

**IFRS and exercise of accountants' professional judgments:  
Insights and concerns from a German perspective**

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## **Insights and concerns from a German perspective**

### **Abstract**

In the convergence process with the development and adoption of International Financial Reporting Standards (IFRS) as national standards, exercise of accountants' professional judgment has increasingly been recognized as an important and controversial topic. However, most studies have failed to explore and capture the complexity of issues regarding the exercise of professional judgment in IFRS. Moreover, no study has critically examined perceptions that the International Accounting Standards Board (IASB) fails to take into account concerns about this extensive use of professional judgment in IFRS. As such, the objective of this paper is to provide in-depth insights into issues and concerns regarding the exercise of professional judgment in IFRS from a German perspective. Based on interviews with German accountants and leading accounting academics, this paper explores which factors are likely to influence professional judgment and critically evaluates to what extent factors such as national culture and managerial opportunism can hinder IFRS to achieve the aim of reliability and global comparability. Moreover, this study critically examines the perception of German accounting professionals and leading accounting academics that the IASB often fails to consider critical opinions about IFRS' principles and standards. We provide evidence that Anglo-American dominance and biases in international accounting as well as issues concerning language and self-assertiveness contribute to this perception of indifference in the IASB. As such, this study extends the existing accounting literature and contributes by providing deeper and sharper insights into the controversial topic of professional judgement in the convergence process.

Key Words: International Accounting, IFRS, Professional Judgment, Germany

## **1 Introduction**

Over the last decade, international accounting harmonization and convergence with the increasing adoption of International Financial Reporting Standards (IFRS) as national standards have become dominant topics in international accounting research (Ashbaugh and Pincus 2001; Daske 2006; Daske and Gebhardt 2006; Othman and Zeghal 2006; Christensen et al. 2007; Ding et al. 2007; Haverals 2007; Tyrrall et al. 2007; Daske et al. 2008; Lantto and Sahlström 2008). In this process of harmonization and convergence, exercise of accountants' professional judgment has increasingly been recognized as an important and controversial topic. Indeed, IFRS have often been characterized as principle-based standards that according to Sir David Tweedie, the chairman of the International Accounting Standards Board (IASB), require both companies and their auditors to exercise of professional judgment (Financial Accounting Standards Board 2002). This use of professional judgment in IFRS is emphasized by the 'substance over form' approach in the IFRS framework (IASB 2007). Moreover, importance of professional judgment is reinforced by standards requiring fair value approaches and discretionary decisions such as IAS 39, which have been discussed extensively in the international accounting literature (Fargher 2001; Gray 2003; Tan et al. 2005; Landsman 2007; Schmidt 2007; Adhikari and Betancourt 2008). Indeed, most studies have discussed professional judgment by evaluating relevance, reliability and informational value of fair value approaches (Barth and Clinch 1998; Barth et al. 2000; Mozes 2002; Muller and Riedl 2002; Betts and Wines 2004; Ernst & Young 2005; Sunder 2008; Hilton and O'Brien 2009). These studies are often based on the application of specific quantitative measurement tools or specific case studies with only few studies providing broader insights into the topic of professional judgment (Barth et al. 2000; Theile 2003; Chand and White 2006). However, few studies have concentrated on exploring concerns and issues regarding the exercise of professional judgment by taking into account specific national characteristics

such as culture and national accounting tradition. Furthermore, very few studies have examined perceptions that the IASB fails to take into account concerns about the extensive use of professional judgment in IFRS and importantly, no study has explored factors that may contribute to this perception.

The objective of this paper is to provide in-depth insights into issues and concerns regarding the extensive use of professional judgment in IFRS from a German perspective. Moreover, this paper critically explores the perception of German accounting academics and professionals that their concerns regarding the extensive use of professional judgment are not taken into account seriously by the IASB. As such, this paper critically explores which factors are likely to influence professional judgment and evaluates to what extent these factors can hinder IFRS to achieve the aim of reliability and global comparability. Additionally, this study critically examines the perception of German accounting professionals and leading accounting academics that the IASB often fails to consider critical opinions about IFRS' principles and standards and aims to provide new insights by referring to the issue of biases in the standard setting process.

This paper makes an important and original contribution to international accounting literature by providing fresh insights into issues and concerns regarding the exercise of professional judgment in IFRS from a German perspective. Exploring the influence of specific factors such as accounting tradition and culture on the exercise of professional judgment in IFRS provides further evidence of national differences in interpreting IFRS. Indeed, these differences may be reducing comparability and reliability of financial statements. Finally, the paper explores reasons for the perception of German accounting academics and accounting professionals that the IASB is largely indifferent towards their concerns about the extensive use of professional judgment. Importantly, the findings suggest that the reasons for this perceived lack of

awareness can be divided into four different sets of influential factors. While some studies have already provided evidence about power politics in standard setting (Schmidt 2002; Perry and Noelke 2006; Committee on Economic and Monetary Affairs 2008), this paper provides further insights by revealing that Anglo-American biases against other accounting models, self-assurance and language issues may influence the standard setting process. These explorative findings contribute to international accounting research by providing further evidence of the necessity to integrate broader perspectives in international accounting research in evaluating standard setting processes of the IASB. Finally, international accounting practitioners and international accounting standard setters could benefit from these insights that allow for a better understanding of the exercise of professional judgment in Germany and current concerns about the standard setting process.

This study critically examines and explores German issues and concerns about the exercise of professional judgment in IFRS by drawing on semi-structured interviews with German accounting professionals and leading accounting academics. Furthermore, international and German academic literature as well as public press releases and newspaper articles were examined to capture a broad range of German concerns and perceptions.

The remainder of this paper is organised as follows. The first section provides a detailed description of the research method and data analysis. The second section provides relevant background information and insights into professional judgment in the traditional German accounting model and IFRS. The third section explores and critically evaluates the use of professional judgment in IFRS from a German perspective. Particular reference is given to the influence of economic, legal, historical, political and cultural features on applying professional judgment in IFRS. Importantly, this section further shows that strong concerns exist regarding the extensive use of professional judgment in particular considering

hypothesis and model evaluations to create fair values. Given that German professional accountants and leading academics are concerned regarding the extensive use of professional judgment in IFRS, the fourth section discusses the promotion of fair values by the IASB and its perceived indifference towards German concerns. The paper concludes with a discussion of the major findings and suggestions for future research.

