) advances the argument that accounting principles and practices that are developed from existing conceptual frameworks restrict the usefulness and clarity of information when they are subject to constant amendment. Generally accepted accounting principles (GAAP) provide for the disclosure of relevant financial information. GAAP does not provide for the form in which the information needs to be disclosed. In many cases, excluding the basis financial statement, organizations are free to choose the form and use judgment to determine the substance of the disclosure. As noted in Mohs (2016) this may suggest that differences in interpretation, motivation and judgment will result in different disclosures. In principles-based accounting there is more leeway than in rule-based accounting to use alternative disclosure techniques. For example, tables, charts and text may differ in presentation value but still satisfy the same disclosure requirements. Interpretation of data forms is as subjective as the preparation and submission. The context in which the financial information is communicated affects the meaning and interpretation of the communication by the users. With the technological advances in the recent decades Hunton (2002) noted that the channel through which financial information is communicated has become almost as important as the information itself

In the aggregate user model, it is considered that a person can be tricked, however the market cannot. Nonetheless, individual preference and usage of information in making decisions by that individual investor cannot be realized directly in the instance where there is Efficient Market hypothesis. The user behavioral model is not a subject of interest for various researchers though this is at very low position, with which it might be greatly developed. The accounting context required a detailed study about individuals so as to improve their quality of decision making and lessens the information processing expenses by investors and accountants, as such the process could advance a set of statistics accessible to this person and to the market place hence advancing the way resources will be allocated I n the economy and the individual's welfare, Thus. Knowledge of individual decision-making process will assist in improving a set of data offered towards choice making and offering varied statements for diverse investor groups.

Since the investment decision processes assist to lower the processing expenses and achieve a higher constituency of decision making process, an effort to enlighten people on the financial information and any other relevant financial statements involvements became a necessity as early as 1960's. According to Porwal (2001), through function fixation it becomes possible for one to focuses on various numerals or indexes as if they contain a similar meaning and relevance for some time without necessarily regarding changes in what is represented or whatever is computed became vibrant. For instance, calculation of depreciation may have been altered or an optional inventory valuation process adopted, hence the net figure changes as the earning per share will alter. Furthermore, through anchoring, where a familiar figure or amount at the commencing point is used as adjusted based on available information deemed predictable and a person would decide to select annual sales or earnings figure as an anchor and figure put the five-year trend then reach the current sales or earnings (Porwal, 2001).

Ideally human processing research is applicable in accounting when making conclusions in what is called the lens model, which looks at the explicit cues from the surrounding in relation to the subject reaction. In this, report format, feedback mechanisms, accounting modifications, predicting bankruptcy, reasonable forecasts and policy making is made. The second way is applied in probabilistic judgments and the overall information is assessed sequentially before predicting values and making judgments consistently, conventionally, materially as audited, managed and anchored (Porwal, 2001). The final application is in the cognitive approach, which involves awareness alongside judging decision makers by studying information overload, whatever data is accessible as per decision making individuals in determination of the information format, and quantity. It is a fact that these judgments have been quite paramount in saving individuals from making decisions that could fail them business wise.

Behavioral Accounting

Accounting is a social as well as behavioral science that depend extensively on human behavior. It is presumed to be action oriented and its purpose is to impact behaviours directly through the informational contents of the message delivered and indirectly through the behaviour of accountants. Behavioral Accounting main decisional makers are part of the value to the company. It was developed to make the behavioural effects transparent to both potential and current stakeholders. This is performed to better the impact that business processes, opinions, and human variables have on the value of the overall corporation now and in the future. As discussed in Schiller, 2013 there is a perception that principles based accounting standards are more likely to result in transactions that reflect their true economic substance than in rules based accounting standards.

Principles based accounting is generally thought of as a series of general decision rules that are derived from objectives which provide guidance in terms of a conceptual basis to follow. Conversely, rules based accounting is a specific list of rules. Behavioral accounting is an accounting method that considers aspects of both principles and rules based accounting. Behavioral accounting refers to the accounting approach that stresses psychological considerations in decision making. In this type of accounting a valuation is placed on people and it reflected as an asset in the balance sheet. According to Akasie (2010), behavioral accounting is the theory that the administration accounting function is essentially behavioural. In this theory, the nature and scope of accounting systems is materially affected by the view of human behavior that is held by the accountants who design and operate the systems. Besides, it encompasses a simple application of participative budgeting. Riahi-Belkaoui (2004) discusses that the behavioral approach to the formulation of an accounting theory is concerned with human behaviour since it relates to accounting information and problems. The basic objective of behavioural accounting is to explain and predict human behaviour in all possible accounting contexts.

2. Measures Of Accounting And Earnings Quality

Literature about accounting contains many studies that investigate varying facets of quality of accounting. In spite of the divergent definitions of quality of accounting, there has been operationalization of various perspectives of this construct (Mohs, 2016). Perhaps the most common characteristic of such studies is the rampant development of quality measures using elements of earnings and reported earnings (Hribar, Krayet and Wilson, 2008) and the sustainability of earnings (Hunger and Wheelen, 2015; Berger and Shrivastava, 2010). Mohs (2016) noted the review of the salient literature indicates that most of the early studies define accounting quality in terms of accruals quality and earnings quality. Prempanichnukul and Sangboon (2008) reviewed various definitions of earnings quality and concluded that that it has been defined to involve the persistence of high earnings over time. Conversely, Hunger and Wheelen (2015), contend that the quality of earnings can also be expressed as earnings with the accurate representation of the economic implications of essential transactions. In addition, there are researchers who argue that earnings quality refers to the earnings' portion that relate to operational cash flows or the extent to which accruals of working capital map into future, present and current cash flows (Mohs, 2016).

In research conducted by Dechow and Dichev (2002), the measure of accrual quality (AQ) whose essence is on how well accruals translate into the actual cash flows that they define has since become a famed proxy for quality of accrual. According to the AQ measure, accrual quality is synonymous with the error variance that results from a working capital accruals' regression on lagged, past and current cash flows. Prior research has employed the AQ measure in various protocols and frequently as an information quality or financial reporting quality measure (Hribar et al, 2008). Francis, LaFond, Olsson, and Schipper, K., (2005) applied AQ as a deputation for risk of information and investigated whether the capital cost is connected with AQ. Chen, Shevlin and Tong (2007) investigated the loading on a risk factor of AQ around dividend shifts. In doing this the established evidence that AQ behavior is consistent with the risk of presented information. This suggests that the risk ratings of sell-side analysts were examined by O'Farrell and Lee (2010) and revealed that companies that have higher AQ are ranked as bearers of higher risk by the analysts. Biddle, Hilary and Verdi (2008) used the AQ measure as a substitute for quality of financial reporting and revealed that overinvestment and underinvestment are mitigated by reporting of higher quality. In addition, they show that firms with enhanced AQ measures tend to register less deviation from the levels of predicted investment.

According to the results of a study by Callen, Khan and Lu (2009) AQ captures both unintentional error of estimation in managerial opportunism and financial reports. The studies of Ashbaugh, Collins, Kinney, and LaFond (2008) and Doyle, Ge and McVay (2007) suggest that there is evidence to support that company, which have internal controls that are poor and that have higher likelihood of having estimation errors in their financial reports register high AQ. Dechow, Larson and Sloan (2009), Hutton, Marcus and Tehranian (2008) offer proof that AQ versions are connected with a heightened likelihood of material misstatements and restatements in the financial reports. Additionally, Watts and Zimmerman (1986) argued that managers possess incentives for managing earnings either downwards or upwards. Therefore, this implies that high AQ can closely be related to managerial opportunism. Consequently, the researcher expects a positive correlation between AQ and improved quality of earnings that entities report.

In addition to AQ, there has been use of different other empirical measures for the purposes of capturing accounting quality aspects. For instance, the Absolute Value of Discretionary Accruals (ABS/DA), which is computed through the use of a cross-section edition of the improved Jones model, book tax differences and the smoothness of earnings, which is measured in terms of variability of income to variability of cash flow ratio (Francis et al, 2005). Similarly, these measures have been employed in various settings. According to Hribar, et al (2008) the common point that is suggested across all measures is their tendency to form their bases on components of earnings and earnings realized. Thus, they offer an ex-post earnings quality measures on the basis of component earnings realizations. This further suggests that various measures are frequently brought forth to measure the reported accruals or earnings' quality, and not the entire accounting system's quality. A notion raised in Hribar et al (2008) is that an accounting quality measures do not depend solely on the financial statement data realized. Instead, organizations develop their proposed measure by use of the market for audits in order to give an accounting quality indicator.

This indicates that an organizations accounting quality measure makes use of the fees that auditors charge to surmise the auditor's ex-ante evaluation of the accounting system's quality. According to Mohs (2016) this approach albeit not universally accepted stems from the proposition that accounting systems of lower quality raise the auditors' risk exposure and will therefore be priced in equilibrium. According to Callen et al (2009) other measures or proxies of accounting and earnings quality include the frequency of generated losses, earnings surprises and special items. From a practical standpoint, the difficulty in sustaining consistent losses simply makes those losses unusual. Literature revolving around the management of earnings suggests that managers exercise discretion vigorously to evade losses (Jenzarli, Joseph and Pergola, 2009). Therefore, an inference can be made that losses signify an uncommon economic event for a company which most likely associate with increased asymmetry of information and the uncertainty of parameter (Berman, Elms, Johnson-Cramer and Phillips, 2010).

In a study case study conducted by Dempster (2008) it was noted that institutional investors form a significant supply source in the market of share lending and suggested that both positive and negative earnings surprises raise the levels of uncertainty. Adding to this, Callen et al, (2009) suggested that these surprises are indicators of expected occurrences that are too adverse to be smoothed. Consequently, situations where the occurrence of an earnings surprise becomes inevitable are more likely to be linked to bias in financial statements. It is under such situations that investor' skills of information processing presume greater significance Hunger and Wheelen (2015). Consequently, information asymmetry has the likelihood of rising in a manner similar to the increase of the uncertainty of valuation parameter. Conversely, the special items accounting quality proxy includes incurrences such as write-offs and restructuring charges for instance. The special items have likelihood of coming up in the event that the company is terminating some operations or in the event that it has suffered huge reductions in values of assets following uncertainty concerning future projections (Callen et al, 2009). In such situations, financial statements most likely hold more estimation error.

3. Conclusion

The accounting expectations gap is broad and multi-faceted. It has been generally defined as the difference between what the stakeholders think should be reported in the financial data and what the accountants think should be disclosed based on the existing conceptual framework. Most organizations have multiple groups of stakeholders which often have differing and competing informational needs, as well as expectations and desired outcomes. This helps to add another level of complexity. Often commentators attribute the expectations gap to stakeholder confusion, education or lack of understanding. Research indicates that the expectations gap can be broken into into three distinct elements consisting of deficient standards at fifty per cent, illogical expectations and thirty-four per cent and substandard performance at sixteen per cent. This research study concludes that in the accounting expectations gap is grounded in financial reporting of an organization with respect to the implications of the shareholders' perspectives, utilization of the stakeholder theory, human information processing and behavioral accounting theories. It further concludes that there is a connection between accounting quality and earnings quality to those theories.

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