GENDER IN MODERN ACCOUNTING AND MODEL VALUATION – POLISH PERSPECTIVE

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Abstract:

Aim: The paper aims to find out the role of gender in accounting on liabilities valuation and earnings management. The sample consists of Polish accountants with various practical experiences. The authors assumed that such a relationship exists and women prefer less risky valuation methods. The method of analysis of sources (literature), deductive reasoning and survey research were used. The study used a questionnaire addressed to Polish accountants. The results confirmed that accounting women prefer less risky liabilities valuation methods. Women recommend historical cost valuation less often than men. The main restriction concerns that the quantitative study was preliminary and refers only to Polish accountants. The obtained results are the basis for further research in showing the relationship between gender in modern accounting (reliability of reporting information, simplifications in accounting, tax aspects). The article fills the research gap in preferable valuation methods regarding the gender of the person responsible for accounting. The accountant's role in the modern economy has changed from bookkeeper to person providing information.

Keywords:

accounting, gender, earnings management, valuation.

1. INTRODUCTION

Even though we have equal rights and access to learning and practicing the accounting profession in Poland, the literature indicates a strong feminisation of the accounting profession (Kabalski, 2021)—more women than men work as accountants. The reasons for this situation can be found in gender stereotypes or cultural conditions (Kabalski & Szwajcar, 2015). Accounting is a crucial element of running a business. Based on the information prepared by accounting, mandatory tax settlements and assessment of the business activity are possible. Without accounting, it would not be possible to make development decisions. Accounting is a language of communication that provides information to a wide range of stakeholders, from investors through financial institutions and contractors, public administration, and employees. Strict compliance with accounting principles and procedures guarantees the creation of reliable and useful financial information. Despite the standardisation of accounting principles, accountants can make individual decisions (in terms of accounting policy) tailored to companies' needs and operating conditions. It may include, within the limits permitted by law, the use of simplifications or the selection of detailed valuation methods for assets or liabilities. For example, in Polish accounting regulations, you can choose one of two methods for valuing financial liabilities: the historical cost method and the amortised cost method. The literature indicates that women participating in the audit process reduce the impact of earnings management on companies' financial data (Ittonen et al., 2013). It can be expected that a lower impact of earnings management will characterise companies audited by women and, therefore, a higher quality of financial statements.

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Additionally, it was noticed that increasing the share of women in management bodies of companies reduces the negative association of earnings management (Gavious et al., 2012). It can, therefore, be concluded that women's accounting is characterised by better compliance with legal regulations and a lower tendency to take risks in collecting, processing and reporting financial data. The paper aims to find out the role of gender in accounting on valuation and earnings management. The sample consists of Polish accountants with various practical experiences. The authors assumed that such a relationship exists and women prefer less risky valuation methods.

2. LITERATURE REVIEW

Valuation in accounting shapes the quality of reporting information, influencing financial decisions by a wide range of stakeholders. Assets and liabilities are valued based on one of two models: the historical cost model or the value model based on market measures. Historically, the oldest model is pricing based on historical cost. For many years, historical cost was considered the best valuation method. In the light of this method, assets are valued at the prices (costs) incurred for their acquisition or production. Historical cost valuation is firmly rooted in professional discourse (Maroun & van Zijl, 2022). However, in recent years, fair value measurement has steadily increased (Baudot, 2018; Benston, 2006; Georgiou, 2018; Hitz, 2007). Since 1980, the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IAS) have systematically replaced historical cost methods with market-based measures, initially mainly for the valuation of financial instruments and non-financial items. The reporting model based on historical cost is losing importance in favour of the market value model (Hitz, 2007). According to some authors, fair value provides users with important information that faithfully reflects the economic essence of the transaction (Georgiou, 2018; Whittington, 2008). The fair value paradigm is based on the decision utility paradigm, established as an official goal of standard setting (Hitz, 2007).

The historical cost is undoubtedly a valuation that ensures higher security in economic transactions. The valuation based on historical cost does not include unrealised profits, and there is no possibility of revaluation above the purchase price. Lenders, therefore, believe that this valuation better protects their interests. In turn, the concept of historical cost is criticised by investors who accuse it of lacking information about the current value of resources. The longer the time horizon, the less useful information about the historical cost of assets is. From the point of view of investor decisions, the concept of historical cost is of little use. The main advantages of valuation based on fair value include the fact that it considers market expectations regarding future cash flows. Its main disadvantage is the questionable measurement reliability, especially in the case of estimates based on management expectations and forecasts (Hitz, 2007). Fair value estimation is based on a three-step hierarchy:

1. Valuation at market prices - best estimate of fair value.
2. Inclusion of modified market prices for comparable items.
3. Estimation (Hitz, 2007).

