



Effect of Person-Related Factors on the Recognition of Contingent Liability in Nigerian Listed Companies

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Authors' contributions

This work was carried out in collaboration between all authors. Author MGG designed the study, wrote the protocol and wrote the first draft of the manuscript. Author AMK managed the literature searches. Author AI analyses and concluded the study. All authors read and approved the final manuscript.

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ABSTRACT

International Accounting Standard (IAS) 37 requires Accountants to assign a percentage probability to the expression 'probable' when recognizing contingent liability in Financial Statements. A probability of 50% and above qualifies the contingent liability to be recognized; while a probability of below 50% does not. The judgments of Accountants on this issue may be tailored towards assigning probability percentage of less than 50% due to the influence of person-related factors. This study therefore examined the effects of these factors on the recognition of contingent liability in selected listed companies in Nigeria. The study used a population of 197 listed companies in Nigeria and grouped them into eleven strata. A total of two hundred and thirty four (234) Senior Accountants were sampled from the companies using multi-stage sampling technique. The study issued closed ended questionnaire to the sampled Accountants and 188 responses were generated and analyzed. The generated data were measured using a probability percentages (1-20%, 21-40%, 41-60%, 61-80% and 80-100%) assign to the questions raised in the questionnaire by respondents. A test of reliability on the data using Cronbach's Alpha test gave a value of 0.824. The study used one-way Analysis of Variance (ANOVA) to test the hypotheses formulated. Result of analysis showed that: knowledge of IAS 37, educational/professional qualifications, and previous

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experience significantly affected the recognition of contingent liability with $P = 0.00, 0.00, \text{ and } 0.02$ respectively. Based on the findings, the study recommends that, the problem of assigning lower probability percentage below the threshold to the expression 'Probable' as set out by IAS 37 should be corrected through organizing capacity building workshops for Accountants on issues related to IFRS. Similarly the study recommends that individual Accountants should improve their level of knowledge of IAS 37 above the average level for the discharge of quality accounting judgments. Accountants who acquired school certificates only, should pursue professional qualifications as well for an improved Judgments on recognition of contingent liability. In the same vein, Accountants should increase the frequency of their Accounting Judgement performance and should adhere to the laid down rules and regulations of the companies in which they work.

Keywords: Determinants of accounting judgement; recognition; contingent liability; probable; uncertainty.

1. INTRODUCTION

Financial information of listed companies in Nigeria and the World over is communicated through published financial report which includes various management reports as well as a complete set of Financial Statements. The Financial Statements are regarded as the best known form of disseminating information which tends to meet the needs of different stakeholders. Preparation of the statements involves Accounting Judgments on some uncertain transactions and events whose treatments are not fully explained in accounting standards such as the International Accounting Standards (IASs) or International Financial Reporting Standards (IFRSs). One of such transactions is the Recognition of Contingent Liability (RCL).

Contingent liability is defined as a present obligation that arises from past events that is not recognized in the financial statements because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured reliably. However, when it becomes probable that an outflow of resources will be required to settle the obligation or its amount can be reliably estimated, contingent liability shall be recognized [1,2].

The Recognition of Contingent Liability (RCL) is therefore an Accounting Judgement of deciding whether or not to consider a liability of an uncertain amount or timing in the Financial Statements. This judgment may be influenced by the differences in person-related factors of individual Accountants. These factors include knowledge of the task, educational attainments

and previous experience. Changes in person-related factors affect judgment performance of Accountants [3].

Person-related Factors (PFs) include attributes that a person possesses prior to performing a task, such as knowledge content, knowledge organization, abilities, confidence, cognitive style, intrinsic motivation, cultural values, experience and risk preferences. These PFs can affect performance through various cognitive processes that the person brings to bear while performing a task, such as memory retrieval, information search, problem representation, hypothesis generation, and hypothesis evaluation [3]. They also play an important role in the performance of many accounting-related tasks and can significantly affect performance in a wide variety of accounting tasks [4,3]. There are many person-related factors that could be studied in conjunction with accounting task, however, this paper is concern with the following factors: Knowledge of IAS 37, educational attainments and previous experience. The justification for the selection of these factors is that, they can explain the cognitive ability relevant to the performance of RCL. They can also help in suggesting solutions for improving deficiency in RCL.

Studies on the effect of PFs on judgement performances have focused consistently in the field of auditing [5-7]. The findings of such studies reveal that improved person-related factors affect judgment performance of auditors. However, judgements performance of Accountants who prepare financial statements and especially on the RCL were not investigated. There is need therefore, to close the gap by finding answer to the question as to whether judgment performance of Nigerian Accountants is affected by person-related factors.

The International Accounting Standard (IAS) 37 requires Accountants to assign percentage probability to the expression 'probable' when recognizing contingent liability in Financial Statements. A probability of 50% and above qualifies the contingent liability to be recognized in financial statements resulting to a decrease in financial accounting income of an entity. While a probability of below 50% does not qualify the contingent liability to be recognized in financial statements and therefore has no effect on financial accounting income of an entity. The presence of person-related factors like Knowledge of IAS 37, educational attainments and previous experience may render Accountants to act bias and assign lower probability percentage to the expression 'probable' at all circumstances in order to avoid reporting decrease in financial accounting income of an entity. This situation is not impossible going by prospect theory assumptions that most people are not rational in their Judgment and Decision Making process; there is always persistent biases motivated by psychological factors that influence people choices under condition of uncertainty [8].

1.1 Research Aim and Objectives

This paper expect Senior Accountants with different person-related factors to be able to exercise similar discretion over RCL during preparation of financial statements. To that effect, the following specific objectives were set out by the paper:

- i. To assess whether or not Knowledge of IAS 37 affect Senior Accountants' RCL in the Nigerian listed Companies.
- ii. To evaluate whether or not educational/professional qualifications affect Senior Accountants RCL in the Nigerian listed Companies.
- iii. To examine whether or not previous experiences affect Senior Accountants' RCL in the Nigerian listed Companies.

1.2 Research Hypotheses

H0₁: There is no significant effect of knowledge of IAS 37 on RCL among Senior Accountants in the Nigerian listed Companies.

H0₂: There is no significant effect of educational/professional qualifications on RCL among Senior Accountants in the Nigerian listed Companies.

H0₃: There is no significant effect of previous experience on RCL among Senior Accountants in the Nigerian listed Companies.

2. LITERATURE REVIEW

2.1 Differences in the Recognition of Contingent Liability

Doupnik and Riccio [9] examine the context in which probability expressions are used in accounting standards and how they affect accountants' interpretations of those expressions. The opinion of Brazilian Accountants which was considered as having higher conservatism and secrecy principle and the United States Accountants which was considered as having lower conservatism and secrecy principle were surveyed. MANOVA was for the analysis and the result indicates a significant difference ($p=.044$) between the two groups of Accountants across six verbal probability expressions that relate to the recognition of increases in income. [10] investigate the influence of national culture on Accountants interpretation of accounting rules. Opinions of Greek and U.S. Accountants were analysed. ANOVA was used in testing the hypotheses. The result showed that Greek accountants are less likely to recognize contingent liabilities, and more likely to recognize contingent assets than U.S. accountants. And that no significant differences found between Greek and U.S. Accountants' recognition decisions involving both contingent assets and liabilities.

Doupnik and Ritcher [11] investigate the effect of language-culture and linguistic translation on the interpretation of verbal uncertainty expressions found in International Accounting Standards. Data were collected from US Certified Public Accountants and German-speaking (chartered or certified accountants) to test three hypotheses. One group of German speakers evaluated uncertainty terms expressed in German and another group in English. The results of the one-way ANOVA indicate significant differences in interpretation across the three groups. Some differences are attributed to a language culture effect and others to a translation effect, with the language-culture effect being more pervasive.

Previous researches were conducted with the aim of finding difference in the interpretation of probability expression between groups of

Accountants in different countries with different culture. This paper on the contrary, investigate the opinion of Accountants in Nigerian listed companies on the level of probability expression they assign to the expression probable when recognizing contingent liability.

2.2 Studies Related to the Effect of Person-related Factors (Knowledge, Education and Experience) on Job Performance

Effects of knowledge on job performance were documented by [12]. In an article titled The Impact of Job Knowledge in the Cognitive Ability-Performance Relationship, the authors compared the efficacy of a job knowledge test in predicting task performance and examined the mediating effect of job knowledge in the cognitive ability-performance relationship. An experimental analysis of two hundred undergraduates who completed a test of cognitive ability and a written job knowledge test were conducted. The findings demonstrates that job knowledge was a better predictor of task performance than was cognitive ability.

In a related research [13] carried out a research on effect of knowledge of client preference on information search. One of the tested hypotheses was that; Auditors with knowledge of client preference engage in a decision-focused information search whereas auditors without knowledge of the client preference engage in an information-focused search through an experiment administered to experienced auditors. Results of the study suggest that auditors with knowledge of the client preference engage in a more decision-focused information search. That is, these auditors spend more time per each guidance item associated with the client's preference than auditors without knowledge of the client's preference. The previous studies on the effects of knowledge on performance as mentioned above did not look at how knowledge of IAS 37 affect RCL which is the focus of this study.

Ge et al. [5] investigates whether the variations in Chief Financial Officers' (CFOs) style can be explained by their individual observable characteristics. The research explore the impact of three observable CFO characteristics that are potentially associated with CFOs' risk attitudes and/or overconfidence. These characteristics are gender, age, and educational background (specifically, CPA qualification and/or MBA

degree). With respect to educational background and using a multivariate regression technique, study examine whether a CFO with a CPA qualification and/or MBA has better knowledge of professional ethics. The result show that CFO with MBA and or CPA are less aggressive in their accounting choices. Thus, CPA or MBA background does not appear to have a strong directional effect on accounting choices.

In a related study [6] examine the relationship between job performances of employees against academic qualifications in order to provide recommendations to the management on how best educational qualifications can contribute to improved job performance. The study used a mixed approach of quantitative and qualitative methods mainly descriptive statistics (i.e. frequencies) to determine the extent to which employee's performance reflects the educational qualifications attained. The aim is to ensure that there is synergy between educational qualifications and competencies of employees to ultimately improve job performance. The findings shows that educational qualifications have a significant bearing on job performance. The prior researches investigate how any kind of educational attainments affect job performance. This study however, investigates how different types of education obtained from school certificate and professional qualifications can affect individuals accounting judgments on RCL among Accountants in listed companies in Nigerian.

Hoffman et al. [7] assess how experienced auditors process evidence. The research compare the relative attention to evidence and judgments of experienced and inexperienced auditors in a constrained versus an unconstrained processing condition. Consistent with expectations, the research found that experienced auditors' going-concern judgments differed from inexperienced auditors' judgments only when processing was unconstrained. This difference in judgments was the result of differential attention to evidence. Their results demonstrate that the failure to consider how experienced auditors process evidence can result in inadvertently adopting control techniques that limit the generalizability of experimental findings.

Bhattacharjee et al. [14] use a multi-client audit context; and found that auditors are susceptible to contrast effects such that their judgments on a current client are influenced by their

exposure to similar judgment information on a prior client. The research also extend prior psychology and accounting research by examining and finding that for a current client, the magnitude of the contrast effect from an initial judgment task cascades to influence indirectly related subsequent judgment tasks for which no information from the prior client is available for comparison. It is also found that auditors' documentations of evidence are systematically affected by the contrast and cascading of contrast effects. Prior researches investigate how working experience can affect auditors' judgments during audit work. This study however, investigates how previous experience on accounting judgments can influence the RCL among Accountants in Nigerian listed companies.

3. METHODOLOGY

The population of this study is 197 companies listed on the Nigerian stock exchange. Companies were grouped into eleven strata with each having a varied number of companies. Forty percent of companies from each strata were sampled. The selection of 40% of the population is considered adequate to give accurate result and to give equal representation

from each strata. The selected companies were subjected to simple random sampling through balloting in order to pick the sampled companies from each strata (see Table 1).

The paper employed the use of primary source of data by issuing closed ended questionnaire to the sampled population. Responses were gathered based on probability percentages (1-20%, 21-40%, 41-60%, 61-80% and 80-100%) assign to each question raised in the questionnaire by various groups of respondents. In analyzing the data, descriptive statistics was used to explain the overall responses of respondents in relation to each of the variables identified. Cronbach's Alpha the most common reliability test gives a value of 0.824. One way Analysis of Variance (ANOVA) was used in testing hypotheses formulated. One of best software for analysis, the statistical package for social sciences (SPSS) according to [15] was employed to facilitate the analysis of the data gathered.

4. DATA PRESENTATION AND ANALYSIS

Here the collected data was presented based on the following: analysis of the response rate of the questionnaire and test of hypotheses.

Table 1. Sampling frame

SN	Sector	No. of listed companies	No. of sampled companies	No. of sampled accountants
1	Agriculture	5	2	2x3 = 6
2	Conglomerates	6	2	2x3 = 6
3	Construction/real estate	11	5	5x3 = 15
4	Consumer goods	30	12	12x3 = 36
5	Financial services	58	23	23x3 = 69
6	Healthcare	11	5	5x3 = 15
7	ICT	11	5	5x3 = 15
8	Industrial goods	24	8	8x3 = 24
9	Natural resources	5	2	2x3 = 6
10	Oil and gas	15	6	6x3 = 18
11	Services	21	8	8x3 = 24
	Total	197	78	78x3 = 234

Source: Design by the Researcher, 2014

Table 2. Response rate of questionnaires

Respondents	Issued	Returned	Excluded	Used
Heads of Finance	78	69	6	63
Heads of Treasury	78	65	5	60
Heads of Credit Control	78	67	2	65
Total	234	201	13	188

Source: Design by the researcher, 2015

4.1 Response Rate of the Questionnaire

The questionnaire issued, returned, excluded and used are presented in Table 2. The Table analyzed the response rate and gave justification for its acceptance.

It can be deduced from Table 2 that a total of 234 questionnaires were distributed to a group of senior accountants of listed companies in Nigeria and 201 were returned. Of the 201 returned questionnaires 13 were excluded because they were not completed in accordance with the instructions given. With this exclusion, the remaining 188 questionnaires constitute 81% of the total questionnaires administered. This is a very good response rate given the evidence by [16] that the response rate of a questionnaire varies from one questionnaire to another and usually within the range of 10% to 90%.

4.2 Test of Hypothesis One

The hypothesis was tested by comparing how respondents with various levels of knowledge of IAS 37 assign a probability percentage to the expression probable during RCL. The hypothesis is restated as follows:

H₀₁: There is no significant effect of Knowledge of IAS 37 on RCL among Senior Accountants in the Nigerian listed Companies.

This hypothesis was tested using One-way between group ANOVA tests. The data and its descriptive statistics (mean and standard deviation) are presented below.

Table 3 reported the data on the judgements of Senior Accountants with different Knowledge of IAS 37 on RCL. It can be deduced that, the total of percentages distribution of probability percentage assign by the senior Accountants based on the levels of knowledge of IAS 37 was given as: 36 (19.12%), 44 (23.40%), 64 (34.04%), 28 (14.90%) and 16 (8.51%) for 1-20%, 21-40%, 41-60%, 61-80% and 81-100% respectively. That means irrespective of the levels of knowledge, majority of senior Accountants assigned lower percentage probability (between 1-40%) to the expression 'probable' than the probability percentage of between (41-100%). This result is in conformity with prospect theory assumption that most people are irrational in their judgements and decision making and that they always act bias

when face with a decision under condition of uncertainty. To determine the significant differences between the responses however, One-way between groups Analysis of Variance were run below.

One way between groups ANOVA was conducted to explore the difference in judgements of Senior Accountants with different Knowledge of IAS 37 on RCL. Accountants were divided according to their level of knowledge of IAS 37. There was a statistically significant effect of knowledge of IAS 37 on RCL at $P < .05$ in the percentage scores for the five level of knowledge of IAS 37 groups. $F = (4, 183) = 3.930, P = .004$. The effect size was calculated using Eta squared by dividing the sums of squares for between groups (20.829) by the total sum of squares (263.319) as thus $(20.829/263.319) = 0.08$. This is considered medium size effect according to Cohen (1988) as reported by [17]. