

# The Influence of Culture and Professional Judgment on Accounting: An Analysis from the Perspective of Information Preparers in Portugal

## Abstract

The standards issued by the *International Accounting Standards Board* (Iasb) are based on principles, which delegate decisions on accounting matters to professional judgment, based on the concepts existing in those standards, with implications for financial reporting. The objective in this study is to analyze the influence of culture on professional judgment, through the analysis of the existence of significant differences in the decisions about the disclosure or recognition of liabilities and assets, as well as to validate (or not) the classification Gray (1988) attributed to Portugal concerning the accounting values of conservatism and secrecy. In that sense, the concepts established in Accounting and Financial Reporting Standard (NCRF) 21, entitled Provisions, Contingent Liabilities and Contingent Assets. Based on the distribution of a questionnaire to the information preparers, which resulted in a sample of 408 professionals, it could be identified through the use of bivariate statistical techniques that there are significant differences in the professionals' perception of asset and liability disclosure and recognition, revealing a stronger trend towards the disclosure or recognition of liabilities. Concerning conservatism and secrecy, using multivariate statistical techniques, a higher level of conservatism could be verified as an accounting value in Portugal, as well as the existence of an association between conservatism and secrecy. This study attracts standardizing entities' attention to the importance of aspects related to the information disclosed in the financial statements, particularly regarding the professional judgment.

**Key words:** Accounting Harmonization, Cultural Values, Accounting Values, Accounting Practices, Professional Judgment.

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## 1. Introduction

One of the main advantages of harmonization according to Albuquerque and Almeida (2009) is the comparability of financial reporting, which is aimed at enhancing the compatibility of the accounting practices the different countries adopt, as well as at decreasing the existing conceptual differences among them. This objective is equally mentioned by the International Financial Reporting Standards (IFRS) Foundation (2013), the entity underlying the harmonization process, through the global adoption – or convergence with the national standards – of the standards and interpretations issued by the International Accounting Standard Board (Iasb). The IFRS Foundation (2013) equally mentions other objectives, namely the promotion of the use and strict application of the Iasb standards and interpretations and the adopting countries' recognition of a high quality and understandability of these standards and interpretations.

According to the IFRS Foundation (2013), 122 countries have enforced or permitted the use of the Iasb standards and interpretations thus far or their national standards and interpretations are converging with those of the Iasb.

In the context of the international accounting harmonization, and through European Parliament and Council Regulation No. 1606/2002/CE, issued on July 19<sup>th</sup>, Portuguese publicly-traded entities found themselves obliged, as from January 1<sup>st</sup> 2005, to use the International Accounting Standards (IAS), endorsed by the European Union (EU) in the preparation and elaboration of their consolidated Financial Statements (FSs). In Portugal, and through the introduction of the Accounting Standardization System (ASS) and the Accounting Standards for Micro-entities (NCM), adopted under Decree-Law No. 158/2009, on July 13<sup>th</sup>, and Law No. 35/2010, on September 2<sup>nd</sup>, respectively, based in turn on the above mentioned international standard, the country was clearly included in the context of the international accounting harmonization.

The goal of the international accounting harmonization is the comparability of financial reporting. This goal arouses discussion, however, due to the influence of culture on the professional judgment, which rests on the professional's decision on accounting aspects. In that sense, it is fundamental to understand the impact of the environmental factors on practice and on the accounting systems.

According to Hofstede (1980), societies are influenced by the existence of different environmental and technological factors which, in turn, lead to the development of different social values and which affect the institutional processes and the need for information about them. Later, Gray (1988) identified four accounting values to define the subculture of Accounting in each country. In Gray's perspective (1988), the accounting values are related to and derive from Hofstede's cultural values (1980) and influence the way the countries' financial reporting systems are developed, as well as the way the professionals (financial information preparers) in different countries interpret and apply the standards.

The problem identified to develop this research is related to the influence of culture on the professional judgment, in view of its potential impacts on financial reporting and, consequently, on comparability as a qualitative characteristic of the financial information. According to Albuquerque and Almeida (2009), one of the objectives of the harmonization process is the international comparability of financial reporting. Nevertheless, due to the subjective concepts present in the NICs, this process can arouse discussion. In that sense, it is important to perceive the impacts and incidence of these concepts in accounting practice, based on culture and professional judgment on the one hand and their materialization in financial reporting on the other.

As mentioned, the comparability of financial reporting is one of the main objectives of international accounting harmonization. In that sense, the adoption of the standards and interpretations the Iasb issued presupposes the continuation of this same objective. Nevertheless, as the Iasb standards are principle instead of rule-based, delegating the decision on accounting matters to professional judgment, and as there are different factors, namely cultural values, that can lead to a distinguished interpretation of the concepts that exist in the standards, the sought-after objective can be at stake.

According to Gray (1988), the accounting values are related to the accounting practices the financial information preparers adopt and are materialized in the form, content and qualitative characteristics present in the financial report. In that sense, different factors, some of which already mentioned, can determine the application of concepts in a distinguished form, concept that include the existence of cultural values that, in turn, influence the professional judgment.

Thus, this research intends to identify, against the specific background of the study by Tsakumis (2007), the materialization of professional judgment in terms of the practices adopted in the elaboration of financial reports, specifically considering the provisions, contingent assets and liabilities, discussed in Accounting and Financial Reporting Standard (NCRF) 21, which in turn is based on the *International Accounting Standard* (IAS) 37. In addition, the goal is to validate (or not), Gray's (1988) proposed classification of Portugal in terms of two of the accounting values Gray (1988) defined, namely conservatism and secrecy, departing from the concepts related to financial information measuring and disclosure established in that standard.

For that purpose, the answers to a questionnaire will be analyzed, distributed amongst the financial information preparers in Portugal, i.e. the Chartered Accountants (TOC), registered in the Chamber of Chartered Accountants (Otoc), as these are one of the main stakeholders in the entities' elaboration process of the financial reports.

Thus, this study is relevant as it materializes the professional judgment in terms of the practices adopted in the elaboration of the financial report, specifically concerning the provisions, contingent liabilities and contingent assets, considering that the subjective concepts in that standard, such as "possible", "probable" and "virtually certain", are subject to distinguished professional interpretations. The choice of that standard thus motivates the development of this study, particularly concerning the link between this matter and its impact in terms of financial reporting and the capacity to influence the users' decision.

Based on the problem mentioned earlier, this analysis will also permit the validation or not of the classification Gray (1988) attributed to Portugal, representing another motivating factor for this study.

The objective of the next topic is to present the theoretical framework for the research hypotheses developed further ahead.

## 2. Theoretical Background

To achieve the objectives underlying the harmonization process more easily, namely the actual comparability of financial reporting at the international level, it is fundamental to perceive the impacts and incidence of the concepts related to accounting practice based on professional judgment.

Choi and Meek (2005) refer that, due to the rapid growth in the global markets and the cross-border investment activities, the international dimensions of Accounting are very important for the professionals.

According to Alexander and Nobes (2001), - if the needs differ among the countries or environments, Accounting will also tend to develop in distinct ways, in response to its environment and, consequently, the definitions in different contexts can vary.

As Accounting responds to its environment, different cultural, economic, legal and political environments can produce different Accounting systems (Choi & Meek, 2005). In the same sense, when accepting that the users have different needs, the different cultural environments are equally susceptible to leading to different accounting practices (Alexander & Nobes, 2001). The classification of the international accounting systems is thus important to understand and analyze the differences.

The differences can be influenced by the surrounding environment, appointing the legal system, the political system, the cultural factors, the social climate, the growth rate and the economic development level, the degree of internationalization of the economy, the main source of funding the companies use, their dimension and complexity and the level of interference of the fiscal standards as some of the variables (Choi & Meek, 2005; Radebaugh, Gray & Black, 2006).

Based on his study, which covered more than 100,000 employees from IBM in 39 countries, Hofstede (1980) identified four cultural dimensions, with a view to explaining the cultural similarities and differences among the different countries and the existence of relations among these dimensions and the individuals' preferences and actions. These cultural dimensions can be presented as follows:

individualism *versus* collectivism: describes the relation between the individual and the group and reflects in the way the individuals live together, namely in their collective values or loyalty;

- large versus small power distance: is related to social inequality, and is formalized in the relation between individuals and authorities, that is, how a society deals with the inequalities among people when they occur;
- strong versus weak risk aversion: is related to the different forms of coping with uncertainty towards the future;
- masculinity *versus* femininity: is related to gender duality, namely with the social implications resulting from the existing differences between the female and male gender.