Measurement by estimation is perceived as the most significant disadvantage of fair value measurement. Valuation pays special attention to its functioning in conditions of economic crisis. The advantages and disadvantages of both valuation methods then look different. Of course, there is no clear position on which approach better reflects reality in crisis conditions, but specific hypotheses put forward by the authors can be analysed. The first hypothesis assumes that fair value is more important for value than historical cost in a period of increased macroeconomic uncertainty. It is more transparent and up-to-date, allowing for more effective decisions and better reflecting current risks (Liao et al., 2021). The transparency and timeliness of decisions are often emphasised in the literature on the subject (Penman, 2007), and the historical cost only presents past conditions (Laux & Leuz, 2009). The significant role of fair value when valuing investments for financial reporting purposes is emphasised. Fair value can help alleviate the information problem by capturing and reflecting current market conditions.

The second hypothesis assumes that historical cost is more appropriate during an economic crisis because fair value is unreliable and more susceptible to managerial manipulation. Particularly in times of macroeconomic uncertainty, estimating fair value may become difficult. Bhat notes that fair value's usefulness is limited because markets are illiquid and stressed (Bhat et al., 2011). Benson points to the example of Enron, which used estimates to value its energy contracts. Fair value is mainly responsible for the company's failure (Benston, 2006). As can be seen, fair value is primarily criticised for the method of determining it based on estimates. Valuation at market prices or modified market prices is better perceived.

In the context of the gender of accountants, the following questions were asked in the survey:

- For the valuation of financial liabilities, I recommend the amortised cost method.
- In my practice, I value financial liabilities at the adjusted purchase price.
- In a situation where the entity is threatened with bankruptcy, I recommend neutralising the decline in financial results (within the limits of the law).

- If the entity is threatened with bankruptcy, I (and would) neutralise, within the limits of the law, the decline in financial results.

The answers will allow to assess the preferred valuation principles regarding fair values and historical cost.

3. METHODOLOGY

The research problem can be formulated as a synthetic question: does the gender of people practicing accounting influence their approach to valuation? The study was conducted from September to November 2022. Members of the Association of Accountants in Poland (AAP) were invited to participate in the study. The research survey was sent by e-mail to AAP members. 63 members of the Association of Accountants in Poland took part. 48 respondents were women, and 15 were men. The next group of respondents included people dealing with accounting and associated with Facebook groups. 23 people responded to the link to the survey, 18 of whom were women and 5 were men. Figure 1 presents the research sample grouped by gender.

Based on the answers obtained, it can be concluded that the accounting community is highly feminised. The survey includes questions about the respondents' experience in accounting positions. It will enable comparison of answers among people with extensive professional experience (over ten years) and people starting work in accounting (less than ten years). The questions in the survey were divided into two groups. The first group consisted of questions relating to the knowledge and recommendations of accountants. The second group of questions concerned the practical application of valuation methods.

4. RESULTS AND DISCUSSION

To examine the impact of gender on the tendency of accountants to manipulate results, they were asked in the survey to respond to the following statement: I recommend using the amortised cost method for financial liabilities valuation. Respondents could answer the following: 1 – strongly disagree, 2 - disagree, 3 - neutral, 4-agree, 5 – strongly agree. The survey results were divided into two groups: accountants with short professional experience (up to 10 years) and accountants with long professional experience (over 10 years).

Figure 2 shows the answers of respondents who have been employed in accounting for up to 10 years.

Figure 2 shows that, regardless of gender, most accountants recommend using the amortised cost method for valuing liabilities. The study also examined the practical application of valuation methods. In the group of accountants with up to 10 years of experience, most women and men answered that they only sometimes use the amortised cost method (Figure 3).

In the group of more experienced accountants (over ten years), more men recommend using the amortised accounting cost method (Figure 4). It can be concluded that women would recommend a more cautious, historical cost approach.

Figure 1. Recommendation amortised cost method, accountants with less than ten years of experience.

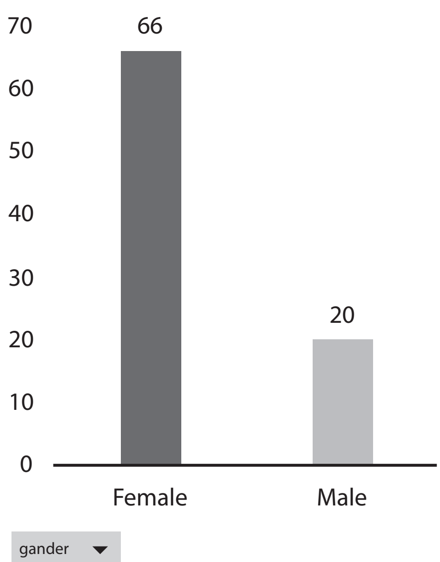


Figure 2. Recommendation amortised cost method, accountants with less than ten years of experience.

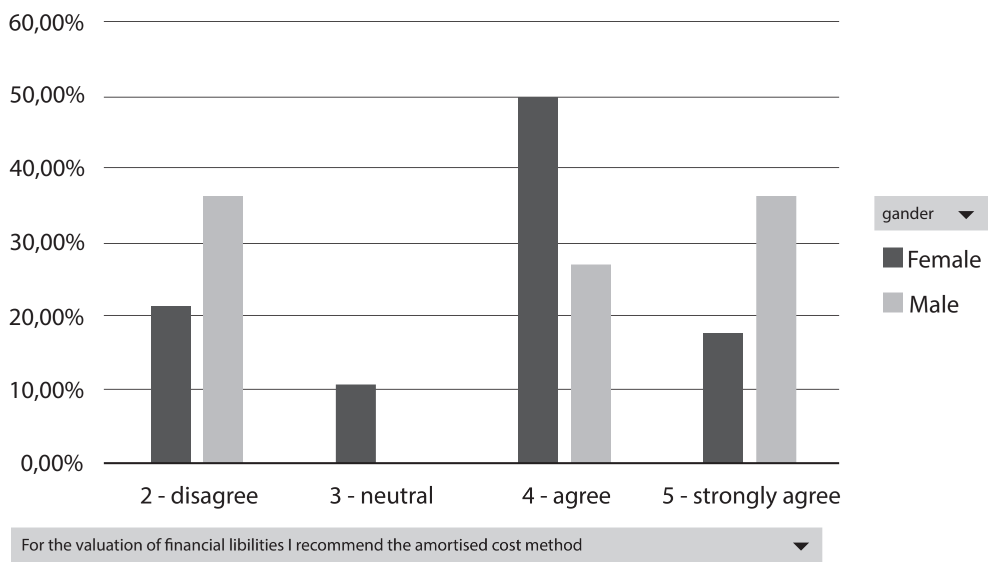


Figure 3. Amortised cost method in practice, accountants with less than ten years of experience.

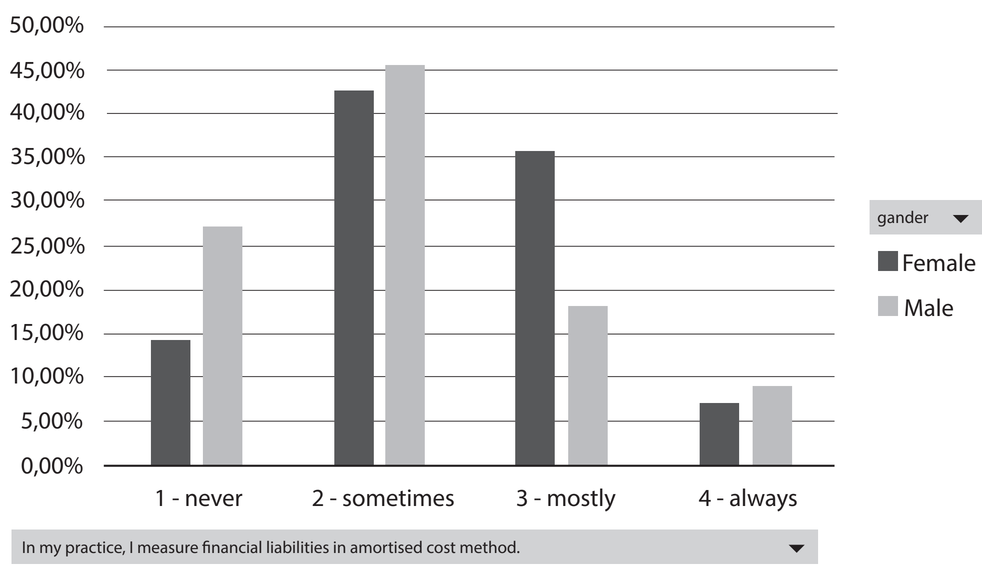
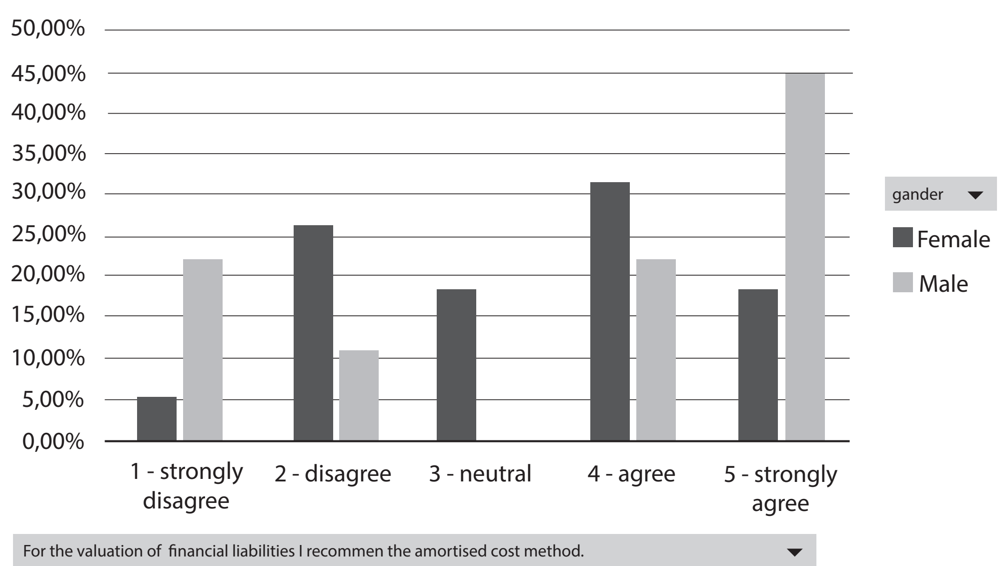


Figure 4. Recommendation amortised cost method, accountants with more than ten years of experience.



Although most men recommend using the amortised cost method, only a few use it in practice (Figure 5). In the case of women, most answers indicated a neutral or negative attitude towards it. The accounting practice of women confirmed their recommendation (Figure 5).

An interesting observation from Figures 2 and 4 is that men did not choose the 3-neutral answer. It can be concluded that in their views on valuation, they were either supporters or opponents of the amortised cost method. The second question concerned the accountants' approach to earnings management when the company's continued operation is at risk. Respondents were asked to answer whether, if the entity were threatened with bankruptcy, they would recommend neutralising, within the limits of the law, the decline in financial results.

Figure 6 shows the results for accounting department employees for up to 10 years.

Based on Figure 6, it can be concluded that most men agree with earnings management in corporate crises. In the case of women, the majority do not agree with earnings management or are neutral. Figure 7 presents the responses of accountants with up to 10 years of experience regarding the practical application of earnings management.

Based on Figure 7, it can be concluded that although most men recommend earnings management, their practice indicates that they have never done it or only do it sometimes. Most women never or only sometimes manage earnings (Figure 7), which is consistent with their beliefs (Figure 6).

In the case of accountants with professional experience of over ten years, the answers regarding recommending earnings management are presented in Figure 8.

Figure 9 presents responses regarding earnings management practices in a group of long-time accountants.

Most women and men with professional experience of over ten years do not recommend earnings management, or their approach is neutral (Figure 8). Their practice in this area confirms this observation (Figure 9).

Figure 5. Amortised cost method in practice, accountants with more than ten years of experience.

