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The impact of professional standards on accounting judgments: The role of availability and comparative information

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ABSTRACT

Given scant research on the influence of the AICPA's Code of Conduct, this study examines the effects of professional standards for advocacy and integrity on a financial reporting decision. Based on the availability and priming literature, we test whether the current wording of two AICPA professional standards influence financial reporting decisions. Prior accounting research has documented cases where professionals were inclined toward a conservative or skeptical bias (Francis & Krishnan, 1999; Jenkins & Lowe, 1999) while other studies have documented an inclination toward a client-confirming bias (Hackenbrack & Nelson, 1996; Roberts, 2010). Our study examines whether using AICPA ethical standards as primes results in a neutral, unbiased financial reporting decision in a context in which there is substantial, yet inconclusive, evidence. Roberts (2010) documents the tendency for professionals to view integrity and advocacy as segregated objectives: one for promoting unbiased reporting, associated frequently with accounting-related decisions, and the other condoning client advocacy, typically associated with tax-related judgments. Hence, we test for availability effects based on separately-stated standards. However, the literature on comparative analysis explains that a combined concept containing counterbalancing features allows the participant to form causal relationships between the distinguishing components. This type of mental process brings the causal knowledge into working memory. Hence, a joint presentation of countervailing standards should result in a more balanced judgment, reflecting neither a conservative nor pro-client tendency.

The psychology literature suggests that heuristics, such as availability priming and comparative analysis, are more likely to affect novice decision makers (e.g., jurors, clients, new hires, students) than experts whose work experiences could drive the results. This study examines the responses of upper-level accounting majors, and the results show that the participants are inclined toward conservative decision making. Participants exposed to a separately-stated standard for integrity respond conservatively, just as they do in a control group without explicit access to the professional standard. Similarly, even when exposed to AICPA Rule 102-6 allowing client advocacy, they report conservatively. In contrast, when the prime is a joint presentation of the standards, participants respond with an unbiased decision, which differs significantly from the consistently conservative response by the control group as well as by the participants primed with an isolated standard. We conclude that two AICPA standards (as currently worded) are best understood when they are aggregated. Whether this finding holds for professionals is an empirical question for future

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research. The implication is that accountants' decision making could be enhanced by a revised professional standard reminding them to jointly consider the goals of unbiased decision making and justifiable client advocacy.

Introduction

Current professional standards issued by the American Institute of Certified Public Accountants (AICPA) include technical guidance as well as a Code of Professional Conduct. The Code applies to all AICPA members whether they are employed in public practice, industry, government or education. After reviewing the history of the AICPA's development of a set of ethical rules, Voynich (2005) notes that the existence of a code of conduct is unique to a profession and should guide behavior. Likewise, Libby and Luft (1993) reiterate the importance of the professional Code, and argue that the primary purpose of the Code is to influence professional decision making. To date, however, little is known about the behavioral effect of the professional standards.

The Code serves as the profession's overriding ethical guidance for applying technical standards whether they are principles-based or rules-based (AICPA, 2010; Moehrle, Previts, & Reynolds-Moehrle, 2006), and it emphasizes the importance of a member's integrity as "it is the quality from which the public trust derives and is a benchmark against which a member must ultimately test all decisions" (AICPA Code of Conduct, Section 54-Article III). In addition to the specific rule for integrity, the AICPA Code endorses Rule 102-6, which allows a member to act as a client advocate in "support of the client's position on accounting or financial reporting issues, either within the firm or outside the firm with standard setters, regulators, or others" (AICPA Code of Conduct, Rule 102-6).[1] Prior literature documents the tendency for these standards to be perceived as segregated objectives: one for promoting unbiased reporting and the other for allowing client advocacy (Jenkins & Lowe, 1999; Roberts, 2010). We posit that these two standards are best understood when they are aggregated.

Although there has long been interest in measuring accountants' ethical attitudes and behavior (Loeb, 1971), it was a series of corporate accounting scandals that led the U.S. Securities and Exchange Commission to require disclosure regarding whether companies have adopted codes of ethics, and if not, why not. In addition, the Association to Advance Collegiate Schools of Business (AACSB, 2004) began to require that students learn ethics as a part of their business degree at an AACSB-accredited institution. Immediately after Enron, academe and practice increased their focus on accounting ethics. Smith (2003, p. 47) reports a speech by (then) AICPA President Barry Melanchon stating that "the profession's leadership must act to preserve a legacy of honor and integrity for future generations of CPAs. The profession must build upon its traditional values such as rigorous commitment to integrity."

Professional integrity is a desirable social norm, and it is relevant to the wider debate on principles- versus rules-based accounting, with Sunder (2010) arguing that whatever written rules exist, there is a need to give social norms a stronger role in restoring professional and personal responsibility in accounting. This sentiment is consistent with the AICPA presidential viewpoints on professional integrity expressed a decade ago and the importance of restoring the public's trust in accounting.

While the Code prohibits any action or lack of action that knowingly misrepresents financial information, it also condones client advocacy. Given the complexity of technical guidelines for accountants, expertise in interpreting financial rules is clearly a valued service. AICPA Rule 102-6 allows professional accountants to be an advocate for their clients when it is appropriate to do so. In fact, prior research on confirmation bias in financial accounting decision making has documented the tendency for some professionals to exhibit pro-client tendencies when client preferences are made explicit (Hackenbrack & Nelson, 1996; Hatfield, Jackson, & Vandervelde, 2011; Kadous, Kennedy, & Peecher, 2003; Roberts, 2010). In the absence of stated client preferences, research has found that experienced professionals tend to respond with conservative, income-decreasing outcomes (Francis & Krishnan, 1999; Jenkins & Haynes, 2003; Lord, 1992).

If decision makers in accounting have either conservative or pro-client tendencies, unbiased judgments that are promulgated by the AICPA could be affected. Nelson (2003) argues that professional standards for accurate, unbiased reporting should be designed to incentivize appropriate decision making, yet no study to date has examined whether the profession's standards for advocacy and integrity impact financial decision making.[2]

The present study examines the impact of current professional standards for integrity and advocacy on upper level undergraduate students who are not yet familiar with these standards but soon will be faced with how to apply

[1] These AICPA standards were also adopted by the Public Company Accounting Oversight Board as its interim standards in April 2003.

[2] Some prior research on accounting ethics has been motivated by Kohlberg's (1973) theory of cognitive moral development and operationalized through the use of Rest's (1979) Defining Issues Test (DIT). There are numerous accounting ethics studies using the DIT (e.g., Abdolmohammadi, Read, & Scarbrough, 2003; Bay, 2002; Shaub, 1994; Tsui & Gul, 1996). These studies tend to report a resulting "P" score by which the ethical attitudes about a particular sample may be inferred and compared to other samples. Results, so far, have shown that the effectiveness of DIT applications to the accounting environment vary with participants' functional area of accounting and one's current level of moral development (Herron & Gilbertson, 2004; Scofield, Phillips, & Bailey, 2004). Bailey, Phillips, and Scofield (2005) assert that more research is needed to identify factors that mediate moral reasoning for accounting-related judgments. Given the costly and time consuming aspects of the DIT, the present study does not examine the DIT. Instead, our study builds on prior research regarding accountants' propensity towards implicit biases and tests how standards in the current AICPA Code of Conduct might influence accountants' decision making.

them. The reaction of novices to the profession's standards is appropriate for measuring initial responses to the wording of the standards. Using student subjects is also beneficial as their reactions are likely to approximate those of jurors who could be asked to judge whether professional accountants had complied with these standards. In contrast, experienced professionals are likely to have strong internalized beliefs based on their personal experiences and workplace norms. Consequently, once new recruits enter the profession, they will undoubtedly be influenced by the rival dynamics specific to their own discipline (e.g., audit versus tax) and by the associated implicit and explicit incentives such as the influence of client preference (Cloyd & Spilker, 1999; Hackenbrack & Nelson, 1996; Schweikart, 1992).

In this study, we experimentally explore the effects of counterbalancing professional standards for advocacy and integrity. When confronted with ambiguous issues requiring the exercise of professional judgment, one standard may dominate the other on reporting decisions, or the presence of both standards could mitigate a directional bias. Theories on availability suggest that having immediate, explicit access to relevant information allows more efficient processing of cognitive encoding (Bhattacharjee, Maletta, & Moreno, 2007), and Payne, Bettman, and Johnson (1993) explain that targeted information is more likely to be used if it is brought into working memory. Hence, participants in the present study are assigned primes for the separately-stated standards. In addition, research has shown that using a joint presentation of dissimilar but comparably relevant concepts draws attention to the distinctive features of each, allowing them to become context-dependent by providing boundaries for each concept (Payne et al., 1993; Sumer & Knight, 1996). Using a prime that combines two counterbalancing standards, our study tests the impact of this aggregated presentation.

The results of our experiment show that student participants tend to be conservative in their reporting choices, which is consistent with prior accounting research using experienced accountants. Whether participants are only exposed to AICPA Rule 102-6 allowing client advocacy or Section 54 calling for integrity, participants still indicate a conservative tendency consistent with the control group. However, when the combined standards (advocacy and integrity) are presented to participants, the responses tend to be less biased (operationalized in this study as being neither pro-client nor conservative on an ambiguous issue). Thus, the combination of counterbalancing standards results in a significantly more neutral position than the other groups, reflecting neither conservative nor pro-client tendencies. The implication is that professional decision making could be enhanced by a global professional standard recognizing the importance of simultaneously complying with the guideline for professional integrity while allowing for client advocacy when it is appropriate to do so. Our result showing the effectiveness of a combined professional standard is consistent with the psychology literature on availability and the literature on cognitive development (which asserts the importance of comparative distinctions for more efficient mental processing).

This study makes several contributions to the literature. The most important contribution is the demonstration that the current AICPA Code of Professional Conduct has the potential to influence financial reporting decisions. Second, in the absence of a professional code, financial reporting decisions made by the student participants tend to be conservative rather than pro-client, and this parallels prior research finding that auditors and financial accountants tend to exhibit conservatism and professional skepticism, perhaps when it is unwarranted (Jenkins & Haynes, 2003; Kieso, Weygandt, & Warfield, 2010; Lord, 1992). Third, when the contextual level is substantial, including supportive and non-supportive evidence, the conservative-natured decision makers discount the advocacy standard in favor of a more skeptical response, implying that the additional facts could be used to challenge a favorable client decision. Fourth, in the presence of the integrity standard as well as the advocacy standard, participants' responses do not significantly differ from those without exposure to the standards. The implication is that the isolated standards, as currently worded, maintain the status quo tendency, which in this case is conservative decision making. Especially important for the profession and society is the fifth contribution demonstrating that an aggregated presentation of the two counterbalancing standards results in the most neutral and least biased decision. The implication is that standard setters should consider combining the two standards into one overarching rule that requires objective, unbiased decision making, while recognizing the need to advocate for a client when warranted.

Our contributions have important implications for professional accounting firms as they seek to encourage professional behavior for their employees, and these ethical guidelines will become increasingly important in the U.S. as the profession begins to adopt more principles-based standards with increasing reliance on unbiased decision making. In addition, if the purpose of a code of conduct is to do more than window-dressing, then the exact language in the current standards should be monitored to ensure the intended message is understood. Future research should examine whether alternative wording for the advocacy and integrity standards would increase the effectiveness of the separately-stated standards. Lastly, educators and those interested in ethics education should benefit from this research by understanding the need for accounting majors to study the professional codes and to ensure that separately-stated standards are not emphasized in isolation of other potentially counterbalancing standards.

The remainder of this article proceeds as follows. The next section provides background information and develops our hypotheses. The third and fourth sections outline our method and results, respectively, followed by some concluding remarks.

Theory and hypothesis development

Priming

To examine whether AICPA ethical standards affect financial reporting decisions, we investigate whether the current wording for integrity and advocacy act as effective primes that influence the level of potential bias in financial accounting decision making. Kunda (1990) describes priming as any procedure that brings a particular concept, knowledge structure, attitude or feeling to mind. In addition, Payne et al. (1993) note that primes become more readily available when they are explicitly stated. Implicit primes require more cognitive effort as the related concept needs to be moved from long-term memory to short-term or working memory. Explicit primes tend to be effective because they reduce the cognitive effort needed to process the targeted information. We test the effectiveness of two AICPA standards, those for integrity and advocacy, by operationalizing them as explicitly available primes.

Professional integrity

The unexpected demise of Enron and, later, Arthur Andersen led to a critical view of the accounting profession (Unerman & O'Dwyer, 2004). Consequently, the United States Congress enacted the Sarbanes–Oxley Act (SOX). Although SOX started requiring disclosure of the existence of corporate codes of conduct in 2002, many companies had already adopted corporate codes. Unfortunately, the effectiveness of these codes remains unresolved (Cleek & Leonard, 1998; Forster, Loughran, & McDonald, 2009; Hegarty & Sims, 1979; Simons, 2002). Given the rote language of many corporate codes along with the variety of purposes that different businesses face (e.g., marketing products, quality of products, employee rights, customer complaints), effective corporate codes may be more elusive than a code of conduct intended to guide professional accountants in their application of technical standards. Ultimately, all members of the AICPA, including those in public accounting, government, industry, and education (as well as student affiliate members), are required to be governed by its Code (Carnegie & Napier, 2010).

The effectiveness of a 1989 version of the AICPA professional code was tested by Claypool, Fetyko, and Pearson (1990) who concluded that the ethical sensitivity of practicing CPAs was affected by the Code, although they did not present a copy of the Code to their participants. Instead, they presented six accounting dilemmas to the participants and then asked them to identify which of six factors were most important when considering the ethical implications of each dilemma. For the dilemmas involving independence and confidentiality, practitioners responded that the two most important factors were indeed independence and confidentiality (mean rankings of 4.84 and 4.75 out of 5, respectively). In addition, the researchers asked some theologians to make the same evaluations, and the theologians (who had no knowledge of the AICPA Code) also ranked independence and confidentiality factors as very important (respective means of 4.71 and 4.45 out of 5).

Herron and Gilbertson (2004) compared the effects of principles-based and rules-based ethical guidelines on the level of independence required in the client-auditor relationship. Some of the student participants were given excerpts from the previous AICPA Code with a principles-based focus, and the others were given excerpts that were rules-based. Overall, the treatments did not significantly affect participants' decisions regarding whether the auditor–client relationship threatened the auditor's independence in a hypothetical scenario. However, when the DIT was used to categorize participants as having either low or high levels of moral reasoning (Rest, 1979), participants classified as low level (stage 4 or lower on the DIT, representing rule-oriented individuals) were more likely to believe independence was threatened when they had been given the rules-based excerpts related to independence but not when given the principles-based excerpts. Conversely, participants classified as high level (stage 5 or higher, representing principled-level reasoning) were more likely to believe independence was threatened when given the principles-based excerpts related to independence but not when given the rules-based ones. The implication is that the guidance given in professional codes of conduct is not universally internalized, because its effectiveness depends on whether the code is principles-based or rules-based and whether the participants' level of DIT moral reasoning is high or low. Applying this result to practice is difficult as each practitioner's level of moral reasoning is not known, yet the finding has important implications. For example, if the highest stages of DIT represent principled thinking, why do those at the highest level of moral reasoning not maintain principled thoughts in the presence of rules-based guidance? This result suggests that even ethical decision makers may lose focus on the guiding principle when they become too engaged in the "check-the-box" (rules-based) guidance.

The above studies focused primarily on cases of independence between client and auditor, with the underlying assumption that unwarranted, client-favorable decisions will result in misleading financial statements. Previous literature, however, has shown that financial reporting also errs on the side of conservatism which, if unwarranted, represents another form of biased reporting. When strong client preference or importance is not explicitly stated, studies have shown that experienced professionals, especially managers and partners, tend to indicate income-decreasing outcomes involving financial or auditing judgments (Farmer, Rittenberg, & Trompeter, 1987; Francis & Krishnan, 1999; Jenkins & Haynes, 2003; Lord, 1992; Trompeter, 1994). This is not surprising given conservatism's early inclusion in the AICPA's Conceptual Framework for Financial Reporting, which has been discussed in nearly all principles and intermediate accounting textbooks (e.g., Kieso et al., 2010). Moreover, the concept has been incorporated in many GAAP rules, such as the asymmetric recognition of contingent losses relative to contingent gains, and the lower of cost or market method for valuing inventory.[3]

In essence, prior research has documented both instances of biased reporting: overly-aggressive and overly-

[3] Because of the tendency for conservatism to produce bias in financial reporting, the Financial Accounting Standards Board's (FASB) revised conceptual framework (cf. Statement of Financial Accounting Concepts No. 8) no longer supports the convention, arguing that conservatism is counter to neutrality and faithful representation (FASB, 2010). However, given that the concept had been taught to the students in this study, that it has been instrumental in the formulation of currently-existing rules under U.S. GAAP, and that its removal from the framework generated opposition (FASB, 2010, para. BC3.27), its influence in decision making will likely extend for years to come.

conservative. Carey (2008) argued convincingly in 1970 that "real" independence means integrity and objectivity, and the current AICPA standard for integrity calls for unbiased, objective reporting. It does not condone a conservative bias any more than it condones a pro-client bias. It represents an overarching principle that is intended to guide all of its members' decision making.

Nelson (2003) argues that fundamental principles should be the goal and that overriding principles could be used to encourage accurate reporting. Consistent with Nelson's goal, Sunder (2010) discusses the balance between uniform, written rules-based standards and principle-based social norms, arguing that the latter should be given a stronger role in restoring personal and professional responsibility in accounting. Jones, Massey, and Thorne (2003) question whether the profession's ethical standards enhance or limit auditors' ethical sensitivities, stating that more research is needed to identify ways in which standards can enhance ethical awareness and behavior. In addition, Libby and Luft (1993) assert that the standards were written for the primary purpose of influencing professional decision making.

A prime for integrity implies that respondents will react with a discriminating, unbiased judgment, but Payne et al. (1993) assert that attitude and content-related experience could impact the posited priming effects. If participants have a propensity toward advocacy or belief that substantial payments to employee-shareholders should be classified as dividends, their responses might favor a net income-increasing decision for dividend reporting. An integrity prime is expected to temper the potentially biased belief toward a neutral stance, as long as the prime is sufficient and prior belief is not too ingrained. If participants are not inclined toward advocacy and they are inclined to believe that substantial payments to owner–employees should be classified as salary, their responses are likely to favor a salary deduction, a net income-decreasing decision. An integrity prime should result in a neutral stance if the prime is salient enough to offset the propensity toward conservatism.

In Section 54 of the AICPA Code of Conduct, integrity is described as the ultimate benchmark for all members' decision making. The standard states that integrity can accommodate "...the honest difference of opinion; it cannot accommodate deceit or the subordination of principle." Since the standard is intended to mitigate a propensity to make unwarranted client-favorable decisions or unwarranted conservative responses, this study examines whether exposure to the integrity standard impacts the level of pro-client decision making. Thus, the first hypothesis is as follows:

H1. Participants exposed to a prime for professional integrity will make more neutral, less biased financial reporting decisions than those without any exposure to the professional standards.

Client advocacy

Prior research has shown that auditors can be influenced by client preferences and tend to permit aggressive reporting by favorably interpreting vague facts and standards (Hackenbrack & Nelson, 1996; Salterio & Koonce, 1997), and the same is true for tax practitioners (Ayres, Jackson, & Hite, 1989; Cloyd & Spilker, 1999; Jackson & Milliron, 1989). Cuccia, Hackenbrack, and Nelson (1995) found that tax practitioners responded to high precision technical rules by interpreting the evidence more liberally – to their clients' benefit. Thus, writing any standard, whether it be principles-based or rules-based, may not be the only solution. Prior research, however, has not incorporated the influence of an ethical standard or professional code of conduct on judgments involving ambiguous issues (Cuccia et al., 1995; Hackenbrack & Nelson, 1996). If principles-based technical standards with an override for economic substance were to become the norm, an advocacy stance, as permitted by AICPA Rule 102-6, could still result in uncertainty regarding how an ambiguous transaction should be reported.

Bobek, Hageman, and Hatfield (2010), in their review of prior advocacy research, note that most prior studies have not measured participants' advocacy attitudes. Instead, researchers have experimentally created a treatment effect for advocacy by stating the client's preference (Cloyd & Spilker, 1999; Hatfield et al., 2011). Results have been mixed in that some studies have found a significant effect for measured advocacy attitude on the respective tax judgments (Johnson, 1993; Levy, 1996), while others have not (Kadous & Magro, 2001).

Pinsker, Pennington, and Schafer (2009) found that the effect of decision context (tax versus audit) was moderated by the professional's attitude toward advocacy, and that advocacy attitude was significantly lower for the auditors than for the tax accountants. The authors attribute this to the professional skepticism that auditors are generally expected to exhibit. Their study also reported that advocacy attitude significantly correlated with the final decision, regarding disclosure of a contingent liability, for the auditors but not for the tax professionals. A study by Roberts (2010) posited a tendency toward pro-client decision making in a financial setting, and he found that auditors conform their professional judgments to a client's demand for earnings management when client preferences are explicit. The results of these studies confirm the need to examine the effects of an advocacy standard not just in tax, but also in financial decision making. Traditionally, accounting firms were expected to be unbiased in their audit responsibilities while being advocates in their tax services, but according to Colson (2005), the culture has become more characterized by advocacy because of the large revenues generated by audit services.

Although prior research has recognized the importance of advocacy in some tax-related judgments (e.g., Pinsker et al., 2009), its legitimate status as a professional standard in financial-related judgments has not always been perceived as a positive virtue (e.g., the accounting literature on confirmation bias such as Hackenbrack & Nelson, 1996; Hatfield et al., 2011; Roberts, 2010). The AICPA has repeatedly confirmed the right of CPAs to be advocates for their clients, and AICPA Rule 102-6 continues to condone the role of for advocacy in both tax and financial reporting decisions.

A prime for advocacy (AICPA Rule 102-6) suggests that participants will respond with a pro-client judgment, but as noted earlier, Payne et al. (1993) warn that attitudes, knowledge, and related experience could impact posited effects. For example, if participants have a propensity toward advocacy or toward classifying payments to employee-shareholders as dividends, their responses to an advocacy prime is likely to result in either a mere confirmation of their current response or an increased inclination toward the net income-increasing dividend classification. On the other hand, if participants are not inclined toward advocacy or the classification of a substantial payment as a dividend, then the response to an advocacy prime will either be met with resistance, or it could result in a more client-favorable response. To test the impact of AICPA Rule 102-6, an advocacy standard, on financial reporting issues, our second hypothesis is:

H2. Participants exposed to a prime for client advocacy will make less conservative financial reporting decisions than those without any exposure to the professional standards.

Combined counterbalancing standards

The AICPA narrative to Rule 102-6 discusses the accountant's need to balance multiple professional standards. The concern is that clients could request professional services that "stretch the bounds" of performance standards, and this could then impair the reputation of the member and their firm in regards to professional integrity. Serious cases may even risk damaging public perception of the accounting profession (Carnegie & Napier, 2010). Notwithstanding these extreme situations, the need to balance multiple principles of professional conduct can occur even in seemingly routine matters of judgment. As discussed earlier, studies in financial decision making have documented conservative tendencies as well as pro-client tendencies. The AICPA Code of Conduct reflects a need to counterbalance these positions by sanctioning client advocacy and professional integrity. The intent is to encourage decision making that is as truthful as possible without being biased toward advocacy or conservatism. For ambiguous contexts in which the technical guidance is unclear, the AICPA narrative accompanying Rule 102-6 suggests that advocacy can be justified, but there will sometimes be a 'line in the sand that should not be crossed'. In sum, the two standards are context-dependent as each rule acts as a constraint on the other: one should advocate for the client, but not at the expense of making biased judgments. Professionals should make objective judgments consistent with technical guidance but not at the expense of disregarding the substance of the client's unique facts and circumstances.

Related to the need to balance advocacy with integrity, Anderson, Marchant, Robinson, and Schadewald (1990) assert that a comparative analysis draws attention to the relevant components of each underlying principle. Such comparisons are effective, because they exacerbate the level of attention to specific attributes of each concept. Experts are considered to have more organized knowledge through their use of comparisons that encourage the formation of linkages among existing rules. Applied to studies of knowledge acquisition, education studies have demonstrated that using examples that are inconsistent or distinctive can be more helpful in the learning process than are examples that are consistent or redundant (Gorman & Gorman, 1984). Chi, Lewis, Reinmann, and Glaser (1989) demonstrated the effectiveness of writing self-elaborations that include the distinctions between inconsistent or opposing statements.

Prior research in psychology has shown that decision makers are influenced by available, comparative information. The presence of a comparison reduces the amount of cognitive effort needed to process the information (Payne et al., 1993). The act of comparing concepts with distinct features maximizes attention to each of the components. The combined presentation aids the encoding process and minimizes memory demands. In essence, the simultaneous presence of two concepts reduces the likelihood that only one of the concepts will be recalled and therefore considered in isolation. Kunda (1990) discusses how combinations of countervailing features are mentally processed. She indicates that people use causal reasoning when given conflicting features of an object or principle. The resulting causal knowledge helps them resolve conflicts among seemingly incompatible concepts. The exercise of processing this causal relationship increases its availability for use in subsequent decisions. Applying this research to the present study suggests that participants will better understand the intent of the advocacy and integrity standards when presented in tandem. Rather than focus on only one direction, they are reminded to use integrity in reporting honestly while advocating for the client when it is appropriate to do so. As a result, when given an ambiguous context with unclear technical guidance, combined exposure to both standards should lead to a neutral response that is not overly pro-client or overly conservative for the facts at hand.

Although research has shown that decision makers will use the information that is most readily available (Bhattacharjee et al., 2007), when no information is explicitly available (such as the absence of professional standards for our control group), the most readily available information is the subject's own knowledge or previous experience. Prior psychology and accounting research has found that individuals are hard-wired to exhibit a confirmation bias (seeking confirmation of one's prior beliefs) and a selective information processing bias (seeing only what one wants to see) when evaluating evidence (Cloyd & Spilker, 1999; Kunda, 1990; McMillan & White, 1993; Wheeler & Arunachalam, 2008). The potential bias, linked to experience and/or prior beliefs, has led to increased attention to auditors' levels of professional skepticism by the Public Company Accounting Oversight Board and audit researchers (e.g., Nelson, 2009). For participants in our study, prior knowledge and previous experience most likely relates to their pre-conceived notion of conservative financial reporting. In sum, participants in the control group are expected to exhibit conservative tendencies on financial reporting decisions. In contrast, participants exposed to a joint presentation of the standards for advocacy and integrity will have readily available, comparative information to consider when making their decision. Exposure to the combined standards is expected to produce less biased judgments. Thus, our third hypothesis is as follows:

H3. Participants exposed to a prime for both client advocacy and integrity will make more neutral, less biased financial reporting decisions than those without any exposure to the professional standards.

Method

Participants

A total of 113 undergraduates majoring in accounting from a university in the mid-west of the United States participated in the study.[4] All participants in the study had completed introductory financial and managerial accounting classes, 80% had completed intermediate accounting, only 4% had taken an auditing class, and most were fourth-year students. These participants represent inexperienced decision makers, but the merits of using this population subset has been demonstrated in prior research (e.g., Ashton & Kramer, 1980; Maletta & Zhang, 2012). Although student participants limit the study's generalizability, the effects on these potential new entrants into the profession are of interest to the profession as well as to educators. Clearly, future research will need to test our hypotheses on practicing accountants, but students tend to be a more homogeneous group that may not differ on as many extraneous variables as more seasoned participants would. In addition, the reactions of novice participants are likely to parallel those of jurors who could be asked to evaluate whether professionals have complied with these standards.

Participants with strong internalized prior beliefs are likely to be resistant to the influence of a single exposure of a targeted professional standard. Furthermore, the use of experienced practitioners could lead to an extraneous effect from the practitioners' specific experience with the ambiguous accounting issue used in the hypothetical case. Research by Jenkins and Lowe (1999) demonstrated that even within one firm auditors significantly disagree on whether the auditor's primary responsibility is to protect the interests of investors and creditors (58.6% agreed while 41.4% disagreed) and whether the auditor's primary responsibility is to behave as a client advocate (32.8% agreed and 67.2% disagreed). Payne et al. (1993) assert that heuristic biases, such as availability, priming, and hypothesis-confirming bias, are likely to affect novice decision makers. Hence, our hypotheses are tested on a set of respondents that has not yet been immersed in a work climate that may foster certain norms.

Design, materials and procedure

The study uses a between-subjects design, varying the primed professional standard at four levels (none, integrity, advocacy, and combined advocacy and integrity standards). Participants were randomly assigned to a treatment group, and apart from those in the control condition, participants then read either a separate integrity prime, an advocacy prime or a combined integrity and advocacy prime. The primed conditions were extracted directly from the AICPA Code of Conduct (2010):

> "Integrity requires a member to be, among other things, honest, and candid ... Service and the public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and the honest difference of opinion; it cannot accommodate deceit or subordination of principle." [Integrity]

> "A member or a member's firm may be requested by a client ... to act as an advocate in support of the client's position on accounting or financial reporting issues, either within the firm or outside the firm with standard setters, regulators, or others." [Advocacy]

Pflugrath, Martinov-Bennie, and Chen (2007) found experienced participants were influenced by the inclusion of a lengthy, technical extraction from a combination of Australian principles-based and rules-based standards. Their student participants, however, were not influenced by the presence of this guidance, and they concluded that the information seemed to overwhelm the inexperienced decision makers. Consequently, the primes for advocacy and integrity in the present study did not include all of the content in the AICPA standards. The difficulty with using extracts from the standards is the decision regarding which words to retain and which to exclude. We focused on the basic principles themselves, avoiding emotionally-laden phrases (e.g., "stretch the bounds"), and kept the length of both standards fairly equal. Clearly, other excerpts or revised phrasing could alter the strength of the manipulations, but our goal was to capture a portion of the original wording while maintaining the essence of each standard in a concise manner.

Participants were then asked to assume they were a public accountant for a client who has asked for advice on how to report an ambiguous issue on the financial statements. The first scenario is a skeleton version of the case used by Pinsker et al. (2009) and is intentionally ambiguous with little guidance or evidence, pro or con. We strip the case of the pro and con details to examine whether the ambiguity of the financial reporting issue itself results in judgments that vary with exposure to the professional standards. This baseline scenario (shown in Appendix A) concerns whether a payment of $600,000 to the company's president should be deducted as compensation for services provided or not deducted because it is a return of capital to a shareholder. The case makes clear that if the amount is deducted (not deducted) then the client's financial net income will be lower (higher). Participants were asked to make a recommendation on a seven point scale anchored by 'definitely deduct' (+3) and 'definitely do not deduct' (−3), with a neutral response of zero. Thus, lower (higher) responses are more (less) pro-client.

After a decision regarding the salary-dividend classification is made in a low-context case, a second salary-dividend

[4] Approval for data collection was granted by the university's institutional review board.

scenario is examined. This high-context case, used by Pinsker et al. (2009) includes a substantial amount of information that could be used as supporting and non-supporting evidence. They conclude that the ambiguous case was indeterminable, theoretically resulting in an unbiased response. Prior research, however, has not controlled for prior belief on the targeted tax decision, in this case the classification of payments to an employee-shareholder, yet Payne et al. (1993) report that prior experience, knowledge, or belief can affect the targeted outcome. The high-context case concerns a family-owned corporation where a widow of the founder becomes the president of the company and is paid a salary of $600,000. The case narrative (see Appendix B) outlines the officers' duties, and it provides financial information and relevant guidance listing criteria for deducting (as compensation) and not deducting (if it is treated as a dividend or return of capital) the amount. Participants are again asked to make a recommendation on a seven point scale anchored by 'definitely deduct' (+3), which is less pro-client as net income is lower, and 'definitely do not deduct' (−3), which is more pro-client as net income is higher, with a neutral and balanced response of zero.

Research has shown that contextually-rich scenarios can be interpreted differently depending on the incentives of the decision maker (Cloyd & Spilker, 1999; Cuccia et al., 1995; Hackenbrack & Nelson, 1996; Johnson, 1993). The design of the present study does not explicitly manipulate client preference. Our context gives the participants an implicit client preference by noting that net income will be higher if the transaction is deemed to be a return of capital and lower if it is deemed to be deductible compensation. Thus, participants may decide to report in a manner that is believed to be what the client would prefer. Alternatively, participants may be inclined to report conservatively, consistent with prior studies in which client preference was not explicitly stated (Francis & Krishnan, 1999; Jenkins & Haynes, 2003; Lord, 1992). Exposure to the professional standards for advocacy and integrity are explicit motivations that could affect the level of implicit motivation either to produce client-favorable financial statements or the inclination to report conservatively.

After responding to the high-context case, participants were asked what the most important factor was in their decision regarding whether or not to deduct payments to the primary shareholder. Most made brief comments regarding the nature of the compensation, but this same type of comment was mentioned by those who deducted the salary and by those who did not deduct it. Participants also answered the Pinsker et al. (2009) advocacy scale (adapted from Mason and Levy's (2001) nine-item advocacy scale) and then proceeded to the background section where they answered a number of demographic questions pertaining to gender, prior coursework, and GPA (Radtke, 2000). In addition, they responded to attitudinal questions regarding the professional standards. When these variables were tested as control variables that could affect the end results, the results did not significantly affect the outcomes, nor (as reported below) did they vary between treatment groups.

Results

Preliminary analysis: attitudes and demographics

Demographics and attitude variables are presented in Table 1. The participants' average age was 21.6 years, and most were beginning their fourth year of undergraduate study. As previously noted, only 4% had taken an auditing class. Parallel to the accounting department's male–female student population, 40.2% were female.

At the conclusion of the experimental task, the background questionnaire included two questions to check for comprehension of the professional standards. The questions asked respectively whether AICPA Rule 102-6(2) on advocacy and Section 54-Article III(2) on integrity require a more or less pro-client interpretation of the standards. The response scale for each question ranged from much less favorable (+1) to much more favorable (+7) to the client. Participants first responded with a mean of 5.04 (SD = 1.25) on the question pertaining to Rule 102-6 on advocacy, indicating a favorable, pro-client interpretation, with 72.3% agreeing. On a subsequent question relating to Section 54-Article III on integrity, the mean was 3.36 (SD = 1.33) with only 17.9% responding with a pro-client interpretation and 58% indicating an interpretation that is less favorable to the client. A paired *t*-test indicates that participants perceived these two standards as having a significantly different influence on client preferred outcomes ($t_{111} = 10.651$, $p < .001$). In addition, participants were asked a third question regarding which of the two standards would be more influential for making financial accounting decisions. The seven-point scale was anchored with Rule 102-6 (+1) and Section 54 (+7). The mean response was 4.83 (SD = 1.55), indicating that integrity was perceived as more influential. In fact, 64.3% asserted that integrity would be more influential than advocacy, while only 24.1% stated that advocacy would be more influential. Responses to these three background questions did not significantly differ between the treatment groups ($F_{3,108} = 1.346$, $p = .263$; $F_{3,108} = 1.576$, $p = .200$; $F_{3,108} = .340$, $p = .797$, for the three questions, respectively), indicating a general consensus on the interpretation of the standards. This data confirms that the subject pool had a propensity toward conservative reporting decisions, as integrity was deemed to be more influential than advocacy for their accounting decisions, and integrity tended to be perceived as unfavorable toward the client.

To measure general attitude toward client advocacy, the Pinsker et al. (2009) advocacy scale was used. The Cronbach's alpha for reliability was .83 in Mason and Levy (2001) and .85 in Pinsker et al. (2009) using a five-item scale to measure advocacy attitude in financial decision-making. Our study uses the five-item scale with anchors of 1 for disagreement to the statement favoring advocacy and 7 for agreement, and the Cronbach's alpha for reliability is 0.85. The scaled average has a mean of 4.12 (SD = 1.35). A midpoint of 4 (for lack of agreement or disagreement) represents the lack of a strong tendency in either direction. Thus, in the present study most were not inclined toward being an advocate. This average

Table 1
Demographics and summary statistics for attitude and reporting decision.

Panel A: Demographics (n = 113)			
Age	Mean (SD) = 21.57 (1.94)		
Gender	Percent male/female = 59.8/40.2		
Panel B: Attitude			
Advocacy/integrity	Mean (SD)	Less Favorable to Client (%)	More Favorable to Client (%)
"Do you believe this AICPA guideline requires you to be more pro client or less pro client in your interpretation of the financial auditing standards?"[a]			
AICPA Code, Rule 102-6(2) [Advocacy]	5.04 (1.25)	9.8	72.3
AICPA Code, Section 54-Article III(2) [Integrity]	3.36 (1.33)	58.0	17.9
Relative influence	Mean (SD)	Rule 102-6 (%)	Section 54 (%)
"Based on the above two standards, which one would be more influential, to you, in most financial decisions?"[b]	4.83 (1.55)	24.1	64.3
Mason and levy advocacy scale	Mean (SD)	% Disagree	% Agree
Average response to five statements[c]	4.12 (1.35)	37.2	55.8
Panel C: Reporting decision	Mean (SD)	% Not deducting	% Deducting
"How strongly do you think that the $600,000 … should be deducted on the financial statement (reducing the company's financial net income)?"[d]			
Low contextual information	.47 (1.65)	34.5	57.5
High contextual information	.60 (1.95)	31.9	61.1

[a] Responses ranged from +1 (much less favorable) to +7 (much more favorable). Responses of 1–3 (5–7) were coded as Less (More) Favorable to Client.
[b] Responses ranged from +1 (Rule 102-6) to +7 (Section 54). Responses of 1–3 (5–7) indicate the view that Rule 102-6 (Section 54) would be more influential.
[c] The five statements (e.g., "I feel I should apply ambiguous professional guidelines to the client's benefit") were adapted from Mason and Levy (2001) and Pinsker et al. (2009). Responses ranged from +1 (Strongly Disagree) to +7 (Strongly Agree). Average responses of under (over)+4.0 were coded as Disagree (Agree).
[d] A seven-point scale was used, anchored at "−3" for definitely not deducting and "+3" for definitely deducting. Responses of −3 through −1 (+1 through +3) were coded as Not Deducting (Deducting). The high context case is from Johnson (1993), and the low context case is an abbreviated version. Both are shown in the appendices.

response is similar to Pinsker et al. (2009) who reported a mean of 3.90 for professional auditors, while tax professionals had a mean of 4.90. Consistent with findings from prior research on income-decreasing reporting decisions, the participants in the current study demonstrated a tendency to respond with conservative judgments.

To measure the level of conservatism affecting our dependent variable, we first note that the mean for all respondents was .47 (SD = 1.65) on the low-context case and .60 (SD = 1.95) on the high-context case, as shown in Panel B of Table 1. The responses were close to zero, implying that the participants were relatively neutral. However, the responses were provided after the experimental manipulations. To demonstrate what the reporting judgment was in the absence of the manipulations, we test whether a control group responded conservatively on the dependent variables. The means were 1.09 (SD = 1.54) for the low-context case and 1.09 (SD = 1.88) for the high context case, which indicates agreement with a conservative position that the payment should be deducted as salary and therefore reduce net income. A score of zero represents a neutral position, and one-sample t-tests show that the responses significantly differed from zero ($t_{22} = 3.396$, $p = .002$ for the low-context case; $t_{22} = 2.772$, $p = .006$ for the high-context case).[5] The results confirm that without the presence of professional standards, participants respond conservatively on the outcome variables. Establishing whether the participant pool has a penchant toward conservatism in financial reporting decisions is important to understanding the potential impact of an integrity standard that is interpreted as less favorable for the client and an advocacy standard that is interpreted as favorable for the client.

The effect of integrity as a separately-stated standard

Hypothesis 1

The first hypothesis predicts that participants who read a prime for professional integrity will make more conservative decisions than control group participants. As shown in Table 2, the results of an independent-samples t-test comparing the integrity and control groups showed no significant differences for the low-context case, with means of 0.77 (SD = 1.51) and 1.09 (SD = 1.54) respectively ($t_{43} = .692$, $p = .754$). Similarly, comparison of the integrity and control groups for the high-context case yields no significant differences, with means of 0.86 (SD = 1.64) and 1.09 (SD = 1.88) respectively ($t_{43} = .424$, $p = .663$).

As noted earlier, if the participants tend to make conservative financial reporting judgments, the availability of an integrity prime may confirm but not change their predisposition towards conservative reporting. This attitude could have affected the outcome of the first hypothesis. Given that the pool of participants had virtually the same courses in financial accounting, it is likely that they were

[5] Throughout the paper, one-tailed (two-tailed) p-values are reported for directional (nondirectional) tests.

equally exposed to the conservatism concept (Kieso et al., 2010). Consequently, the nonsignificant outcome on the first hypothesis implies that including a brief prime for professional integrity to decision makers with a propensity toward conservative reporting is not likely to have an additional effect, as it merely confirms the existing inclination.

To provide more insight, we test whether the integrity group's responses to the financial reporting decision are significantly different from zero. One-sample *t*-tests show that the responses in the integrity treatment were significantly positive for both the low-context case ($t_{21} = 2.401$, $p = .013$) and the high-context case ($t_{21} = 2.468$, $p = .011$). Thus, similar to the control group, the responses of the integrity group differed significantly from a neutral response of zero, indicating a propensity to report conservatively.

The effect of advocacy as a separately-stated standard

Hypothesis 2

Hypothesis 2 predicts that a prime relating to client advocacy (Rule 102-6) will lead to less conservative financial reporting decisions than a control group. As shown in Table 2, Hypothesis 2 is supported in the low-context case, with respective means of 0.30 (SD = 1.69) for the advocacy prime and 1.09 (SD = 1.54) for the control group ($t_{44} = 1.644$, $p = .054$).[6] In contrast, Hypothesis 2 is not supported in the high-context case, with respective means of 1.09 (SD = 1.86) for the advocacy group and 1.09 (SD = 1.88) for the control group ($t_{44} = .000$, $p = .500$). The implication is that the advocacy standard causes the participants to be more pro-client (less likely to deduct financial income) when a low level of contextual data is present. The lack of support for Hypothesis 2 in the high-context case is likely related to the participants' inclination to make conservative reporting judgments when additional information might be perceived as contrary evidence. The advocacy treatment group exhibits a level of a conservatism that is consistent with the control group on the high-context case. As discussed earlier, participants in the advocacy group did not differ from the other subjects on their perception that Rule 102-6 generally favors a pro-client judgment. In addition, as noted previously, the background questionnaire measured advocacy attitude by using the Pinsker et al. (2009) advocacy scale. The mean response in the advocacy treatment group was 4.08 (SD = 1.24), and the mean response across all other groups was 4.13 (SD = 1.39). Therefore, student responses in the advocacy treatment group were not significantly different from the other participants on attitude toward client advocacy ($F_{1,108} = .115$, $p = .735$), indicating that most were not willing to assume a pro-client position that was questionable. Nonetheless, for the low-context case (without potentially damaging evidence) the presence of Rule 102-6 for the advocacy group resulted in a less conservative decision compared to those without exposure to the standard.

Regarding the high-context case, a propensity toward conservative financial reporting is likely to lead to more resistance to the advocacy prime, as the context has incremental details that could be interpreted as non-supportive. Participants' responses to the two cases were, respectively, .30 (SD = 1.69) for a low level of contextual information and 1.09 (SD = 1.86) for high contextual information, indicating a higher level of conservatism in the high-context case. A paired-samples *t*-test shows the assessments to be significantly different ($t_{22} = 2.313$, $p = .015$). Kunda (1990) recognizes that constraints can limit the extent to which one is willing to seek confirmation of a preferred outcome. The results suggest that the professional standard for advocacy in the absence of contrary evidence somewhat mitigated the conservative propensity.[7]

The effect of communicating combined professional standards on reporting decisions

Hypothesis 3

Hypothesis 3 predicts that the presence of both standards will lead to less conservative (more neutral) decisions than those in the control group. Results arising from participants' exposure to the combined standards are shown in Table 3. In the low-context case, the respective means are .09 (SD = 1.69) for the combined standards and 1.09 (SD = 1.54) for the control group ($t_{66} = 2.375$, $p = .010$), which supports Hypothesis 3 for the low-context case. Hypothesis 3 is also supported for the high-context case, with respective means of −.02 (SD = 2.05) and 1.09 (SD = 1.88) ($t_{66} = 2.169$, $p = .017$).

Supplemental tests demonstrate that the deduction decisions in the presence of both standards did not differ from a neutral position of zero (low contextual information: $t_{44} = .353$, $p = .726$; high contextual information: $t_{44} = -.073$, $p = .942$). The neutral results suggest that the presence of counterbalancing standards enables participants to better comprehend each, consistent with the work of Payne et al. (1993), Anderson et al. (1990) as well as Sumer and Knight (1996). When both standards are present, participants balance the support for advocacy and integrity in analyzing an ambiguous case, resulting in a more neutral, unbiased assessment of deductibility.

[6] We supplemented our analysis through the use of two additional types of statistical testing. First, we performed randomization tests because they avoid assumptions about the sampling population's parametric distribution, providing greater flexibility relative to conventional techniques (Good, 2005). Statistical tests using this method are performed by comparing the experimental results to comparison distributions formed from random divisions of the data into 100,000 samples, resulting in direct determination of a *p*-value. We also examined our hypotheses using the Mann–Whitney *U* test, which converts scores to ranks before comparing two groups. These analyses provide further evidence of a difference between the advocacy and control groups in the low-context case, as statistical significance is observed for both the randomization test ($p = .047$) and the Mann–Whitney *U* test ($U = 188.5$, $p = .044$).

[7] For participants in the other three groups, responses to the low context case did not significantly differ from responses to the high context case. In the control group, the respective means were 1.09 (SD = 1.54) and 1.09 (SD = 1.89) ($t_{22} = .000$, $p = 1.000$). In the integrity group, the respective means were 0.77 (SD = 1.51) and 0.86 (SD = 1.64) ($t_{21} = .216$, $p = .831$). In the combined standards group, the respective means were 0.09 (SD = 1.69) and −0.02 (SD = 2.05) ($t_{44} = .393$, $p = .696$).

Table 2
Separately-stated standards for advocacy and integrity.

Panel A: Reporting decision mean (SD) [n]

	Contextual information	
Group[a]	Low	High
Advocacy	0.30 (1.69) [23]	1.09 (1.86) [23]
Integrity	0.77 (1.51) [22]	0.86 (1.64) [22]
Control	1.09 (1.54) [23]	1.09 (1.88) [23]

Panel B: Hypothesis tests

H1: Participants exposed to a prime for professional integrity will make more more neutral, less biased financial reporting decisions than those without any exposure to the professional standards.

Test: Independent-samples *t*-test comparing reporting decisions in the control and integrity groups.

Context	*t* (*df*)	*p*
Low	.692 (43)	.754
High	.424 (43)	.663

H2: Participants exposed to a prime for client advocacy will make less conservative financial reporting decisions than those without any exposure to the professional standards.

Test: Independent samples *t*-test comparing reporting decisions in the control and advocacy groups.

Context	*t* (*df*)	*p*
Low	1.644 (44)	.054
High	0.000 (44)	.500

Other terms are as defined in Table 1.

[a] Before reading the two cases and making reporting decisions, participants in the Advocacy (Integrity) group first read an excerpt from Rule 102-6 (Section 54-Article III). The control group did not receive either of these primes.

Table 3
Combined standards for advocacy and integrity.

Panel A: Reporting decision mean (SD) [n]

	Contextual information	
Group[a]	Low	High
Advocacy & integrity	0.09 (1.69) [45]	−0.02 (2.05) [45]
Control	1.09 (1.54) [23]	1.09 (1.88) [23]

Panel B: Hypothesis test

H3: Participants exposed to a prime for both client advocacy and integrity will make more neutral, less biased financial reporting decisions than those without any exposure to the professional standards.

Test: Independent samples *t*-test comparing reporting decisions in the control group to the advocacy & integrity group.

Context	*t* (*df*)	*p*
Low	2.375 (66)	.010
High	2.169 (66)	.017

Other terms are as defined in Table 1.

[a] Before reading the two cases and making reporting decisions, participants in the Advocacy & Integrity group first read excerpts from Rule 102-6 and Section 54-Article III. The control group did not receive these primes.

Discussion and concluding remarks

This study provides a foundation for future research seeking to explain how the AICPA Code of Conduct (2010) can affect the behavior of its members. Even at the corporate level, studies on the influence of a code have yielded conflicting results, with some indications that a code can be effective (Hegarty & Sims, 1979) and other results asserting the contrary (Cleek & Leonard, 1998; Forster et al., 2009). The influence of the AICPA Code of Conduct is important for a professional organization that expects to gain the public's trust (Moehrle et al., 2006), yet it has rarely been tested.

The current study represents one step toward understanding the impact of the AICPA Code of Conduct by examining the effect of standards for advocacy and integrity on financial reporting decisions. In addition to exploring the influence of the standards in isolation, this study investigates the effect created by a joint presentation of counterbalancing standards. One is associated with pro-client behavior, while the other distances itself from the client by emphasizing objective, unbiased decision making. Hence, if taken separately, the two standards appear to create competitive guidance in decision making.

We find that when participants are given an ambiguous fact pattern and must decide on whether to deduct payments to an owner from financial income, they exhibit conservative tendencies. This result, though obtained from student participants, is similar to the income-decreasing patterns observed from experienced professionals (Farmer et al., 1987; Francis & Krishnan, 1999; Jenkins & Haynes, 2003; Lord, 1992; Trompeter, 1994). Exposure to AICPA Rule 102-6 for advocacy, however, decreases the conservative posture in a case with scant contrary information, although when incremental but irresolute details are included (high-context case), the participants continue to report conservatively. Given the already conservative nature of the participants' decision making, priming with AICPA Code of Conduct, Section 54-Article III for integrity has no effect on their financial reporting decisions. This implies that exposure to a standard for unbiased decision making has little effect on decision makers who are already prone to conservative judgments.

When the two standards are jointly presented to participants, the ensuing decisions reflect a neutral decision, absent a prevailing pro-client or conservative sentiment, and this result obtains with both low and high contextual information. The finding is consistent with the literature on availability and the use of comparative analysis to facilitate mental processing of each standard's distinctive qualities (Anderson et al., 1990; Chi et al., 1989; Payne et al., 1993). Instead of being primed to consider only one standard (favoring the client or disregarding the client), the joint presentation improves the participant's ability to grasp how each standard provides a boundary for the other.

The results of the present study are informative for understanding the influence of specific components of the professional code, and they further suggest that awareness of a single principles-based standard that jointly recognizes the roles of advocacy and integrity can enhance decision making. This, of course, is just one piece of the puzzle. Once a set of principles is shown to be effective at influencing financial decision making, it will become critical that management espouses these standards, as prior work has found that management's tone and organizational climate must reinforce the principles (D'Aquila, 2003; Hageman & Fisher, 2012). The findings will aid in predicting the influence of principles-based standards, and they will contribute to the ongoing debate on the role of such standards relative to those that are rules-based, as explored by Benston, Bromwich, and Wagenhofer (2006), Jamal and Tan (2010), and Agoglia, Doupnik, and Tsakumis (2011). Finally, the use of student participants provides guidance on the degree to which students can be influenced by professional standards, a topic of importance in its own right (AACSB, 2004). The results suggest that a more holistic study of accounting principles may be more effective than a study of isolated standards.

This study has several limitations. First, the manipulations for the standards may have been weak, leading to the lack of stronger effects from the segregated presentations of integrity and advocacy standards. By using brief excerpts from the two standards, they may not have been strong enough to affect the outcomes. Second, the use of student participants inhibits the ability to generalize the results to accounting professionals. If professional accountants have a propensity to report conservatively, as prior research has shown, then the results of the current study should hold, but this is a research question that will need to be tested empirically. Interestingly, Pflugrath et al. (2007) tested the presence/absence of excerpts from an Australian code of ethics, and its presence had a significant effect on the professional accountants but no effect on the student participants. They note, however, that the code was very lengthy and technical which may have been difficult for the students to understand. Besides experience, other factors could moderate the results for student participants versus professionals. For example, Roberts (2010) documented that when client preference is made explicit, financial accounting decisions of experienced accountants tend to become more pro-client. If participants have a proclivity toward aggressive, pro-client reporting, the results could reverse (i.e., the advocacy treatment could equate to the control group while the integrity standard could decrease the pro-client tendency).

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Appendix A. Low contextual information case

Assume you are a public accountant, and a client, Smith and Brown, Incorporated, has asked you how to report an ambiguous accounting issue on the financial statements. Once you have read the scenario, please circle the number that best describes your agreement with each statement.

Your client's financial net income has not yet been finalized. An expenditure of $600,000 has created a controversy as to whether this payment, which was to the President of the corporation, should be deducted as compensation. The concern is whether it is reasonable compensation for services to a major shareholder (requiring its deduction) or a non-deductible payment for return of capital to a shareholder. If it is deducted on your client's financial statement, the financial net income will be significantly reduced.

In this situation, you need to make a recommendation. How strongly do you think that the $600,000 paid to an owner of Smith and Brown, Incorporated should be deducted on the financial statement (reducing the company's financial net income)?

−3	−2	−1	0	1	2	3
Definitely Do Not Deduct			Neutral			Definitely Deduct

Appendix B. High contextual information case

Assume you are a public accountant, and a client has asked you how to report an ambiguous accounting issue on the financial statements. Once you have read the scenario, please circle the number that best answers the question.

Background: Your new client, Johnson and Sons, Inc., is a family-owned corporation engaged in the waste pickup and disposal business that performs trash-hauling services pursuant to contracts with various municipalities. The business was incorporated by Mr. and Mrs. Johnson. After the death of Mr. Johnson, the board of directors (composed of Mrs. Johnson and her four sons) elected Mrs. Johnson president of the company. Each son is an officer with the title "vice president" and one son also holds the title of "secretary and treasurer." During the past five years, the stock of Johnson and Sons, Inc. has been owned by Mrs. Johnson (46%) and her sons (13.5% each).

Duties: Mrs. Johnson works 40 or more hours per week, but her four sons run the day to day operations. Her duties consist of (1) keeping the financial books, (2) reviewing bills and signing checks, (3) attending board meetings and voting on major proposals put forward by her sons, (4) engaging in extensive public relations activities, and (5) acting as co-guarantor (together with her sons) of bank loans to the company for major capital expenditures.

Financial information: Some financial information for Johnson and Sons, Inc. for the current taxable year is provided below.

Gross sales	$25,400,000
Net income	$155,000
Officer compensation:	
Mrs. Johnson	$600,000
Sons (each)	$375,000

Relevant guidelines: Typically, there is a two-pronged test for the deductibility of amounts purportedly paid as salaries or other compensation for services: The payments must be (1) "reasonable," and (2) in fact payments purely for services rather than as a dividend or return of capital, which is not deductible. Sometimes a five-factor test has been applied when considering the reasonableness of compensation, including (1) the employee's role in the company, (2) a comparison of the compensation paid to similarly situated employees in similar companies, (3) the character and condition of the company, (4) whether a conflict of interest exists that might permit the company to disguise compensation as a dividend payment, and (5) whether the compensation was paid pursuant to a structured, formal, and consistently applied program.

Please answer the following question by circling a number on the scale:

In this situation you need to make a recommendation. How strongly do you think that the $600,000 paid to Mrs. Johnson should be deducted on the financial statement (reducing the company's financial net income)?

−3	−2	−1	0	1	2	3
Definitely Do Not Deduct			Neutral			Definitely Deduct

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