Gray (1988), based on Hofstede's original model (1980), defends the existence of four accounting values, namely: uniformity; statutory control; conservatism and secrecy. Proceeding with the relationship between the cultural values and the accounting values, Gray (1988) proposes the establishment of new hypotheses between accounting values and practices, making a distinction between the accounting systems' authority that is, the extent to which it is determined by national organisms or professional associations on the one hand and the information measuring and disclosure characteristics on the other.

Professionalism and uniformity are the accounting values related to the regulation and the degree of compliance. Conservatism and secrecy, in turn, are related with the measuring and information disclosure practices, respectively.

That is how Gray (1988) identified the accounting systems, based on the model developed. According to that classification, Portugal is part of the group of less developed Latin countries, implying a high degree of uniformity and statutory control, as well as conservatism and secrecy.

The existing differences in the international accounting practices according to Nobes and Parker (2004) can be explained by the environmental factors. In that sense, culture is appointed as one of the factors influencing the international accounting and, consequently, financial reporting practices. Douppnik and Tsakumis (2004) mention, in turn, that the accounting values affect the accounting systems and, in that sense, the cultural values directly influence the development of Accounting and the financial reporting systems in the different countries, as proposed by Gray (1988).

Based on improvements in the structure by Gray (1988) Tsakumis (2007) suggests that the national culture plays an important role in the disclosure of the information preparer's professional judgment, which can call into question the utility of the financial reports prepared in the framework of a set of accounting standards the countries hold in common.

Other studies based on Gray's model, namely MacArthur (1996, 1999), Robert and Salter (1999), Schultz and Lopez (2001) and Douppnik and Richter (2004) concluded that the accounting professionals and/or auditors' opinion, attitudes and decisions are globally consistent with Gray's theory (1988), referring that the cultural accounting structure also applies to the financial reporting decisions. Thus, the professionals are expected to apply the financial reporting standards consistently, in view of their cultural values.

Nevertheless, according to Tsakumis, Campbell and Douppnik (2009), there is another factor besides the national culture that impedes the interpretation and strict application of the standards, namely the difficulty to translate the standards in other languages.

According to the existing literature, several empirical studies have contributed to the study of the cultural differences among countries, namely to understand the influence of culture on Accounting based on Hofstede-Gray's model, with a view to validating Gray's accounting values as an explanatory factor of the cultural differences.

The study by Chanchani and Willett (2004) was aimed at validating Gray's accounting values (1988), based on the analysis by Baydoun and Willett (1995). Departing from the distribution of a questionnaire to the financial statement users and preparers in New Zealand and India, in 1995 and 1996, the authors found some support for the accounting values proposed by Gray (1988). Concerning the values of professionalism, uniformity and secrecy, reasonable support was obtained. Nevertheless, conservatism obtained weaker support. Based on the results obtained and the factorial and cluster analyses, conservatism seems to be divided in two values, one of which is related to secrecy, possibly considering the relation between measuring and disclosure in the context of risk aversion.

In their study, Albuquerque and Texeira Quirós (2012) intended to verify the existence of associations between Gray's accounting values (1988), namely conservatism and secrecy, and the company's funding options from the perspective of the Financial Statement preparers in Portugal. Based on the results obtained through the distribution of a questionnaire to the Chartered Accountings in 2012, when answers were obtained from a sample of 431 professionals, the existence of reasonable support was verified for the association between conservatism and secrecy, in line with evidence by Chanchani and Willett (2004). The results showed clusters of items around each of Gray's (1988) accounting values analyzed, isolated or in combination, from the perspective of company funding.

Besides the studies specifically related to the analysis of cultural variables, other studies in the literature focus more directly on the perception of the concepts in the NICs, from the perspective of professional judgment, as referenced next. Several authors make reference in that sense that the translation of the existing concepts in the literature can lead to distinct interpretations by the professionals. It should also be mentioned in this context that one of the developments of Gray's model (1988) is related to the analysis of the influence of the cultural values in the interpretation of expressions related to the term "probability" present in several Iasb standards, specifically in IAS 37.

The expressions of probability or uncertainty, such as "probable", "virtually certain" and "remote", are used in the IFRS to establish the recognition, measuring and disclosure criteria in the accounting standards.

Evans (2004) refers that, if the meaning of the technical terms used in the communication of accounting information is not well understood, they can lead to misunderstandings. In the same sense, Simon (2002) refers that it is important to perceive how the Financial Statement (FS) preparers interpret the expressions of probability, as the significant incoherencies reduce the comparability of the FS.

In his study, Belkaoui (1978) intended to analyze the existing cultural differences resulting from the interpretation of expressions according to the financial information preparers, based on two of the accounting values proposed by Gray (1988), namely conservatism and secrecy. Based on questionnaires distributed in different countries, the author concluded that the financial information preparers' understanding and interpretation of the accounting concepts are influenced by the cognitive perception processes, in view of the existence of different linguistic groups, giving rise to different linguistic codes.

In their study, Salleh, Gardner, Sulong and McGowan (2011) aimed to analyze the existence of differences in the interpretation of the verbal expressions of probability used in the NICs by multicultural Accounting students (Chinese and English) studying at universities in the United Kingdom, based on a questionnaire similar to the tool used by Davidson and Chrisman (1993) and Doupnik and Richter (2004). The study was exclusively based on expressions of probability in English for students who share and study a common language. In that study, the authors found that the native culture and language are not important factors to explain the differences among the Accounting students in the interpretation of verbal expressions of probability.

Doupnik and Richter (2004) expanded their study from 2003 to verify whether the effect of culture on the interpretation of verbal expressions of probability "in the context" was the same, namely the effect of the interaction between conservatism and the context in which the expressions of probability are used. In the study from 2003, this difference could only be attributed to the cultural language (Doupnik & Richter, 2003).

Nevertheless, the authors suggest that the influence of conservatism in the interpretation of verbal expressions of probability is sufficiently strong to surpass the differences found in the “isolated” expressions of probability when using expressions of probability “in the context” (Doupnik & Richter, 2004). According to the authors, it is improbable that the accounting standards are applied consistently among the cultures when differences emerge due to the translation of this type of words or phrases (Doupnik & Richter, 2003, 2004).

Baskerville and Evans (2011) refer that, although translation is possible, it cannot be achieved directly. According to the authors, translation problems may not be the same among the different languages. The obtained results gave rise to six recommendations and political implications, one of them being the acknowledgement that, almost always, a subtle change in meaning occurs, and that there will always be some interpretation differences between the original text and its translations.

In the same sense, Davidson and Chrisman (1993) refer that the existence of linguistic differences in the interpretation of equivalent expressions of uncertainty can decrease the uniformity of the reporting practice in the simultaneous publication of standards in more than one language.

Doupnik and Riccio (2006) followed the same approach as Belkaoui (1978), analyzing the perception of the term “probability” in different Iasb standards. The authors developed hypotheses on the relations between the values conservatism and secrecy related to the information preparers’ attribution of greater (lesser) numerical probability, considering the expressions related to the term “probability” in the recognition of items that increase (decrease) the results or the disclosure of items by more conservative or secretive countries to the detriment of less conservative or secretive countries. The results obtained through the distribution of questionnaires to accounting professionals in Brazil (considered a country with high levels of conservatism and secrecy) and the United States (considered a country with limited conservatism and secrecy) revealed greater support for hypotheses related to secrecy, against only reasonable support for conservatism, concerning the increased results in more conservative countries.

Tsakumis (2007), proceeding with the study by Doupnik and Riccio (2006), analyzed the influence of culture on the application of the accounting rules, considering the same accounting values, aiming to identify, from the perspective of the preparers from different cultures, whether distinct perceptions existed based on the same accounting concept.

The study specifically analyzed the interpretation of the asset and liability concepts in IAS 37, based on the 101 answers obtained to a questionnaire distributed to accounting professionals from Greece (52 answers) and the United States (49 answers), using the culture and the nature of the contingency (asset versus liability) as independent variables and the disclosure decisions (secrecy) as dependent variables. The authors found no significant differences in the identification of situations that involved either assets or liabilities among the Greek and American accounting professionals. Nevertheless, they found that the American accounting professionals presented greater conservatism, while the Greek accounting professionals were less prone to information disclosure (greater secrecy) than the Americans.

In the Portuguese context, and in line with earlier studies, Teixeira and Silva (2009) analyzed the perception of the verbal expressions in the Iasb standards. The data were obtained through the distribution of a questionnaire to the auditors registered at the Portuguese Securities Commission (CMVM). Thirty-five answers were obtained out of 45, based on which significant differences could be identified in the verbal interpretation of the terms “remote” and “reasonable certainty” in Portugal when compared to the results identified in other countries (namely Switzerland, Germany, Britain and Austria), as well as a lack of consensus on the terms “possible”, “probable” and the expression “virtually certain” among the professionals under analysis. The authors highlight that, as the term “probable” is commonly used in the context of the NIC, it can affect the comparability of the financial reports (Teixeira & Silva, 2009).

In view of the above studies, the following item is intended to present the method used in the study that was developed.

### 3. Method

In order to meet the proposed objectives, and taking into account the theoretical background presented in the previous part, two hypotheses were set for this study.

According to Gray (1988), Portugal is inserted in the group of less developed Latin countries, being a country with high levels of conservatism and secrecy. Tsakumis (2007) states that conservatism and secrecy are two of the most important cultural values in the impact of the national culture in accounting, and are related to the measuring and disclosure of information. In this sense, the following hypothesis was defined:

**H1:** The preparers of information in Portugal, according to their professional judgment, present high levels of conservatism and secrecy, in accordance with the inclusion of Portugal in the group of less developed countries proposed by Gray (1988).

Professional judgment underlies the values of conservatism and secrecy, which can eventually lead to different interpretations of the concepts set out in the standards, in the context of the preparation of FS.

Thus, the following hypothesis of this study rests on the information preparers' decision, according to their judgment, relating to the decision to disclose or recognize a liability or an asset, taking into account the concepts in NCRF 21, entitled Provisions, Contingent liabilities and Contingent Assets. In that sense, that hypothesis is defined as follows:

**H2:** There are significant differences in the perception of information preparers in Portugal concerning the disclosure and recognition of assets and liabilities in the financial statements, indicating the existence of greater conservatism and secrecy among these professionals.

The information preparers in Portugal (TOC) are the study population, by virtue of being key stakeholders in the entities' financial reporting process. The collection of primary data for this study, which is a fundamentally qualitative research, was based on the responses obtained through a widespread survey, from October 2012 to July 2013, on the website of the Chamber of Chartered Accountants (Otoc), accessed through the following link: <http://alfa.limequery.com/index.php?sid=29114&newtest=Y&lang=pt>. Simultaneously, in order to increase the response rate, some face-to-face responses in contacts with the TOCs who participated in educational programs in Portugal, promoted by the same institution, between January and June 2013. The final data resulted in 408 valid responses.

The design of the questionnaire was based on the collection instrument similarly used by Albuquerque, Almeida and Texeira Quirós (2011), Chanchani and Willett (2004) and Tsakumis (2007).

The scale used to attribute the degree of importance used in the questionnaire was based on the Likert model, ranging from 1 to 5 points. In the General Questions (GQ), the scale ranges from "strongly disagree" (1) to "strongly agree" (5).

In the Specific Questions (SQ), the responses were obtained on a similar scale by assigning a degree of significance of 5 to 5 values, ranging from "I agree" to "I strongly agree", namely "I do not disseminate a contingent liability nor recognize a provision" (from 1 to 5 points); "I publish a contingent liability in the Annex / notes" (6-10 points); and "I publish and recognize a provision in the financial statements" (11 to 15 points) in the case of liabilities, and "I do not disseminate a contingent asset or recognize an asset" (from 1 to 5 points); "I publish a contingent asset in the Annex / notes" (6-10 points); and "I publish and recognize an asset in the financial statements" for assets (11 to 15 points).

For the SQ, the above scenario rests on the involvement of an entity in judicial proceedings because it represents the most common contingency. In this sense, it was exposed two situations (Sit.) were presented. In addition, information about the potential damage and the state of the court case was provided at the end of the accounting period, so that the final outcome of the case became uncertain.

The NCRF 21 is a standard that requires considerable professional judgment. It is therefore suitable for the analysis of conservatism and secrecy, as the information preparers need to assess expressions of probability such as “remote”, “possible”, “probable” and “virtually certain”, with regard to the recognition of provisions and assets or the disclosure of contingent liabilities and contingent assets.

The 2012 Annual Report of Otoc (2012) indicates the existence of 72,650 TOCs with active sub-description. However, there is no reference to the exact number of TOCs who are exercising these functions. Table 1 shows the technical specifications of the study, including the minimum sample required for the study, taking into account the estimated population mentioned earlier.

Table 1

**Technical Specifications**

Sample dimension and population	
Preparers (sample): n	408
Preparers (minimum sample):	382
Preparers (population): N	72,650
Other statistical analysis data:	
Significance level (p-value)	p < 0.05
Confidence Level (CL)	95%
Standardized normal random variable (Z)	1.96
Precision (SE)	5%
Probability of success (p)	50%

Source: elaborated by the authors.

Regarding the sample collected for this study, it appears, based on the parameters indicated in Table 1 and using the method suggested by Arkin (1982) for calculating the minimum sample size (n), that the criteria for the minimum dimension required are complied with. The formula (1) applied in calculating the minimum sample is:

$$n = p(1-p) / [(SE/Z)^2 + (p(1-p)/N)] \quad (1)$$

Regarding the statistical techniques used, the conservatism and secrecy (latent study variables), which are at the base of the development of H1 proposed, were analyzed using multivariate statistical techniques, in particular factor analysis and reliability.

The latent variables used in H1, namely conservatism and secrecy, according to Hill and Hill (2009), are variables represented by a number of other variables and can be measured based on items (questions) of a questionnaire. Therefore, the adequacy of the questionnaire to measure the latent variable needs to be checked, which is performed by analyzing the reliability and validity of the data.

The analysis of the reliability coefficient Cronbach's alpha ( $\alpha$ ) permits estimating the internal reliability of items (questions) in the questionnaire concerning the latent variables that are related, in this case, to the conservatism and secrecy. According to Hill and Hill (2009), the minimum coefficient to be accepted for the degree of identification is 0.7.

Factor validity can be assessed by factor analysis and analyzes, according to Hill and Hill (2009 p. 152), “the correlations between different variables to find a set of “factors” that theoretically represent what the variables analyzed have in common.” Similarly, Maroco (2007 p 361.) - states that the factor analysis uses “the correlations observed between the original variables to estimate the common factor(s) and structural relationships connecting the (latent) factors to the variables.”

In this study, the factor analysis is based on the of principal components method, which aims at transforming (Maroco, 2007, p 329.), “A set of correlated variables into a smaller set of independent variables.” - which may be explaining the phenomenon in question without loss of information concerning the original data. The method is used with the help of the Varimax rotation, which permits maximizing the variance between factors for the rotation of the factor matrices, i.e. “in which one and only one of the original variables is strongly associated with a single factor, and weakly associated with the remaining factors.” (Maroco, 2007 p. 375).

Two other statistical procedures for ascertaining the quality of the correlations between the variables in the context of factor analysis are the KMO (Kaiser-Meyer-Olkin Measure of Sampling Adequacy) and Bartlett’s sphericity test. The KMO, according to Maroco (2007 p. 367) “compares the simple correlations with partial correlations observed between the variables.” Its value lies between 0 and 1. Accordingly, it appears that there is a better match (validity) of the data for the analysis under study, when the coefficient approaches 1. According to Maroco (2007 p. 368) – a coefficient between 0.7 and 0.8 is accepted as reasonable. Bartlett’s sphericity test has an asymptotic  $\chi^2$  distribution, and tests whether the correlation matrix is an identity matrix, which indicates that there is no correlation between the initial variables, rejecting the null hypothesis.

An auxiliary tool used is the analysis of the scree plot graph, which permits, through the axis of the abscissas, to check the number of factors that should be used for extraction purposes in order to explain a high percentage of the total variance in the original variables. The maximum number of factors resulting from the factor analysis is identified from the point where there is a small slope, i.e. where the line that joins starts to become horizontal.

Any such differences regarding the professionals’ perception of the disclosure or recognition of liabilities (“Sit. I”) and assets (“Sit. II”) underlying the development of H2 proposed were analyzed, in turn, using bivariate statistical techniques, namely the non-parametric Wilcoxon (Signed Ranks test) and the chi-square test. The Wilcoxon Signed Ranks Test is a nonparametric test alternative to the T-Test (normal distribution), used when you want to compare the “central trend measure of the population under study with a certain theoretical value.” (Hill & Hill, 2009).

The chi-square test is an  $\chi^2$  distribution, and results from the sum of the squares of “n” variables “N” (0.1). It aims to test whether “the frequency at which the sample elements are divided by classes of a nominal variable categorized is identical or not.” (Maroco, 2007 p. 103). The variables H1 and H2 used in this study were also subject to descriptive statistical techniques, including descriptive measures (i.e. mean, median and standard deviation) in order to characterize the sample and calculate the relative frequencies.

Data analysis was performed using the Statistical Package for Social Sciences software (SPSS) version 17.

The next topic, finally, aims to present and analyze the results obtained based on the proposed objectives and the method discussed in this paragraph.

## 4. Results

The objective in this topic is to present and discuss the results obtained in view of the method defined earlier.

### 4.1 Portugal and the Cultural Values (H1)

At this point, we intend to analyze the results on the first hypothesis (H1) proposed, whose objectives are set out in the previous topic.

According to Table 2, medians superior to 3.00 are verified for most items of question 1 of the questionnaire, except for items SQ04, SQ08, SQ12 and SQ14, associated in all cases with the book value of the secrecy.

These questions are related to the non-disclosure of information when the company's going concern, more complex matters, uncertainty regarding more detailed contingencies and information about the entity are concerned, verifying an association between SQ04 and SQ14, because the more detailed disclosure of information might jeopardize the company's going concern.

It should also be highlighted that it is equally for two items related to the same accounting value (secrecy) that the highest coefficients are found for the median and third quartile (items SQ06 and SQ10), corresponding to 4.0 and 5.0, respectively. The standard deviations (between 0,952 and 1,256) are considered reasonable in view of the proposed scale (from 1 to 5 points).

Table 2

**Analysis of Descriptive Statistics. GQ**

<i>Statistics/ Items</i>	<i>Mean</i>	<i>Mode</i>	<i>Std. Deviation</i>	<i>Variance</i>	<i>Kurtosis</i>	<i>Std. Error of Kurtosis</i>	<i>Min</i>	<i>Max</i>	<i>1° Quartil</i>	<i>2° Quartil</i>	<i>3° Quartil</i>
SQ01	2.77	3	1.083	1.173	-.584	.241	1	5	2.00	3.00	3.00
SQ02	3.18	3	1.239	1.536	-.843	.241	1	5	2.00	3.00	4.00
SQ03	2.81	3	1.256	1.577	-1.071	.241	1	5	2.00	3.00	4.00
SQ04	1.59	1	.952	.906	2.214	.241	1	5	1.00	1.00	2.00
SQ05	3.12	3	1.178	1.388	-.728	.241	1	5	2.00	3.00	4.00
SQ06	3.59	4	1.211	1.466	-.551	.241	1	5	3.00	4.00	5.00
SQ07	2.82	3	1.063	1.130	-.448	.241	1	5	2.00	3.00	3.00
SQ08	1.87	1	1.048	1.099	.702	.241	1	5	1.00	2.00	2.00
SQ09	2.74	3	1.143	1.307	-.737	.241	1	5	2.00	3.00	4.00
SQ10	4.06	5	1.109	1.229	.778	.241	1	5	4.00	4.00	5.00
SQ11	2.73	3	1.132	1.281	-.775	.241	1	5	2.00	3.00	4.00
SQ12	2.52	2	1.200	1.440	-.835	.241	1	5	2.00	2.00	3.00
SQ13	2.97	3	1.188	1.412	-.843	.241	1	5	2.00	3.00	4.00
SQ14	1.84	1	1.030	1.061	.511	.241	1	5	1.00	2.00	2.00

Source: elaborated by the authors.

Table 3 shows the relative frequencies and is consistent with the previous analysis concerning the existence of more items with higher frequencies on the left of the agreement scale (1.0 and 2.0) when compared to the higher frequencies obtained on the right of the scale (4.0 and 5.0). In that sense, there are four items related to secrecy (SQ04, SQ08, SQ12 and SQ14) for which the sum of scores on the left (1 + 2) is higher than the items on the right by more than 50%, with values between 52.0% (item SQ12) and 83.9% (SQ04 item), and two items (SQ06, SQ10) for which the sum of items on the right (4 + 5) is higher than the items on the left by more than 50%, with values of 57.4% (SQ06 item) and 76.2% (SQ10 item).

Table 3

**Relative Frequency Analysis. GQ**

	Scale = 1		Scale = 2		Scale = 3		Scale = 4		Scale = 5	
	No.	%								
SQ01	63	15.4	85	20.8	162	39.7	77	18.9	21	5.1
SQ02	54	13.2	59	14.5	118	28.9	115	28.2	62	15.2
SQ03	80	19.6	89	21.8	103	25.2	99	24.3	37	9.1
SQ04	265	65.0	77	18.9	42	10.3	17	4.2	7	1.7
SQ05	46	11.3	69	16.9	137	33.6	102	25.0	54	13.2
SQ06	31	7.6	44	10.8	99	24.3	122	29.9	112	27.5
SQ07	52	12.7	92	22.5	166	40.7	73	17.9	25	6.1
SQ08	193	47.3	123	30.1	54	13.2	27	6.6	11	2.7
SQ09	70	17.2	95	23.3	140	34.3	76	18.6	27	6.6
SQ10	19	4.7	23	5.6	55	13.5	127	31.1	184	45.1
SQ11	70	17.2	99	24.3	135	33.1	81	19.9	23	5.6
SQ12	101	24.8	111	27.2	105	25.7	66	16.2	25	6.1
SQ13	56	13.7	84	20.6	127	31.1	99	24.3	42	10.3
SQ14	199	48.8	121	29.7	48	11.8	33	8.1	7	1.7

Source: elaborated by the authors.

Based on the 14 items associated with the first question of the GQs in the questionnaire, Table 4 identifies, in turn, the value for the alpha coefficient. The amount identified for that coefficient was 0.606, lower than the amount considered reasonable to confirm the reliability or internal consistency (Hill & Hill, 2009). Note, however, that Chanchani and Willett (2004) particularly found lower Cronbach's alpha coefficients in a similar study.

Table 4

**Reliability Analysis. GQ**

<b>Reliability Statistics</b>		
<b>Cronbach's Alpha</b>	<i>Cronbach's Alpha Based on Standardized Items</i>	<i>N of Items</i>
<b>,606</b>	,612	14

Source: elaborated by the authors.

The analysis of the item-total statistics permits identifying the items that, if excluded, would allow for an increase in the alpha coefficient, as well as the items that have the lowest item-total correlation coefficient.

In this sense, it can be verified, based on Table 5, that the exclusion of the items SQ06, SQ07 and SQ10 results in additions to the value of the previously identified coefficient. These items are responsible for the lower item-total correlation values (being SQ10 item negatively associated with the remainder).

Table 5

**Analysis of Item-Total Statistics. GQ**

<i>Item</i>	<i>Scale Mean if Item Deleted</i>	<i>Scale Variance if Item Deleted</i>	<i>Corrected Item-Total Correlation</i>	<i>Squared Multiple Correlation</i>	<i>Cronbach's Alpha if Item Deleted</i>
SQ01	35.84	36.778	.245	.107	.587
SQ02	35.44	35.981	.245	.138	.587
SQ03	35.80	36.277	.219	.101	.593
SQ04	37.03	36.709	.308	.224	.579
SQ05	35.50	35.396	.313	.289	.575
SQ06	35.03	39.338	.024	.026	.628
SQ07	35.79	38.016	.154	.089	.602
SQ08	36.74	34.742	.431	.329	.556
SQ09	35.87	35.487	.321	.176	.574
SQ10	34.55	40.494	-.039	.120	.635
SQ11	35.89	35.784	.303	.138	.577
SQ12	36.10	35.406	.303	.181	.576
SQ13	35.65	35.934	.268	.266	.583
SQ14	36.77	35.656	.362	.284	.568

Source: elaborated by the authors.

The new alpha coefficient obtained, after excluding the three items with the lowest item-total correlation coefficients, of 0.661 (Table 6), shows a slight increase in the coefficient obtained.

Table 6

**Reliability Analysis After Excluding the Items. GQ**

<i>Cronbach's Alpha</i>	<i>Cronbach's Alpha Based on Standardized Items</i>	<i>N of Items</i>
<b>.661</b>	.668	11
.661	.668	11

Source: elaborated by the authors.

Table 7, in turn, presents the analysis of the item-total statistics after excluding the three items mentioned above (SQ06, SQ07 and SQ10), in order to identify the need to proceed to the exclusion of other items of the GQ that resulted in additions to the value of the alpha coefficient. Therefore, taking into account the elements that are identified next, it appears that the exclusion of any item would not result in additions to the value of the alpha coefficient, obtaining item-total correlations between 0.239 (SQ01) and 0.487 (SQ08).

Table 7

**Analysis of Item-Total Statistics After Excluding Items. GQ**

<i>Item</i>	<i>Scale Mean if Item Deleted</i>	<i>Scale Variance if Item Deleted</i>	<i>Corrected Item-Total Correlation</i>	<i>Squared Multiple Correlation</i>	<i>Cronbach's Alpha if Item Deleted</i>
SQ01	25.37	31.447	.239	.105	.652
SQ02	24.97	30.058	.289	.127	.644
SQ03	25.33	30.585	.242	.100	.653
SQ04	26.55	30.945	.347	.216	.635
SQ05	25.02	30.218	.303	.272	.641
SQ08	26.27	28.939	.487	.320	.609
SQ09	25.40	30.206	.319	.162	.638
SQ11	25.42	30.769	.277	.108	.645
SQ12	25.63	30.368	.281	.149	.645
SQ13	25.17	30.439	.280	.259	.645
SQ14	26.30	29.955	.400	.267	.624

Source: elaborated by the authors.

The KMO coefficient (Table 8) identified for the questions, corresponding to 0.721, is fairly significant, highlighting the adequacy of the data for analysis. The association of the result with Bartlett's sphericity test (Table 8), which has a p-value inferior to 0.001, identifies a sufficient level of correlation between the variables (Maroco, 2007).

Table 8

**KMO and Bartlett's Sphericity Test. GQ**

<i>KMO and Bartlett's Test</i>		
<i>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</i>	.721	
<i>Bartlett's Test of Sphericity</i>	<i>Approx. Chi-Square</i>	550,588
	<i>Df</i>	55
	<i>Sig.</i>	,000

Source: elaborated by the authors.

The commonalities observed in Table 9, which are identified as a measure of the proportion of variance explained by the extracted factors, vary, in turn, between 0.321 (SQ11 item) and 0.683 (SQ05 item), values considered equally suitable for the factor extraction process.

Table 9  
**Analysis of Commonalities. GQ**

<i>Item</i>	<i>Initial</i>	<i>Extraction</i>
SQ01	1.000	.348
SQ02	1.000	.401
SQ03	1.000	.351
SQ04	1.000	.505
SQ05	1.000	.683
SQ08	1.000	.546
SQ09	1.000	.544
SQ11	1.000	.321
SQ12	1.000	.344
SQ13	1.000	.649
SQ14	1.000	.537

*Extraction Method: Principal Component Analysis*

Source: elaborated by the authors.

Table 10 presents, in turn, the proportion of the total explained variance associated to the three groups identified, based on the number of factors (three) extracted from the factor analysis performed. Accordingly, the three factors extracted explain 48% of the total variance, lower than the value obtained by Albuquerque et al. (2011), of 61%, and close, however, to the total variance in the study by Chanchani and Willett (2004), of 49%. Note that the first factor explains 18% of the total variance, while the second and the third factor account for around 15% and 14% of the total variance.

Table 10  
**Total Explained Variance. GQ**

<i>Component</i>	<i>Initial Eigenvalues</i>			<i>Extraction Sums of Squared Loadings</i>			<i>Rotation Sums of Squared Loadings</i>		
	<i>Total</i>	<i>% of Variance</i>	<i>Cumulative %</i>	<i>Total</i>	<i>% of Variance</i>	<i>Cumulative %</i>	<i>Total</i>	<i>% of Variance</i>	<i>Cumulative %</i>
1	2.620	23.814	23.814	2.620	23.814	23.814	2.026	18.416	18.416
2	1.472	13.381	37.195	1.472	13.381	37.195	1.675	15.231	33.647
3	1.138	10.349	47.544	1.138	10.349	47.544	1.529	13.898	47.544
4	.989	8.989	56.533						
5	.931	8.468	65.001						
6	.850	7.727	72.728						
7	.716	6.509	79.237						
8	.663	6.023	85.261						
9	.602	5.477	90.738						
10	.525	4.773	95.511						
11	.494	4.489	100.000						

*Extraction Method: Principal Component Analysis*

Source: elaborated by the authors.

Table 11, finally, shows the factor loadings associated with each of the three factors capable of extraction identified with respect to the values of conservatism and secrecy, being identified items with factor loadings superior to 0.3 in each component.

The analysis of Table 11 shows that, in the first factor, with 18% of the total variance explained, four items related to secrecy are identified (SQ04, SQ08, SQ12 and SQ14). In the second factor, with about 15% of the total variance explained, four items were associated with conservatism (SQ01, SQ05, SQ11 and SQ13). However, in the item SQ11, the factor loading superior to 0.3 is identified either in the first or the second component. In the third factor, finally, with about 14% of the total variance explained, two items are identified which are related, exclusively in this factor, to conservatism (SQ03 and SQ09), and one item related to secrecy (SQ02). In the latter factor, one item (SQ01) related to conservatism is also identified, which shares a factor loading superior to 0.3 with the second factor.

Table 11

**Results of Factor Analysis. GQ**

Item	Component			Question
	1	2	3	
SQ01	-.047	.451	.377	In case of doubt, the measuring of an asset at the lowest amount presupposes the reliable representation of an economic phenomenon
SQ02	.168	-.008	.611	The disclosure of contingencies should be carefully weighted since, as a rule, it compromises the entity's image in the market
SQ03	.105	.018	.583	The market value is generally less reliable than the purchasing cost, despite being more relevant
SQ04	.703	-.032	.097	Information that can compromise the entity's going concern should not be disclosed in the financial report
SQ05	.060	.823	.052	Between two possible and equally reliable amounts, the measuring of an asset at the lowest amount should be preferably used
SQ08	.668	.136	.285	More complex matters should not be disclosed in the financial report
SQ09	.105	.087	.725	In case options are available, the cost model should be preferred over the fair value model
SQ11	.454	.321	-.111	Spending and losses should be disclosed based on the most recent information available to the entity, even if less reliable
SQ12	.544	-.105	.194	In case of uncertainty on their outcome, the contingencies should not be disclosed
SQ13	.097	.800	-.015	Between two possible and equally reliable amounts, the measuring of a liability at the highest amount should be preferably used
SQ14	.720	.118	.069	The financial report should not include the most detailed information available in the entity, even if relevant

*Extraction Method: Principal Component Analysis.*

*Rotation Method: Varimax with Kaiser Normalization.*

*a. Rotation converged in 5 iterations.*

t

Source: elaborated by the authors.

In the first factor, there are four items related to the book value of the secrecy related to the quality and quantity of information disclosed in the financial report, based on the professional judgment of the information preparers. The two strongest items (SQ04 and SQ14) are related to the non-disclosure of more detailed information about the entity, which may call into question its going concern. The third (SQ08) and fourth (SQ12) items with higher factor loadings are associated with the non-disclosure of more complex matters, and the non-disclosure of contingencies when the outcome is uncertain.

Regarding the second factor, the strongest items are linked to the accounting value of conservatism and are related to the measuring of assets and liabilities (SQ05 and SQ13). At issue is the recognition of liabilities for higher amounts and assets for smaller amounts. SQ11 has a factor loading superior to 0.3 in the first and second factor, although higher in the first case. This may be related to the consideration of matters relating to either the recognition or disclosure (“reported ...”), leading to its identification with both accounting values in question (conservatism and secrecy, respectively).