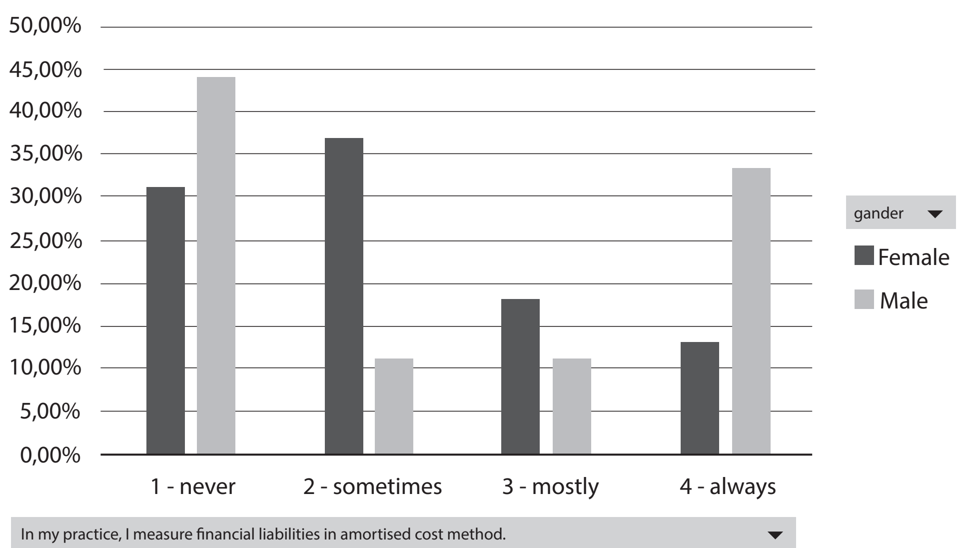


Figure 6. Earnings management recommendation, accountants with less than ten years of experience.

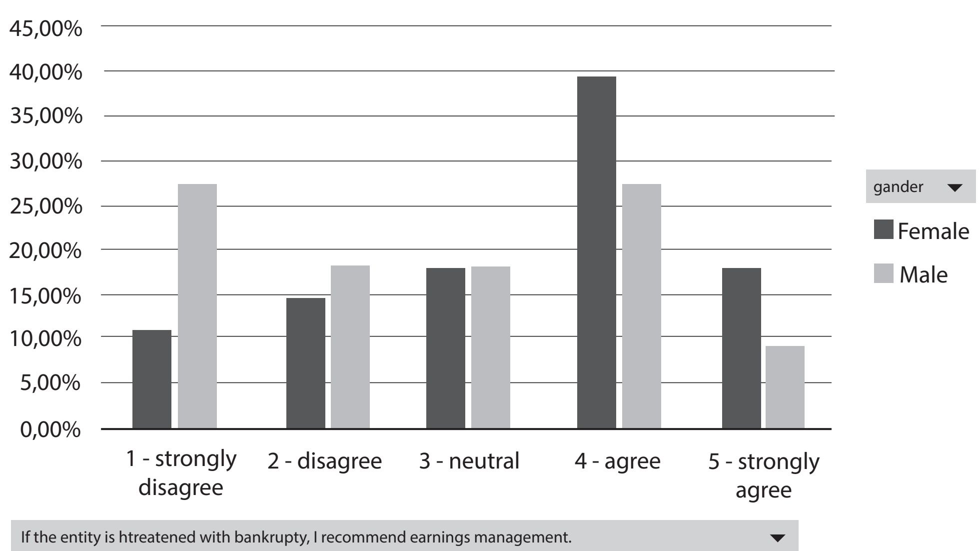


Figure 7. Earnings management practice, accountants with less than ten years of experience.

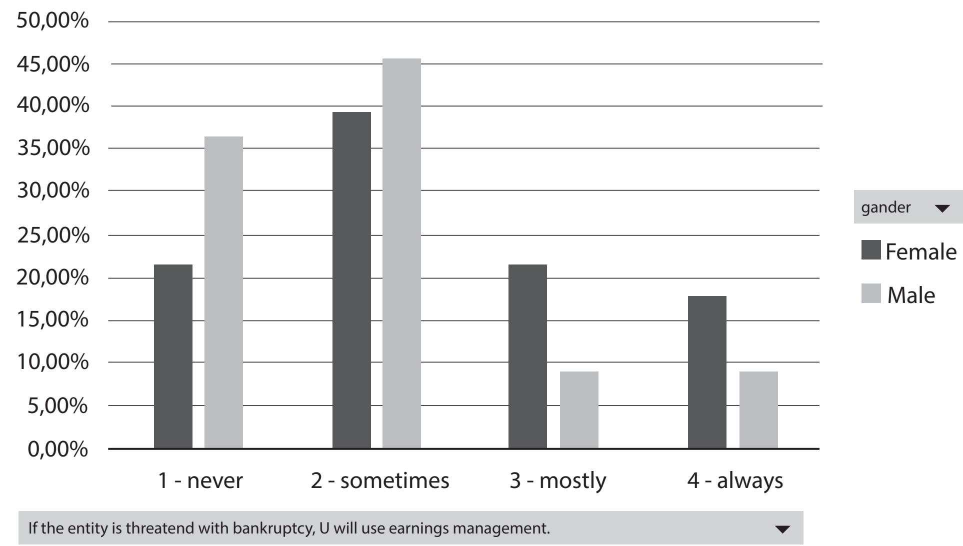


Figure 8. Earnings management recommendation, accountants with more than ten years of experience.

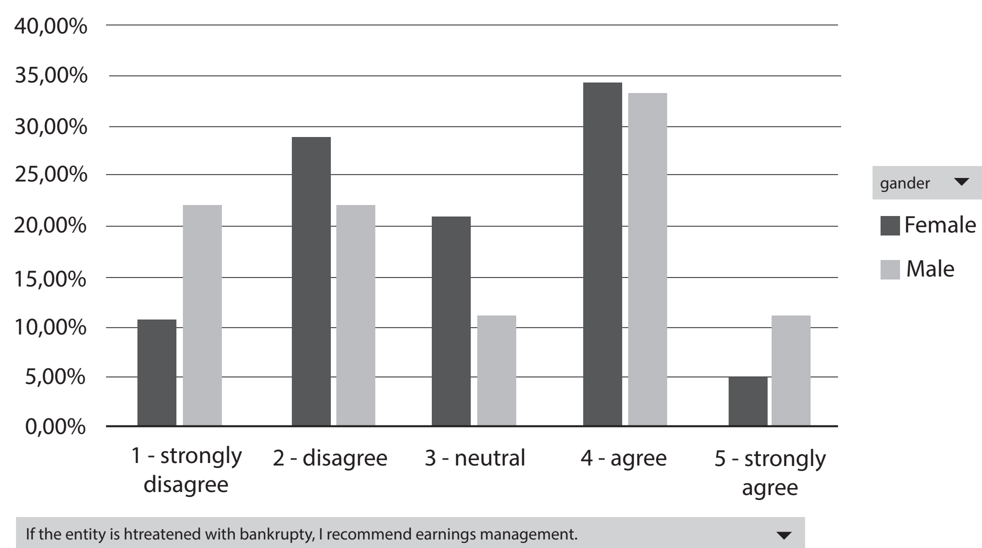
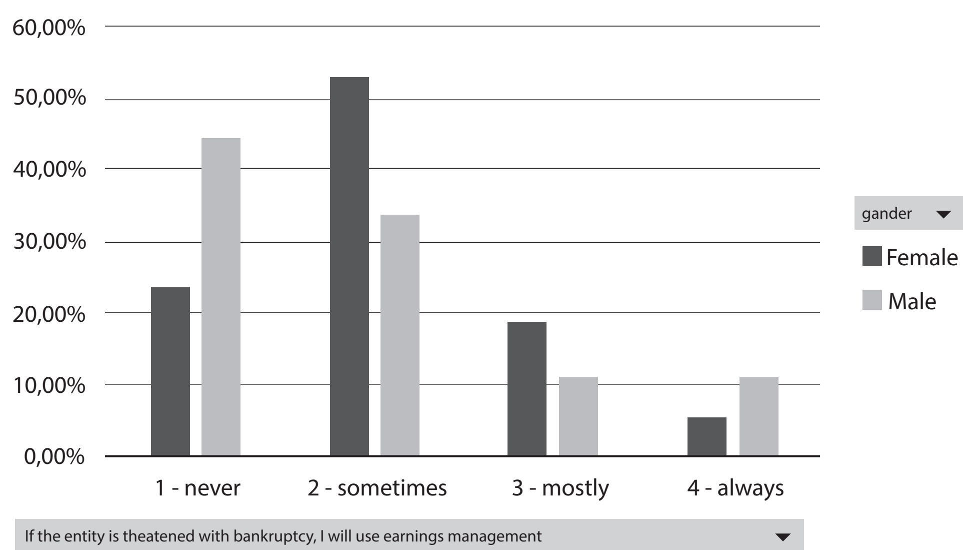


Figure 9. Earnings management practice, accountants with more than ten years of experience.



5. CONCLUSION

The study aimed to check whether gender impacts companies' accounting decisions. In the survey, we asked Polish accountants about their recommendations and practices regarding earnings management and using the amortised cost method. Based on the study results, it can be concluded that in the group of women accountants with professional experience of over ten years, a more cautious approach to valuation and earnings management can be observed than in men. Thus, the pilot study confirmed the assumptions about the positive impact of women on reducing company earnings management. Additionally, it can be noted that the attitude of women accountants with longer professional experience towards earnings management is more negative than that of accountants with short professional experience (Ittonen et al., 2013). The study is preliminary, and the analysis of the results covers only 4 of the 16 questions asked to respondents. In the next stages of the study, we will use statistical tools to determine the relationship between the gender of accountants and their recommendations and professional practice.

6. LITERATURE

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