## **2 Research Method**

Given that concerns regarding the extensive use of professional judgment in IFRS and perceptions that these concerns are not taken seriously by the IASB have rarely been studied from a German perspective, a qualitative approach was considered appropriate to help identify main issues. Qualitative research is considered particularly advantageous in explorative research and when relationships between different factors are complex, dynamic and influenced by the broader contextual environment (Stake 1995; Eisenhardt 2002; Yin 2003). The use of professional judgment in IFRS and perceptions about indifference and biases in the IASB are considered to be complex phenomena because of the multiple interrelated factors of influence that are difficult to quantify. Consistent with these propositions about the benefits of qualitative research, German professional accountants and leading academics were specifically selected and interviewed to provide in-depth insights into the German position on the extensive use of professional judgment in IFRS and their perceptions on awareness of German concerns in the IASB.

The data analyzed for the study was collected in semi-structured interviews with German accounting professionals and leading academics in accounting. The selection process of the interviewees was based on criteria such as professional experience with IFRS, previous or current commitment to institutions involved with German and international accounting standard setting processes, academic reputation and quality publications on the subject matter

of international and German accounting. Contact was established via email with most requests for interviews receiving a positive response.

14 interviewees were selected and interviewed in the period from January to July 2008. The length of the interviews varied from 56 minutes to 2 hours and 20 minutes. All interviews were recorded and transcribed to avoid inaccuracies because of poor recall (Yin 2003). All interviewees got a semi-structure interview guide that included broad open ended questions on the personal understanding of the term professional judgment, factors influencing the use of professional judgement in IFRS as well as opinions and concerns regarding the extensive use of professional judgment in IFRS. The atmosphere in all of the interviews was very friendly and open. In their critical discussions about the exercise of professional judgment, most interviewees used the opportunity to emphasize their opinion that the IASB seems to be indifferent towards their concerns. Given the importance that the interviewees assigned to this perceived behaviour of the IASB, the research objective was extended to include an explorative investigation of the factors contributing to this perception.

The data was enhanced and evaluated by drawing on extensive literature in the field of international accounting as well as sociology and ethnology to ensure appropriate evaluation of the broad range of issues explored during the study. Furthermore, public press releases and newspaper were taken into account to develop our understanding of the multitude of German issues regarding the use of professional judgment in IFRS and in particular German perceptions about the standard setting process in the IASB.

The transcribed interviews were analyzed using a process of data reduction and conclusion drawing. A detailed analysis of the interviews led to the identification of key themes, which were then summarized in a separate document. In a process of subsequent readings of the interviews, more aspects and concerns were related to these key themes until a structure

evolved that emphasized 3 key themes with a few subordinated key aspects each. Given the topicality of IFRS and the role of perceptions about IFRS and the IASB in this study, the initial findings were further enhanced by ongoing reading of relevant academic literature and press statements concerning public perceptions about professional judgment in IFRS and the IASB.

The findings are structured in two broad sections, the first addressing two interrelated key themes, factors influencing professional judgment and concerns regarding the exercise of professional judgment in IFRS from a German perspective. The third section explores the third key theme, perceptions about the indifferent and unresponsive nature of the IASB towards concerns identified in the previous section. Before presentation of the findings, the next section provides insights into the term professional judgment and background information on its application in German accounting and IFRS respectively. These insights are further enhanced by the interview findings that provided specific insights into the German understanding of professional judgment'

### **3 Professional judgment – Relevant background information**

Professional judgment and the various factors that may influence this judgment have been recognized for some time as crucial issues in accounting. The awareness that accounting is a socio-technical activity and not simply a matter of technical concerns has resulted in increasing interest in the importance of professional judgment (Doupnik and Richter 2003, 2004; Patel 2004; Chand and White 2006; Doupnik and Riccio 2006; Patel 2006; Penno 2008). Accounting standards often contain measurement and recognition alternatives and include expressions such as “probable” and “more likely than not” that require professional accountants’ interpretation and judgment (Chand and White 2006; Patel 2006). However, the



exercise professional judgment differs depending on the specific accounting model and standards.

International accounting literature offers a number of classifications of accounting models and categorization of accounting standards, principles and values. Although these classifications are based on varying factors of discrimination such as legal system, cultural values, measurement characteristics and importance of tax rules, most categorizations include criteria related to the application of professional judgment (Choi and Mueller 1992; Choi et al. 1999; Choi et al. 2002; Nobes and Parker 2004; Choi and Meek 2008; Nobes and Parker 2008). For example, Nobes (1983) distinguishes national accounting models *inter alia* by, “degree to which law or standards prescribe in detail and exclude judgment”. Moreover, this degree of professional judgment is included in other factors of differentiation such as measurement and recognition criteria. For example, national accounting models with a strong focus on fair value approaches in their measurement and recognition criteria are likely to require the use of professional judgment to a greater extent than countries that strictly follow the historical cost approach.

Consistent with a number of classifications of accounting models (Gray 1988; Douppnik and Salter 1993; Radebaugh and Gray 1997; Nobes 1998; Radebaugh and Gray 2002), the traditional German accounting model based on the German Commercial Code (HGB) and Anglo-American accounting models that are the basis of IFRS can be differentiated in regards to numerous criteria such as measurement, recognition, standard setting authority and importantly also in regards to the exercise of professional judgments. Indeed, Anglo-American models and as such IFRS are supposedly requiring the exercise of professional judgments to a greater extent than the German accounting standards. However, some studies have provided evidence that such categorizations of accounting models are too simplistic and

largely fail to capture the full complexity of accounting models (Baskerville 2003; Douppnik and Tsakumis 2004; Nobes 2004). The next section provides insights into the importance and application of professional judgment in IFRS and the traditional German accounting standards respectively.

Professional judgment is an important element in both, IFRS and traditional German accounting standards. However, international accounting textbooks that often rely on simplistic categorizations of accounting models largely fail to emphasize the importance of professional judgment in the German accounting model. Indeed, most texts emphasize the legalistic and prescriptive nature of the German accounting model and only few mention the undefined “*Grundsätze ordnungsmässiger Buchführung*” (principles of orderly accounting)<sup>2</sup>, which require judgment per se. This perception that accounting in Germany requires limited professional judgment is further reinforced by emphasizing the close relationship between financial reporting and income taxation as established by the ‘*Maßgeblichkeitsprinzip*’ (congruence principle) and the conservative focus on historic cost accounting (Choi and Mueller 1992; Choi et al. 1999; Choi et al. 2002; Radebaugh and Gray 2002; Nobes and Parker 2004; Choi and Meek 2008; Nobes and Parker 2008). We argue that international accounting textbooks provide only simplistic insights into the exercise of professional judgment in Germany, which largely contributes to a perception that German accounting only requires limited interpretation and judgment by accountants and auditors.

Indisputably, the influence of tax law regulation and the great emphasis on historic cost accounting in Germany influence and limit the exercise of professional judgment in certain

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<sup>2</sup> The German term “*Grundsätze ordnungsmässiger Buchführung*” is often translated as “Generally Accepted Accounting Principles” instead of ‘principles of orderly accounting’. This is however a misleading translation, because of its similarity to US GAAP that embrace all rules and principles of accounting. In contrast, the German principles of orderly accounting refer only to non-codified rules and principles which have developed in practice (Haller 2003).

circumstances. For example, single entity financial statements often provide one set of accounts for accounting and taxation purposes out of cost considerations. In these cases, the German tax law limits the use of professional judgment by requiring specific accounting treatments as evident in the provision of depreciation tables. However, it is important to note that these tax considerations do not apply to consolidated statements, which have an information function (Haller 2003). However, international accounting textbooks largely fail to examine this difference between single entity statements and consolidated statements. Moreover, professional judgment is still crucial as the German accounting model is a principle based system that provides accountants with a number of explicit options. For example, the German commercial code (HGB) allows, but does not require recognition of goodwill. (HGB §255 (4)). Moreover, the HGB requires exercise of professional judgments regard provisions and depreciation as evident in regulations such as “depreciations are also permitted in accordance with reasonable commercial assessment” (HGB, §254 (4)). In the interpretation of these paragraphs, professional accountants often consider commentaries and previous court decisions for guidance. Professional accountants’ discretion in interpreting accounting standards is influenced by the requirements that judgments need to be consistent with the ‘principles of orderly accounting’, which support the application of creditor protection and the principle of prudence (Beisse 2001; Haller 2003; Eierle 2004). As such, accountants in Germany are required to exercise their professional judgment within a set of principal norms and under consideration of commentaries and previous legal decisions.

In contrast, IFRS are considered to require a great extent of professional judgment. Indeed, the IASB has used the term ‘substance over form’ (IASB 2007, Framework, para. 35) in its framework to emphasize the importance of professional judgment in IFRS. The substance over form approach follows the idea that attention should be placed on the ‘substance’ of business transactions rather than their legal form, which requires accountants’ exercise of

professional judgment. This importance of professional judgment is further expressed in standards that require fair values for measurement and recognition. The use of the fair value approach requires extensive judgments as the resulting accounting information is often based on judgmental calculations of hypothetical values and markets. Indeed, this focus on fair values has been rigorously debated by accounting professionals and accounting researchers, specifically in regards to relevance and reliability. Importantly, reliability has often been questioned because of the extent of discretion in the application and evaluation of fair values (Barth 1994; Bernstein 2002; Ernst & Young 2005; Barth et al. 2008; Flegm 2008; Gwilliam and Jackson 2008; Krumwiede 2008; McEwen et al. 2008; Van Deventer 2008; Whittington 2008; Accounting Today 2009; CPA Journal 2009). It is important to note that the traditional German accounting model requires recognition and measurement of assets and liabilities at historical cost. As such, fair values are a critical issue in this paper about the exercise of professional judgment in IFRS from a German perspective, which is consistent with the perception of most interviewees.

“Everything that refers to the past, I can judge easily and what lies in the future is difficult to judge. If I cannot get a fair value from a market price, I have to judge again in the end, I need to make many assumptions. As such, I believe that there is more judgment necessary in the concrete application of IFRS than in the HGB (German Commercial Code). I take that as given. (...) I think that is problematic, because the more judgment I, the more the standards require that I exercise judgment, the more subjective is accounting.” (A1)

We have demonstrated that professional judgment is an important element in both IFRS and traditional German accounting. However, it is important to differentiate between explicitly stated options and implicit discretion in regards to undefined expressions and criteria such as “materiality” and “control” and estimations in relation to the fair value approach. Both the

traditional German accounting model and IFRS include these explicitly stated options and implicit discretionary decisions. However, IFRS require implicit discretionary decisions to a greater extent, while the German accounting system has a stronger focus on explicit options. As discussed earlier, the strict historical cost approach of the German accounting model has limited implicit discretion regarding fair value estimates at least. Moreover, German tax law has further limited discretion regarding undefined criteria for single entity statements. As such, IFRS are likely to require greater professional judgment regarding implicit discretionary decisions, which may influence comparability of accounting standards. Importantly, this differentiation and its influence on comparability and reliability of financial information were pointed out and considered important by all interviewees:

“So, on the surface comparability (of IFRS) is given actually. Because we have little explicit scope, few explicit options (...) But then, one level below, there is only limited comparability, potentially a very limited comparability (...). So, we always say, “Many implicit options, so few explicit options, but a lot of implicit options (...), in particular because of the fair value orientation that we have already”. (A5)

“One level is: I exercise certain options, which I have in IFRS legally, in a certain direction – the other is actually the more interesting in practice (...), that are the implicit options. Often it is reduced to explicit options in IFRS and it’s said that we have clearly less explicit options in comparison to the HGB (German Commercial Code). That is correct. But the implicit ones increase in my opinion.” (A3)

International accounting textbooks and categorizations of accounting models largely fail to explain these differences in the application of professional judgment in Germany and IFRS. We argue that the failure to critically evaluate the German accounting model may contribute

to the perception that accountants in Germany are not required to exercise professional judgments and are sometimes perceived as bookkeepers rather than accountants.

#### **4 Exercise of professional judgment in IFRS – Application and concerns**

The interview findings are structured into three sub-sections that provide a synopsis and critical analysis of the issues raised by the interview participants. In the process of data reduction, a structure evolved that allowed to categorize the main concerns consistent with their influence on comparability, reliability and relevance.

##### **4.1 Professional Judgment and Comparability of Accounting Information**

The interview findings suggest a significant number of factors that influence the exercise of professional judgment. These factors can be differentiated into specific national factors, particularly culture and accounting tradition and factors of cross-cultural and cross-national relevance such as specific business goals and managers' and accountants' personal objectives.

The interviews provided insights that accountants' exercise of professional judgment in IFRS tends to be influenced by standards set out in the traditional German commercial code. This perception about the influence of the traditional German accounting model on the interpretation and application of IFRS is consistent with previous empirical research that shows that both explicit decisions and implicit discretion is often exercised consistent with the traditional German accounting standards (von Keitz 2005; KPMG and Von Keitz 2006). For example, the interviewees stated differences in the recognition of self-generated intangible assets. German accounting law strictly prohibits the recognition of self-generated intangible assets (HGB §248 (2)). In contrast, IFRS require the recognition of self generated intangible assets if certain criteria are met (IAS 38). As these criteria such as, "it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise" are

highly subjective, the recognition of self-generated intangible assets tends to be at the implicit discretion of accountants. In comparison to other countries, German accountants rarely recognize such self-generated intangible assets. This behavior is consistent with the traditional German accounting model and provides some evidence that accountants' exercise of professional judgment is likely to be influenced by their accounting background and professional work experience:

“When you worked for twenty years in a system, in which it was always the goal to reduce tax for single entity statements and to reduce dividends and then at some point in time you are forced to make consolidated statements (...),you are captured in this tradition.”(A8)

While this tendency to interpret and exercise judgment in accordance with the German accounting system may reduce international comparability, it is perceived to lessen with growing experience in the application of IFRS. As such, distinctions should be made according to the legal form of entities. For example, the interviewees stated that entities listed on the DAX (German stock index) have more experience, have established work groups and interact with each other and their auditors regarding application and interpretation in IFRS. In particular, the involvement of the big four audit companies that develop and follow international guidelines in auditing and applying IFRS are considered to standardize and unify international application and interpretation (see for example Deloitte 2008; KPMG 2008; PWC 2009; Young 2009). Despite some arguments for a move towards greater international similarity in the application and interpretation of IFRS over time, the interviewees also considered that certain national differences in the exercise of professional judgment will exist independent of experience and professional accountants' learning curve.

Critical discussions evolved around the influence of culture on the exercise of professional judgment. In general, culture was considered to influence the exercise of professional judgment, which is consistent with the evidence that judgments and interpretations are influenced by the traditional German accounting model. Indeed, the traditional German accounting model has developed consistent with the social, cultural, political, economic and legal context of Germany (Barth 1953; Al Koni 1998; Hommelhoff and Schwab 1998; Beisse 2001; Haller 2003; Eierle 2004, 2005; Brinkmann 2006). As such, a close relationship exists between the traditional German accounting model and the German environment and culture, which it reflects. Nevertheless, the possible influence of culture on the exercise of professional judgment in IFRS has been rigorously debated. Consistent with a significant number of studies that provide evidence of the influence of culture on professional judgment (Doupnik and Richter 2003; Patel 2003; Doupnik and Richter 2004; Chand and White 2006; Doupnik and Riccio 2006; Patel 2006), the interviewees emphasized culture as an important and timeless aspect influencing the exercise of professional judgment in IFRS.

“(…), what will probably never change is the cultural dimension. So, if Hofstede really applies, the Germans seem to be risk averse people. One example to demonstrate the validity of German risk-aversion: I think we are completely overinsured in daily life. Why are we overinsured? Probably because we are risk averse people. One could see another certain risk here and there and then you would get another insurance for that. And others do not do that. So, I think you will not be able to change that.” (A8)

“The more scope for discretion I have in that (IFRS), the more the cultural differences will be visible in these discretionary decisions.” (A2)



The statements provide further evidence of the close relationship between the traditional accounting model and the German culture. Indeed, in the context of cultural influences tendencies towards prudence and conservatism were mentioned as German cultural characteristics that influence professional accountants' judgments. Moreover, strict rule following behavior in the application and implementation of requirements and the tendency to try to discuss and analyze this application to the greatest extent has been mentioned almost sarcastically as differentiating the German approach towards IFRS from other nations. These assessments are somewhat consistent with ethnological studies and research in management accounting contexts (Hofstede 1980; Gray 1988; Djurssa 1994; Kakabadse and Myers 1996; Lubatkin and Floyd 1997). The following statements emphasize the German preference for greater rules and details.

“In Germany you use judge the useful life of assets according to instructions from the fiscal authority. When you say now: According to IFRS you have to test the useful life, then the people have a problem with it and say: We do not really want that. So, I think the German mentality is very Prussian. So, there is a law somewhere und that says what you have to do. And then that is what you do. I do think and here we are talking about a cultural-historical background that Americans are completely different on that. They see a problem, think about a solution and implement it. And in Germany you see the problem as well, think about ten solutions and then you discuss for ten years which implementation is the best. Then you might implement something, well, you can assume then that it works quite well, that it functions well.” (A2).

“You have to do a PPA, so a purchase price allocation (...). Then we make here a fuss and working groups and guidelines and the IDW, institute of auditors comes together and thinks about how to evaluate brands in this context for example etc etc. If you ask an

Italian or discuss with Italians, then they say: Oh, this is not a subject that concerns us, we do it differently every time.”(A8)

Moreover, the influence of culture on the exercise of professional judgment has been emphasized as an inevitable element that influences comparability of financial reports prepared according to IFRS.

“(…) I think it is excellent that you agree on one set of accounting standards worldwide and that all accountants speak the same language, that is really good. But you cannot believe that the same language will always be spoken with the same accent. So, the accent will differ, but you will still be able to communicate; That’s why it is good. In contrast, if you do not even speak the same language, then you do not even need to talk about accents.” (A2)

“The only authorized version (of IFRS) is English. But a Chinese reads an English term different than I read it. Because he has a different English classes, because he maybe, if I know now that significant is translated as ‘signifikant’ (significant), then I might associate something different with it than the Chinese as I might associate it with the German accounting model. That will always be the case, you cannot prevent that and I think that is not that much of an issue in the end.” (A1)

Importantly, these statements reveal that the interviewees did not perceive that these cultural differences in the interpretation of standards and in the application of professional judgment are critically limiting the comparability of financial reports. More concerns existed regarding other contextual factors such as legal liability, enforcement structure and specific personal ambitions and corporate objectives. Indeed, the findings show the close relationship of

contextual factors, which requires integrating broader perspectives in the evaluation of professional judgment and comparability.

Critical factors regarding the exercise of professional judgment and comparability were the influences of corporate aims and managers' personal objectives. Such objectives may include simple cost concerns that result in a tendency to exercise judgment in a manner that is consistent with IFRS and also HGB and even US GAAP to reduce time and costs in preparing numerous financial statements. However, the interviews shed also light on the influence of personal objectives such as attainment of personal financial gains and entities' concerns about equity structure and credit ratings as influential factors regarding the exercise of professional judgment. Opinions and perceptions differed to which extent such objectives override the influence of culture and accounting tradition on the exercise of professional judgment. Some arguments supported the view that these personal objectives influence and decide on the specific exercise of professional judgment and interpretation of criteria.

“The large entities employ people that have international competence of course, there cultural influence (it) is displaced. (...) Corporate objectives of course and there is always profit management and you will never get standards that are free of possibilities for profit management, because you always have some discretion. For example, good will is a big topic, if you have for example mergers und acquisitions, allocating these good wills (...) yes, that is where the music plays in regards to profit management (...) and that I would say displaces the cultural influence in international corporations, because you just have there people that think internationally.” (A5)

“That cultural characteristics have an influence? I do not think so. I think this is just a question of personal motivation. Simply when you look at management contracts how close personal aims are linked to financial accounting information.” (A4)

However, other interviewees mentioned the importance of personal or business objectives, but nevertheless considered the influence of cultural differences on the exercise of professional judgment as lasting.

“There is an old SEC argument. The SEC said at those times (...), we will never change to IFRS, because there will always be Italian IFRS, German IFRS, British IFRS. Then they started to say: Then we must have an IFRIC, an interpretations committee that provides uniform interpretation. I say now, that will always be the case. Even if US GAAP would have become the world standard, US GAAP would have been interpreted differently.” (A8)

Indeed, future research may further explore this relationship between explicit objectives and rather unconscious cultural differences in exercising professional judgment.

The previous discussion has emphasized a significant number of factors influencing professional judgment, which may limit international comparability of financial reports prepared under IFRS. However, the analysis of the interviews with German accountants and academics revealed greater concerns related to the fair value approach and the extent of professional judgment and discretion involved in applying and estimating fair values.

#### **4.2 Fair Value Approach in IFRS and Reliability of Accounting Information**

The fair value approach has been subject to extensive debates in international accounting literature. Indeed, the main arguments by advocates and opponents are sufficiently known and concentrate on decision usefulness, reliability and importantly, comparability of accounting information (Barth 1994; Barth and Landsman 1995; Bens 2006; Perry and Noelke 2006; Penman 2007; Barth et al. 2008; Becker and Wiechens 2008; Eckes and Flick 2008;

Krumwiede 2008; Parr 2008; Plantin et al. 2008; Whittington 2008; Andrew S. Hilton 2009). Consistent with this debate, the objective of this section is to provide detailed insights into concerns regarding the fair value approach from a German perspective. As such, we do not aim to evaluate and discuss all factors and concerns regarding the usefulness and reliability of fair values, but concentrate on exploring the views of German accountants and professionals on this topic.

Consistent with press statements and academic literature (Böcking 2004; Dawo 2004; Balida 2008; Fockenbrock 2008; Pfaff 2008), the findings suggest that the fair value approach is judged very critically in Germany. However, it is important to differentiate between fair values as related to existing markets and estimated fair values. While there was support for the use of fair values when market values exist, estimates of fair values were described negatively and considered to be highly subjective assessments that are influenced by a variety of factors, which limit objectivity and reliability of financial accounting information.

“There I have a clear answer (...): When you have market values, a fair value approach is surely better in fulfilling the information function, because you have recent values, but when you get into models, then I do not think anything of it, because I believe that your discretion is just too big. So, I think there would be no one, who would say: This strongly theory-driven perception, that has at the back of his mind that the capital market is efficient and so forth... this theory-driven perception is supported by anybody and if, then really only in infinitely small numbers. Irrelevant.” (A5)

“Is it purposeful to have market values and future market values in the balance sheet or does it rather contribute to confusion, does it not expect too much from accountants and contributes to many uncertain estimates. I am of the opinion that IFRS goes a wrong way there. So, I do not think it is correct what they are doing.” (A2).

Further analysis of the findings suggests that concerns about objectivity and reliability of estimated and model-based fair values can be related to two main factors of influence. The negative perception of estimated fair values by German accountants and accounting academics can be related to a general insecurity of estimates that limits reliability despite complicated calculations methods that are perceived to supposedly suggest otherwise.

“Because there is nothing as insecure as the future. If I estimate future development and many balance sheet items depend on estimates regarding the future, then accounting becomes more insecure.” (A2).

“And all these prescribed accounting policies and procedure in the standards, that shall describe a non realized fair value as secured, do not change anything that there is not one single person in this world, who knows for sure what will be tomorrow.” (A7)

Reliability of financial information and comparability of financial reports is further questioned because of the various and often subjective factors that may influence fair value estimates. These issues are strongly related to the factors that influence exercise of professional judgment and comparability of financial statements as discussed in the previous section such as culture and personal objectives.

“In the issue of impairment you certainly have cultural differences, because that involves certain risk assumptions and then also when you estimate your cash flows. As soon as you start looking into the future, the question is quite naturally, are you rather from a very cautious culture or rather from a culture, where you probably think only about the good and positive things. But these are things, you will never get rid of.”(A5)

Importantly, the importance of these factors and in particular their influence on comparability and reliability is emphasized to a much greater extent regarding fair value estimates than

regarding the exercise of professional judgment in general. Indeed, the findings of the previous section have revealed that cultural differences and diverse accounting traditions influence professional judgment and can limit comparability of financial information, but it remained debatable to what extent these differences are critically limiting the goals of the IASB to ensure global comparability. In contrast, the findings regarding the fair value approach suggest that comparability and reliability is limited to a critical extent, particularly because of the influence of personal aims and corporate objectives. Indeed, these are assumed to influence estimates and the interpretation of criteria to an extent that cannot be considered 'professional' and consistent with reasonable commercial assessment.

“I think this fair value thinking is a way of thinking that may work in a neo-classical model (...) under certain ideal assumption. But we are in a world, where people maximize their self-interest, where we have brutal information asymmetries, where I know, everyone cheats on everyone. And there I cannot rely on that a manager calculates the correct discounted cash flow.” (A8)

Subjective assessments of discretionary decisions were further considered to harm intra- and inter-firm comparability of financial reports because of the inclusion of unrelated circumstances as evident in cases of 'big bath' accounting. Big bath accounting describes the managerial practice to use large profit reducing write offs in one year to create an advantageous financial base, which is conducive to greater rate of returns in the next year (Healy 1985).

“When the new financial manager came, impairment was done like crazy. And that results in a very nice position for financial managers. Because you have once a bad news, but everyone says: Ah, there is a new one, he cleans up. And then you have huge devaluations, which has the effect that you are no longer bothered by it. (...) But in the end, well no one sells it like that, but I can see in practice all the time that many

regulations according to IFRS provide the opportunity to include unrelated circumstances by changing assumptions, because there are so many assumptions that have to be made. Take the example of impairment and big bath accounting; it is almost impossible to compare such accounting periods, because you have all these special effects in there.”

(A1)

Consistent with these experiences and impressions of German accountants and accounting academics, an increasing number of studies provides empirical evidence that discretionary decisions are likely to be influenced by managerial opportunism. (Dechow and Sloan 1991; Holthausen et al. 1995; Bagnoli and Watts 2000; Andrew S. Hilton 2009).

To summarize, the increasing importance of the fair value approach in IFRS was perceived as being inconsistent with the aim of the IASB to increase global comparability. Furthermore, the relevance of the fair value approach and professional judgment was questioned.

#### **4.3 Professional Judgment and Relevance of Accounting Information**

Relevance and reliability of financial information in financial reporting have long been discussed in international accounting literature. In the current move towards greater focus on fair values and faithful representation in IFRS, the trade-off between relevance and reliability has further become the focus of accounting research and practice (Lorson and Gattung 2007; Penman 2007; Schmidt 2007; Coenenberg and Straub 2008). The IFRS framework includes both relevance and reliability as underlying assumptions, and refers to possible trade-offs between these objectives in para. 32, “Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading.” Despite this reference to the problematic relationship between relevance and reliability by the IASB, the findings of the study reveal that German accountants and accounting academics believe that the IASB attaches a greater importance to relevance than reliability. Moreover, statements suggest a



very critical perception of the relationship between relevance and reliability that goes beyond the debate about a trade-off between these two objectives. Indeed, the discussions concentrated on the perception that relevance is strongly limited because of unreliable measurements, which relates to the extensive use of professional judgment, estimates and discretion in the application of IFRS.

The perception that the exercise of professional judgment in IFRS limits the relevance of accounting information was related to assessments of the decision-usefulness of accounting information prepared in accordance with IFRS. Common consideration was the practical relevance of estimated fair values and good will impairments, which was evaluated by considering its information value to financial analysts and investors. Consistent with a study of the German Accounting Standards Board (Gassen and Schwedler 2008) that evaluated European attitudes towards the decision usefulness of fair values, the general impression was that fair values can be useful and relevant. However, more specific discussions reveal that opinions vary depending on the different measurement concepts. Consistent with the findings in the previous section, mark-to-model approaches were considered to be less useful for decision making than market-based fair values and historical cost. According to our findings, this lack of decision-usefulness because of limited reliability is partly reflected in the behavior of financial analysts, who often disregard estimated values and goodwill and prefer items to be valued according to an existing market value or historical cost.

“There I know that German financial analysts are having major arguments: What are we doing with goodwill? Most analysts simply take it out of their calculations. Everything that is related to goodwill will simply be deleted in the Spread Sheets that are used. I think that is problematic (...) that is bad for the accounting profession.” (A1)

“Regarding external funds, so creditors and banks (...). There it is generally the case that they have some items that they take out of their calculations. As soon as they are not relevant for the valuation (...) in the end they look at the amount repayable and say: Ok, when it becomes due, what would we need to pay? And it is quite the case that when you go bankrupt, then the debtor does not want to have some discounted value back, but the debtor claims the debt back, or collects the debt. As such, banks still calculate explicitly and they all say at the moment. We do not require IFRS. They just like the HGB (German Commercial Code) the same.” (A5)

Importantly, the findings of this study opposes the assumption by the IASB that fair values are generally more relevant than historical cost and are the most useful in decision making processes. Indeed, it depends on the extent of professional judgment, the specific application of fair values and in particular on the importance of mark-to-model fair values.

Consistent with accounting literature, our analysis reveals that German accountants and accounting academics critically judge the complexity of IFRS, which is in their opinion further reinforced by the extensive use of professional judgments. This complexity may further limit usefulness as only experienced analysts are perceived as being able to interpret and critically evaluate the accounting information provided (Haller 2002; Larson and Street 2004; Baetge 2005; Jermakowicz and Gornik-Tomaszewski 2006; Committee on Economic and Monetary Affairs 2008). As a consequence, the complexity of IFRS was also perceived to further contribute to a concentration process on the audit market as only leading audit companies have the capabilities to assess and implement international guidelines and interpretations. Related to issues of complexity are cost concerns regarding preparation and auditing of financial reports prepared consistent with IFRS. The findings point out that it remains arguable whether the increased costs of financial reporting and auditing under IFRS are balanced by increased benefits. This assessment is reinforced by the perception that the

complexity of standards is often not required nor used by financial analysts, who are often only analyzing small parts of the information provided in the notes for example.

“And then, there is also the question, if we need this whole complexity, also in the notes. So, we have always, also according to IFRS cost-benefit considerations and here I think that the IASB overinterprets the benefit.” (A5)

“But when you talk to financial analysts, how much time they have to evaluate a balance sheet, I think the average in empirical studies is around 15 minutes, then you do not need to have any illusions, to what extent the notes are read in detail. Then come the most important income statement figures, they are put into a spread sheet and then you see what comes out of it.” (A1).

The previous three sections have provided insights into the exercise of professional judgment in Germany and concerns regarding this extensive use of professional judgment in IFRS from a German perspective. Despite the significant number of concerns and the overall negative perception of an extensive use of professional judgment in IFRS, the IASB seems to be unaffected by these concerns and further promotes the fair value approach. Indeed, German accountants and accounting academics perceive that the IASB does not consider their concerns. This perception will be further explored in the next section.

## **5 German concerns on the use of professional judgment and the role of the IASB**

Given that German professional accountants and leading academics are concerned regarding the extensive use of professional judgment in IFRS, this section provides our findings regarding factors that contribute to the perception that the IASB is largely indifferent towards German concerns and opposition. The analysis of the interviews led to the identification of

four main factors of influences: Anglo-American dominance and Anglo-American biases, lack of self-assurance and language issues. These have been further classified according to their respective origin. The assumption of Anglo-American dominance in international accounting and Anglo-American biases towards German accounting originate from the political and economic environment of the IASB. In contrast, the lack of self-assurance and language issues have their foundation largely in the German environment and culture. However, it is important to note that the factors identified influence each other and are likely to reinforce assumptions and perceptions that the IASB is indifferent towards German concerns about exercise of professional judgment in IFRS. Importantly, the interviewees raised their concerns largely in the context of an increasing importance of fair value approaches in IFRS.<sup>3</sup>

### **5.1 Anglo-American Dominance and Biases towards German Accounting**

Anglo-American dominance in international accounting is perceived to be an important factor that contributes to the limited awareness of German concerns by the IASB. Indeed, international convergence is perceived to be a highly political process, in which standard setting is shaped by the dominant players, which are Anglo-American at the moment.

“Now we are not too far away from London and we catch quite a lot of what is going on there: De facto, it is completely American dominated (...) IASB is game of power politics. At the moment the Anglo-Americans dominate, but that may change. I would not bet much on the Europeans though.” (A8)

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<sup>3</sup> The relationship between fair value approaches and the study’s topic, ‘professional judgment’ has been emphasized previously and relates to importance of professional judgment in establishing fair values.

“I am convinced that standardization of accounting and accounting norms is exclusively a political process. I have not seen it as important when I was younger, but by now that is... that is pure politics and in political processes it is always really difficult to make a prediction, because it is nothing that you can calculate naturally”(A5)

IFRS are largely based on Anglo-American accounting models and international accounting literature provides further evidence that Anglo-American dominance in the political economy contributed to this significant influence on defining the specificities of IFRS (Perry and Noelke 2006). Specifically, Perry and Noelke (2006) argue that the fair value accounting approach reinforces the importance of the financing over the productive sector, which is more compatible with the Anglo-American economies. Moreover, growing internationalization and control of US and British multinationals in the world markets has benefited large Anglo-American accounting firms. Indeed, the concentration of accounting services with only four big players benefiting from an increasing demand for global accounting services has further strengthened Anglo-American dominance in international accounting (Cooper et al. 1998; Jang 2005; Suddaby et al. 2007; Datamonitor 2008). This dominance allows influencing the standard setting process and importantly may contribute to Anglo-American biases against the German accounting model.

“They want to get rid of reliability (in the convergence process with the FASB), that is going so relentlessly towards fair value approach. In this context, when you raise your hand in one of the international committees and say: Guys, think if that is really clever to abolish the prudence principle, then thousand fingers are pointed towards you and say: Oh, you there in Germany with your funny system, always prudent, prudent” (A8)

Biases and political power may influence the direction of the standard setting process to an extent that is completely unrelated to critical assessments. Indeed, the following sarcastic statement provides interesting insights into the standard setting process and emphasizing that it is only important who is pushing an accounting approach.

“I think the Americans research this topic (fair values) since the 80s and came to the result that this timely information is better than information to amortized costs, so historical values. My personal opinion is: In ten years – no, I have claimed that already three years ago. So in seven years we turn around the world again and come back to the principle of historical cost, but then it comes from America and then all will scream and say: Fantastic, something great has been developed again. Then we will do it again.” (A2)

Gramsci's (1971) notion of hegemony provides valuable insights into this indifference and rejecting attitude towards concerns from other parties. Hegemony is defined by Gramsci (1971) as the intellectual and cultural dominance of one group over another, which is often based on economic dominance. The intellectual dominance becomes apparent considering that Anglo-American accounting approaches are often promoted as 'relevant' and 'expert' knowledge without critically considering opposing opinions and important evidence. Importantly, international accounting literature increasingly recognizes that objective evaluations of 'experts' and 'relevant' knowledge remain limited as knowledge largely reflects its social attainment context (Gramsci 1971; Cooper and Robson 2006; Rodrigues and Craig 2007). Moreover Gramsci's (1971) concept of hegemony emphasizes the importance of political and economical aspects in the lead to dominance and power, which are evident in the previously discussed concentration process in international auditing (Weber 1962; Gramsci 1971; Weber 1972; Joll 1977; Sassoon 1980; Femia 1981; Holton and Turner 1989). These aspects of Anglo-American intellectual and economic dominance are clearly reflected in the case findings.

“So, they develop their own world and then they try to push it through. And I think primarily by the question of financial support, what has always been a topic in the IASB.”  
(A5)

This intellectual dominance is furthermore perceived to be evidenced in the board structure.

“So, there is a group of eloquent Anglo-American people that push, who drive the whole thing obviously into one direction in my opinion and all the other ones are a façade. And when you are not even sitting on the board, you are not politically important.”(A8)

Official concerns have also been raised regarding representativeness and objectivity of the IASB and remain controversial given that the IASB is dominated by accounting professionals with an Anglo-American background (Baetge 2005; Ausschuss für Wirtschaft und Währung 2007, 2008). Moreover, the findings suggest increasing concerns about the political dimension and the move towards fair value approaches as a result of the IASB-FASB convergence project. Indeed, the American influence is perceived to be growing with convergence project and SEC’s acceptance of IFRS for cross boarder listings, at least in the short term.

“The project (IASB-FASB convergence) is pushed from London, but in the end by American FASB staff (...). Everything you get as papers with the logo of the IASB has been send by the FASB in Norwalk, Connecticut. That means this whole IASB-FASB “we converge” and “we meet in somewhere in the middle” is complete rubbish. That is pure power politics and in my opinion not supported by Continental Europeans.” (A8)

“The importance of US GAAP is increasingly diminishing in my opinion. Because we now have IFRS and most apply IFRS and I think that will lead to that the Americans will increasingly try as well to have greater influence on the IASB.” (A1)

As such, there is a growing conviction that German concerns will further be treated with indifference or polite rejection. This is further reinforced by the lack of Continental European unity that may be able to counteract and balance Anglo-American dominance and ensure that different opinions will be taken into account. Indeed, Continental European countries are considered to be too different to form strong coalitions of interest.

“When you start discussing on the European level, then you realize that a French is a French, the German a German, the Italian has also another opinion (...) you cannot lump all the countries together. As such, we have a problem. We do not bundle our interests at all, because we have so many aversions and different opinions and maybe also different traditions, that that is almost impossible.”(A8)

The discussion has provided evidence that the perception that Germans concerns are not taken into account by the IASB is related to the political and economic power of Anglo-American players that are able to push their approaches largely without critically evaluating different opinions. However, our findings suggest that these political processes are further reinforced by factors that originate within the German environment.

## **5.2 Language Issues and Limited Self-Assurance in Germany**

Our case analysis finds that language issues and also, to some extent the limited self-assurance of German accountants may further harms a critical consideration of German concerns by the IASB. Language issues exist because of the high eloquence of English native speakers in the IASB and other relevant committees. It is important to note that these language concerns by German accounting professionals and accounting academic do not refer



to inability to clearly state opinions in English. Most German professional accountants and accounting academics that are involved in the international standard setting process are likely to have above average English skills due to their work experience and education. However, German professional accountants and academics face language issues regarding the ability to discuss issues at eye-level.

Moreover, these language issues may limit possibilities to acknowledge German expertise and research. The influence of studies and publications developed in Germany remains limited as many of these are still available in German only and thus often fail to contribute to an awareness of German research results. Indeed, the interviewees criticize this limited international awareness of the abilities and tradition of the German accounting profession.

“And of course you are disadvantaged if you are not a native speaker. My colleagues can quickly get some pdf file from one of their colleagues at a university, and I might have the same results, but unfortunately in German.(...). As such, you could provide a lot of input from research and experience, but you have a certain linguistic disadvantage.” (A1)

Importantly, this lack of acknowledgement can be traced back to language issues, but also to a limited self-assurance regarding accounting expertise. Similar to the language issues, only limited emphasis is put on presenting German professional and academic expertise despite the longstanding accounting tradition. Importantly, German cultural values and behavior may contribute to a reserved attitude instead of presenting ideas and approaches in a self-assertive manner. Indeed, limited international awareness of German approaches may be driven by German culture, which is often perceived to be more conservative and reserved than Anglo-American cultures for example (Hofstede and Hofstede 2005; Reisch 2007).

“Yes, I think we are not arrogant enough, we are not self-assertive enough. As I perceive it American researchers are way more arrogant, so more self-assertive.” (A2)

This is further influence by the previously discussed political processes and Anglo-American dominance in international accounting, which may further limit German self-assurance regarding their ability to influence the international convergence process. Statements in the previous section have provided evidence that Anglo-American dominance in the IASB is perceived as limiting chances to achieve a critical discussion about different proposed approaches. This may be further reinforced by an increasingly negative perception towards the IASB.

“I think there is sometimes also a bit of bitterness, so according to the principle “The HGB (German Commercial Code) was not that bad” and “Why do we give up our old national traditions and subdue ourselves to the dictate of globalization” (A1)

This findings show that limited self-awareness and the lack of acknowledgment of German accounting expertise may be mutually reinforcing and further contribute to the perception of Anglo-American dominance in international accounting. As such, Anglo-American hegemony may be largely based on intellectual and political dominance, but may also be fostered by cultural manners that fail to challenge this dominance.

The purpose of this analysis was to explore the indifference of the IASB towards German concerns and concerns regarding the fair value approach in general. The lack of awareness of German concerns towards accounting approaches promoted by the IASB is largely the result of factors relating to Anglo-American dominance and biases and also driven by factors that can be related to the German environment. Importantly, the exploration of factors such as language issues and behavioral differences due to cultural differences has added new dimensions to the discussion. Indeed, international accounting research and practice could benefit from further research addressing the political dimension of standard setting in the

convergence process and by taking into account other factors such as linguistics and culture and their interdependences.

## **6 Discussion and conclusion**

The objective of this paper was to provide in-depth insights into issues and concerns regarding the extensive use of professional judgment in IFRS from a German perspective. Our study has critically explored perceptions of German accounting academics and professionals that the IASB is indifferent towards their concerns. As such, this paper has explored which factors are likely to influence professional judgment and has provided insights whether these factors are likely to influence and hinder IFRS to achieve the aim of reliability and global comparability.

Our analysis of the case findings suggest that the exercise of professional judgment in IFRS is influenced by two distinct groups of factors, which are differentiated according to their origin and specific influence on professional judgment. Consistent with this criteria, specific national factors such as culture and previous accounting tradition may be differentiated from general factors that have cross-cultural and cross-national relevance such as specific corporate goals and managers' and accountants' personal objectives. Importantly, our findings suggest differences between the two groups of specific national factors and factors of cross-national relevance. National factors such as culture and accounting tradition are perceived to influence professional judgment and may limit comparability. However, the evaluation shows that these cultural differences are an inevitable element that has to be accepted in the convergence process. In contrast, factors of international relevance such as opportunistic behavior are perceived to be a critical element in the convergence process that potentially harms the overall goals of the IASB.

Concerns about the extensive use of professional judgment have been further explored regarding the fair value debate. Specifically, our findings suggest that the fair value approach receives only limited support in Germany, in particular regarding the increasing importance of models and estimates in creating fair values. While there was evidence of some support for the use of fair values when market values exist, estimates of fair values and particularly mark-to-model approaches were described negatively and considered to be too subjective to provide reliable financial accounting information. Finally, the influence of the extensive use of professional judgment in IFRS on relevance of accounting information was discussed and major concerns explored. The findings provide evidence that German professional accountants and accounting academics have a very critical perception of the relationship between relevance and reliability. Indeed, the lack of relevance was largely considered to be a consequence of the lack of reliability due to extensive use of professional judgment, estimates and discretion in IFRS.

During the interviews, it became increasingly evident that German professional accountants and accounting academics perceive the IASB as largely indifferent towards their concerns. As such, factors were explored that may contribute to this perception of indifference of the IASB towards German concerns and other opposing evaluations of accounting approaches. Our analysis proposes four main factors, which are further differentiated according to their respective environment of origin. Critical aspects that have been identified were the perceived Anglo-American dominance in international accounting and Anglo-American biases towards German accounting, which both originate from the political and economic environment of the IASB. In contrast, the German environment and culture, specifically limited self-assurance and language issues were revealed as the second main group of factors contributing to an indifferent attitude towards German concerns in the IASB. Importantly, the exploration of factors such as language issues and behavioral differences due to cultural differences has

added new dimensions to the discussion in international accounting literature as previous studies have largely focused on Anglo-American dominance in international accounting. Moreover, we have shown that Gramsci's (1971) concept of hegemony provides fresh insights into the issue of Anglo-American dominance and biases in international accounting.

The convergence process with a strong focus on fair value approaches suggests that research into the exercise of professional judgment in IFRS is an important and timely topic. As such, it was the objective of this study to raise awareness about the German concerns on the extensive use of professional judgment in IFRS and explore factors that contribute to the perception of German accounting professionals and accounting academics that the IASB is largely indifferent towards their concerns. However, the focus of this paper was to provide preliminary explorative evidence of factors and issues contributing to the perception that the IASB does not take into account opposition and concerns. Therefore, numerous possible suggestions for future research can be identified. First, other studies may explore concerns from different national perspectives to further explore issues and biases. Moreover, this paper has provided explorative findings from a limited number of interviews that are not necessarily representative of all existing opinions. Consistent with this limitation of the paper, future research may consider evaluating specific concerns to gain deeper insights and further assess their relevance over a larger statistical population. Moreover, this paper has revealed a number of issues that have not been adequately addressed in international accounting literature. Thus, future research may further examine the relevance of language issues in the standard setting process. In the current rush towards convergence with an increasing number of countries adopting IFRS as national standards, it is important and timely to provide a critical evaluation of these language issues in the standard setting process. Similarly, the relevance and influence of self-assurance on defending and promoting own views and perceptions provide an interesting topic for future research. In this regard research may also

further explore the influence of national culture on self-assurance. We argue that international accounting research and practice would benefit from deeper insights into these issues as biases and dominance in the standard setting process are likely to create further opposition and challenges.

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