Finally, in the third factor, the two items related to conservatism (SQ03 and SQ09) are related to the reliability of the market value and use of the fair value model. What is at stake is the reliability of information, in view of the concepts referenced. The item on secrecy (SQ02) is related to the disclosure of information relating to contingencies. Finally, SQ01, related to conservatism, which shares a factor loading superior to 0.3 with the second factor, is related to the recognition of assets by smaller amounts in case of doubt.

According to the previous analysis, the existence of an association between the cultural values of conservatism and secrecy can be verified, as referenced in previous studies (Albuquerque & Teixeira Quirós, 2012; Chanchani & Willett, 2004). However, in view of the analysis of the frequency table (Table 3), the existence of a greater attitude of non-secrecy is verified, that is, greater transparency with respect to financial information disclosed by the financial information preparers, unlike the situation regarding the value of conservatism. Accordingly, and given that Portugal, according to Gray (1988), is considered a country with high levels of secrecy, H1 defined in this study only obtained reasonable support.

## 4.2 The Judgment of the Preparers in Portugal (H2)

At this point, we intend to analyze the results for the second hypothesis (H2) proposed, whose objectives are set out in the previous topic. Table 12 presents some descriptive statistics related to the responses identified in the context of the recognition and disclosure of a contingent liability (“Sit. I”) and asset (“Sit. II”). In this sense, the existence of differences around the median is highlighted (11.0 for liabilities and 9.0 for assets), identifying greater conservatism (“if in doubt, recognize liabilities at higher amounts and assets at smaller amounts”), in line with the results obtained in the previous part, in which an association is found between conservatism and the recognition of liabilities and assets.

Table 12

### Descriptive Statistics: “Sit. I” and “Sit. II”. SQ

Statistics	Mean	Mode	Std. Deviation	Variance	Kurtosis	Std. Error of Kurtosis	Min	Max	1° Quartil	2° Quartil	3° Quartil
Sit. I	11.31	10	2.884	8.316	-.226	.241	1	15	10.00	11.00	14.00
Sit. II	8.73	10	2.904	8.436	.538	.241	1	15	7.25	9.00	10.00

Source: elaborated by the authors.

Table 13 reveals the existence of higher relative frequencies associated with the existence of a possible asset (“Sit. II”), up to score 10.0 on the proposed scale, that is, to the extent that no asset is recognized on the balance sheet for the four groups analyzed.

It appears also that 70.5% of all professionals disclosed a contingent asset in the Annex / notes (score range 6 to 10), being 66.1% explained by four of the highest relative frequencies identified (5.6%; 16.9%, 11.9% and 32.6%), against a mere 14.9% who did not disclose or recognize an asset (scale from 1 to 5 points), of which 6.6% are explained by the highest frequency.

Next, with score 10.0 on the proposed scale, the highest relative frequencies are identified for the answers associated with the recognition of a contingent liability (“Sit. I”), verifying that 54.6% of the professionals disclosed and recognized a provision in the Federal District, being 42.4% explained by three of

the highest relative frequencies (9.1%, 14.7% and 18.6%), compared with 42.3% of the respondents who disclosed a contingent liability in the Annex / explanatory notes, being 31.3% (10.0% and 21.3%) explained by two higher frequencies.

Note that there are no significant differences in this context between the total sample and the relative total for only chartered accountants who are practicing, as well as between the total sample and the highest relative frequencies observed for the female and female gender, with a higher concentration around score 10.0 on the scale related to liabilities.

Table 13

**Relative Frequencies: "Sit. I" and "Sit. II". SQ**

Scale	Total				Practicing				Male				Female			
	Sit. I		Sit. II		Sit. I		Sit. II		Sit. I		Sit. II		Sit. I		Sit. II	
	N.º	%														
1	1	0.2	9	2.2	1	0.3	8	2.6	1	0.5	3	1.5	0	0.0	6	2.9
2	0	0.0	5	1.2	0	0.0	3	1.0	0	0.0	4	2.0	0	0.0	1	0.5
3	3	0.7	9	2.2	3	1.0	8	2.6	1	0.5	4	2.0	2	1.0	5	2.5
4	4	1.0	11	2.7	2	0.6	10	3.2	2	1.0	6	3.0	2	1.0	5	2.5
5	4	1.0	27	6.6	4	1.3	20	6.4	2	1.0	14	7.0	2	1.0	13	6.4
6	11	2.7	18	4.4	8	2.6	12	3.8	3	1.5	10	5.0	8	3.9	8	3.9
7	9	2.2	23	5.6	8	2.6	21	6.7	2	1.0	13	6.5	7	3.4	10	4.9
8	41	10.0	69	16.9	36	11.5	59	18.9	20	10.0	30	14.9	20	9.8	38	18.6
9	25	6.1	45	11.0	15	4.8	31	9.9	16	8.0	27	13.4	8	3.9	17	8.3
10	87	21.3	133	32.6	59	18.9	92	29.5	36	17.9	63	31.3	51	25.0	69	33.8
11	23	5.6	9	2.2	18	5.8	8	2.6	12	6.0	3	1.5	11	5.4	6	2.9
12	27	6.6	10	2.5	20	6.4	9	2.9	15	7.5	6	3.0	11	5.4	4	2.0
13	60	14.7	15	3.7	46	14.7	10	3.2	29	14.4	6	3.0	31	15.2	9	4.4
14	37	9.1	10	2.5	31	9.9	8	2.6	20	10.0	5	2.5	17	8.3	5	2.5
15	76	18.6	15	3.7	61	19.6	13	4.2	42	20.9	7	3.5	34	16.7	8	3.9
<b>Total</b>	<b>408</b>	<b>100</b>	<b>408</b>	<b>100</b>	<b>312</b>	<b>100</b>	<b>312</b>	<b>100</b>	<b>201</b>	<b>100</b>	<b>201</b>	<b>100</b>	<b>204</b>	<b>100</b>	<b>204</b>	<b>100</b>

Source: elaborated by the authors.

According to Table 14, there is, in the total, a higher number of cases (220 situations) where the score identified for the asset is lower than that identified for the liability (Sit. II (asset) < Sit. I (liability)). On the other hand, there are 169 situations in which the scale scores coincided. In only 19 cases, the asset value on the proposed scale was superior. In this sense, the coefficients associated with the Wilcoxon test (mean rank and sum of ranks), identified in Table 14, as well as the analysis of descriptive statistics presented above (Table 12) demonstrate a stronger trend towards the disclosure or recognition of liabilities, to the detriment of the disclosure or recognition of assets.

Table 14

**Results of Wilcoxon Signed Test (mean). SQ.**

		N	Mean Rank	Sum of Ranks
Sit. II – Sit. I	Negative Ranks	220 <sup>a</sup>	124.88	27473.00
	Positive Ranks	19 <sup>b</sup>	63.53	1207.00
	Ties	169 <sup>c</sup>		
	<b>Total</b>	<b>408</b>		

a. Sit. II < Sit. I; b. Sit. II > Sit. I; c. Sit. II = Sit. I

Source: elaborated by the authors.

In that sense, the result of the Wilcoxon test (Table 15) identifies significant differences between the professionals' (information preparers) answers about the disclosure or recognition of liabilities and assets for a significance level inferior to 5%.

Table 15

**Results of Wilcoxon Signed Test. SQ**

		Sit. II – Sit. I
<b>Z</b>		-12.399 <sup>a</sup>
<b>Asymp. Sig. (2-tailed)</b>		.000

a. Based on positive ranks.

b. Wilcoxon Signed Ranks Test

Source: elaborated by the authors.

Table 16 identifies the scores inferior or equal ("0") or superior ("1") to the median in each of the two questions posed in the second group, that is, "0" for the recognition of a possible liability and "1" for the recognition of contingent assets. Based on this Table 16, there are 125 situations of coincidence between the cluster "0" (with 83 changes from cluster "0" to cluster "1", in the passage from Sit. I, liability, to Sit. II, asset) and 109 cases of coincidence between cluster "1" (with 91 changes from cluster "1" to cluster "0" in the passage from Sit. II, liabilities, to sit. I, assets).

Table 16

**Number of Observations Below or Above the Median. SQ**

Sit.I_Q * Sit.II_Q Crosstabulation				
		Sit.II_Q		Total
		0	1	
Sit.I_Q	0	125	83	208
	1	91	109	200
Total		216	192	408

Source: elaborated by the authors.

In this sense, the result of the chi-square test (Table 17) identifies, once again, the existence of significant differences between the professionals' (information preparers) about the disclosure or recognition of assets and liabilities for a significance level inferior to 5%.

Table 17

**Results of Chi-Square Test. SQ**

<i>Statistics</i>	<i>Value</i>	<i>df</i>	<i>Asymp. Sig. (2-sided)</i>	<i>Exact Sig. (2-sided)</i>	<i>Exact Sig. (1-sided)</i>
<b>Pearson Chi-Square</b>	8.719 <sup>a</sup>	1	.003		
<b>Continuity Correction<sup>b</sup></b>	8.143	1	.004		
<b>Likelihood Ratio</b>	8.749	1	.003		
<b>Fisher's Exact Test</b>				.004	.002
<b>Linear-by-Linear Association</b>	8.698	1	.003		
<b>N of Valid Cases</b>	408				

a. 0 cells (0%) have expected count less than 5. The minimum expected count is 94,12.

b. Computed only for a 2x2 table.

Source: elaborated by the authors.

According to the above analyses, based on the results, H2 was strongly confirmed.

The final topic in this paper serves to present the main conclusions, in view of the two hypotheses defined earlier, as well as the main limitations and future perspectives identified.

## 5. Conclusions, Limitations and Contributions to Future Studies

The following items in this topic present the main conclusions, based on the hypotheses defined and the results identified above.

### 5.1 Portugal and the Cultural Values (H1)

The first hypothesis (H1) proposed for this study aims to validate (or not) the classification Gray (1988) assigned to Portugal, with regard to the accounting values of conservatism and secrecy, based on professional judgment.

According to the results obtained in this study, we found for H1, the existence of an association between the cultural values of conservatism and secrecy.

Secrecy was the strongest accounting value around the identified clusters (latent variables), as a value related to the amount of financial information in financial reporting, based on the professional judgment in matters relating to the disclosure of more detailed information about the entity and the disclosure of more complex matters and contingencies in situations of uncertainty. However, analysis of the frequencies related to the items associated with that accounting value permitted the stronger identification of an attitude of secrecy or not or, in other words, greater transparency.

Regarding the accounting value of conservatism, the strengthening of this value was verified around the items related to the measuring of assets and liabilities, specifically the recognition of liabilities for higher amounts and assets for smaller amounts, as well as the preference of the cost model to the detriment of fair value. In turn, the results of the frequencies identified with respect to these items are consistent with a conservative approach, in contrast to previous findings.

In this sense, the results only partially support H1. It should be noted, however, that the changes in both the global economic context, with an opening of the market, which translates into the need for more transparent financial reporting and greater disclosure requirements, and in the national context through the adoption of IAS endorsed by the EU in 2005 for the consolidated accounts of listed entities, as well as the adoption of the SNC and other regulations as from 2010, based, in turn, on the IAS, may have contributed to a change or repositioning of the accounting value of secrecy in Portugal.

## 5.2 The Judgment of the Preparers in Portugal (H2)

The goal of the second hypothesis (H2) is to analyze the existence of significant differences in the decisions around the disclosure or recognition of liabilities and assets, keeping in mind, again, the professional judgment.

Thus, relative to H2, and according to the results obtained, it was possible to identify a strong confirmation of the hypothesis defined could be identified, because significant differences have been identified in the professionals' (information preparers) perception around the disclosure or recognition of liabilities and assets.

In this context, the higher relative frequency associated with the disclosure or recognition of liabilities over assets should be highlighted, which indicates the existence of greater conservatism as a cultural value in Portugal (Gray, 1988), characteristically associated with code-law countries like Portugal.

These results are in line with the conclusions by Albuquerque and Teixeira Quirós (2012), in a study conducted for the same country, as well as with the results identified in the context of the analysis of H1.

Nevertheless, the results of the statistical tests performed, particularly the chi-square test and Wilcoxon Signed Ranks Test, remain valid, even when exclusively considering the responses received from active chartered accounting, as well as the gender, for the level of significance set for this study (5%).

Note also that the preference for disclosure or recognition of liabilities as a way to anticipate future risks, to the detriment of the disclosure or recognition of assets, is in line with conservatism (Albuquerque & Almeida, 2009), - the accounting value Gray (1988) assigned to Portugal. Conservatism and secrecy are, according to Tsakumis (2007), two of the most important cultural values concerning the impact of national culture on the comparability of the FS, and are related to the measuring and disclosure of information, respectively. Professional judgment is the basis of these values, which, in the preparation of financial statement, can lead to different interpretations by the information preparers of the concepts set out in the rules.

In Portugal, it is important to note also that the results are in line with the study by Teixeira and Silva (2009). According to these authors, different interpretations concerning the application of the rules can lead to the recognition and non-recognition of assets and liabilities and their disclosure or non-disclosure (Teixeira & Silva, 2009).

## 5.3 Limitations and Contributions to Future Research

Some of the limitations in this study, which uses the questionnaire as a source of collection, relate to the inherent subjectivity in studies about the identification of values and professional judgment, as well as the difficulty in getting responses, which may be related to the number of questions asked. Accordingly, and without impairing the objectives initially set out, a smaller number of questions had to be maintained.

In addition, in Portugal, studies are lacking about professional judgment that take into account the preferences of financial information preparers, making it difficult to compare the results.

New studies could examine the hypotheses raised for this research under other rules, or even in the analysis of other different concepts, namely, the concepts that underlie the qualitative characteristics of financial information. Also, future studies could establish a more direct relationship between the preferences of professionals for certain concepts and cultural values that underlie these preferences, identifying the existence of possible explanatory factors.

This study aims to attract the standardizers' attention to the importance of aspects related to the information disclosed in financial reporting, particularly when concerning professional judgment, due to the existence of subjective concepts in the standards. It should be noted that these factors can be clearly interpreted, thus raising questions on the much desired comparability of financial reporting.

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## 7. Appendix: questionnaire

 <b>Obs.: All information collected in this questionnaire is strictly confidential.</b> <i>The data will be used solely for statistical purposes, and the results will be presented as a whole.</i> <i>This questionnaire should be answered exclusively by chartered accountants registered as such in the Chamber of Chartered Accountants.</i>													
Part I - Framework Questions													
<b>Age:</b> Less than 25 years <input type="checkbox"/> Between 26 and 35 years <input type="checkbox"/> Between 36 and 45 years <input type="checkbox"/> Between 46 and 55 years <input type="checkbox"/> Over 55 years of age <input type="checkbox"/>	<b>Gender:</b> Female <input type="checkbox"/> Male <input type="checkbox"/>	<b>Currently practicing functions inherent in activities of chartered accountant:</b> Yes <input type="checkbox"/> No <input type="checkbox"/>											
<b>Most recent/current level of education:</b> No higher education <input type="checkbox"/> Bachelor/Teaching Diploma <input type="checkbox"/> Specialization/Graduation Degree <input type="checkbox"/> Master's <input type="checkbox"/> Ph.D. or Post-Doctoral Degree <input type="checkbox"/>	<b>Most relevant educational background:</b> Accounting <input type="checkbox"/> Auditing <input type="checkbox"/> Finance <input type="checkbox"/> Law/Taxation <input type="checkbox"/> Economics/Management <input type="checkbox"/>	<b>Years of professional experience:</b> Up to 5 years <input type="checkbox"/> Between 6 and 10 years <input type="checkbox"/> Between 11 and 20 years <input type="checkbox"/> Between 21 and 30 years <input type="checkbox"/> More than 30 years <input type="checkbox"/>											
Part II - General questions													
1. Using the following scale, indicate how much you agree or disagree from each of the statements presented below (1 - I completely disagree; 5 - I completely agree): <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="border: 1px solid black; padding: 2px 5px; text-align: center;">1</td> <td style="border: 1px solid black; padding: 2px 5px; text-align: center;">2</td> <td style="border: 1px solid black; padding: 2px 5px; text-align: center;">3</td> <td style="border: 1px solid black; padding: 2px 5px; text-align: center;">4</td> <td style="border: 1px solid black; padding: 2px 5px; text-align: center;">5</td> </tr> <tr> <td colspan="2" style="text-align: center; padding: 2px;">I completely disagree</td> <td></td> <td></td> <td style="text-align: center; padding: 2px;">I completely agree</td> </tr> </table>				1	2	3	4	5	I completely disagree				I completely agree
1	2	3	4	5									
I completely disagree				I completely agree									
1.1 In case of doubt, the measuring of an asset at the lowest amount presupposes the reliable representation of an economic phenomenon <input style="float: right;" type="checkbox"/>													
1.2 The disclosure of contingencies should be carefully weighted since, as a rule, it compromises the entity's image in the market <input style="float: right;" type="checkbox"/>													
1.3 The market value is generally less reliable than the purchasing cost, despite being more relevant <input style="float: right;" type="checkbox"/>													
1.4 Information that can compromise the entity's going concern should not be disclosed in the financial report <input style="float: right;" type="checkbox"/>													
1.5 Between two possible and equally reliable amounts, the measuring of an asset at the lowest amount should be preferably used <input style="float: right;" type="checkbox"/>													
1.6 The disclosure standards established in the accounting and financial reporting standards should be enhanced <input style="float: right;" type="checkbox"/>													
1.7 In the calculation of estimates, the internal information should be used preferably, to the detriment of external information <input style="float: right;" type="checkbox"/>													
1.8 More complex matters should not be disclosed in the financial report <input style="float: right;" type="checkbox"/>													
1.9 In case options are available, the cost model should be preferred over the fair value model <input style="float: right;" type="checkbox"/>													
1.10 The financial report should be available to the general public, and not just to a group of specific users <input style="float: right;" type="checkbox"/>													
1.11 Spending and losses should be disclosed based on the most recent information available to the entity, even if less reliable <input style="float: right;" type="checkbox"/>													
1.12 In case of uncertainty on their outcome, the contingencies should not be disclosed <input style="float: right;" type="checkbox"/>													
1.13 Between two possible and equally reliable amounts, the measuring of a liability at the highest amount should be preferably used <input style="float: right;" type="checkbox"/>													
1.14 The financial report should not include the most detailed information available in the entity, even if relevant <input style="float: right;" type="checkbox"/>													
Part III - Specific questions													
<b>The accounting and financial reporting standard establishes the following definitions and requisites for provisions, contingent liabilities and assets:</b>													
A <b>provision</b> is a liability of uncertain timeliness or amount. A provision should be recognized when cumulatively: (a) an entity has a present (legal or constructive) obligation as a result of a past event; (b) probably, an outflow of resources will be needed that incorporate economic benefits to settle the obligation; and (c) the amount of the obligation can be estimated reliably.													
A <b>contingent liability</b> is: a) a possible obligation resulting from past events and whose existence will only be confirmed by the occurrence or not of one or more uncertain future events not entirely under the entity's control; or b) a present obligation resulting from past events, but which is not recognized because: i) it is not probable that an outflow of resources that incorporate economic benefits will be required to settle the obligation; or ii) the amount of the obligation cannot be measured with sufficient reliability. An entity should not recognize a contingent liability. A contingent liability is disseminated unless there is a remote possibility of an outflow of resources that incorporate economic benefits.													
A <b>contingent liability</b> is a possible asset resulting from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not fully under the entity's control. An entity <b>should not disclose a contingent asset. A contingent asset is disclosed when there is a probable inflow of economic benefits.</b>  The contingent assets are not recognized in the financial statements provided that this can result in the recognition of earnings that may never be realized. When the realization of earnings is practically certain, however, then the asset related to is not a contingent asset and its recognition is appropriate.													

Premises																			
<p>Let us assume that you are the head of the financial department of the company LusoBras, S.A., a large publicly traded entity. The country where the entity is inserted rarely processes the companies and their managers. The stock exchange regulator requires the use of the accounting and financial reporting standard for provisions, contingent liabilities and assets. Its role is to determine how this standard should be applied in the light of the facts presented in the situations described below. Let us assume that the way the standard is applied will not influence the entity's taxable income in any way.</p> <p>LusoBras is a renowned entity managed by competent professionals, presenting an economic performance and relatively stable financial position in recent years.</p>																			
Situation I:																			
<p>2. When preparing its financial statements for 2012, LusoBras S.A. was confronted with the following situation:</p> <p>In May 2012, Global S.A. intended to file a court case against LusoBras, allegedly because LusoBras allegedly made improper use of copyright to an industrial patent developed by Global, related to a new manufacturing process of soccer balls. Global claims, in that sense, the payment of a compensation by LusoBras.</p> <p>In November 2012, LusoBras' lawyers suggest negotiating on a financial agreement with Global. The lawyers of LusoBras estimate that a possible agreement may range between 5,000,000 and 10,000,000, anyhow a material amount for LusoBras. Until the preparation of the financial statements for the period ended on December 31st 2012, no new contacts had been made among the stakeholders.</p>																			
<p>2.1 Thus, and based on the accounting and financial reporting standard presented above, indicate the accounting treatment LusoBras should adopt on December 31st 2012, using a single number, exclusively on one of the scales indicated below:</p>	<p style="text-align: right;"><b>Answer:</b> <input style="width: 30px; height: 20px;" type="text"/></p>																		
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; width: 33%;">I agree</td> <td style="text-align: center; width: 33%;">I completely agree</td> <td style="text-align: center; width: 33%;">I agree</td> <td style="text-align: center; width: 33%;">I completely agree</td> <td style="text-align: center; width: 33%;">I agree</td> <td style="text-align: center; width: 33%;">I completely agree</td> </tr> <tr> <td style="text-align: center;">1   2   3   4   5</td> </tr> <tr> <td style="text-align: center;">I neither disclose a contingent liability nor recognize a provision</td> <td style="text-align: center;">I disclose a contingent liability in the annex/notes</td> <td style="text-align: center;">I disclose a contingent liability in the annex/notes</td> <td style="text-align: center;">I disclose and recognize a provision in the financial statements</td> <td style="text-align: center;">I disclose and recognize a provision in the financial statements</td> <td style="text-align: center;">I disclose and recognize a provision in the financial statements</td> </tr> </table>		I agree	I completely agree	I agree	I completely agree	I agree	I completely agree	1   2   3   4   5	1   2   3   4   5	1   2   3   4   5	1   2   3   4   5	1   2   3   4   5	1   2   3   4   5	I neither disclose a contingent liability nor recognize a provision	I disclose a contingent liability in the annex/notes	I disclose a contingent liability in the annex/notes	I disclose and recognize a provision in the financial statements	I disclose and recognize a provision in the financial statements	I disclose and recognize a provision in the financial statements
I agree	I completely agree	I agree	I completely agree	I agree	I completely agree														
1   2   3   4   5	1   2   3   4   5	1   2   3   4   5	1   2   3   4   5	1   2   3   4   5	1   2   3   4   5														
I neither disclose a contingent liability nor recognize a provision	I disclose a contingent liability in the annex/notes	I disclose a contingent liability in the annex/notes	I disclose and recognize a provision in the financial statements	I disclose and recognize a provision in the financial statements	I disclose and recognize a provision in the financial statements														
Situation II:																			
<p>3. When preparing its financial statements for 2012, LusoBras S.A. was confronted with the following situation:</p> <p>In May 2012, LusoBras filed a court case against Internacional, S.A., allegedly because Internacional improperly used copyrights to an industrial patent developed by LusoBras, related to a new synthetic grass concept for soccer fields. In that sense, LusoBras claims, in that sense, the receipt of a compensation from Internacional.</p> <p>In November 2012, LusoBras' lawyers suggest negotiation on a financial agreement with Internacional. The lawyers of LusoBras estimate that a possible agreement can range between 5,000,000 and 10,000,000, in any case a material amount for LusoBras. Until the preparation of the financial statements for the period ended on December 31st 2012, no new contacts will have happened among the stakeholders.</p>																			
<p>3.1 Thus, and based on the accounting and financial reporting standard presented above, indicate the accounting treatment LusoBras should adopt on December 31st 2012, using a single number situated exclusively on one of the scales indicated below:</p>	<p style="text-align: right;"><b>Answer:</b> <input style="width: 30px; height: 20px;" type="text"/></p>																		
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I agree	I completely agree	I agree	I completely agree	I agree	I completely agree														
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I neither disclose a contingent asset nor recognize a provision	I disclose a contingent asset in the annex/notes	I disclose a contingent asset in the annex/notes	I disclose and recognize a provision in the financial statements	I disclose and recognize a provision in the financial statements	I disclose and recognize a provision in the financial statements														
Thank you for your cooperation!																			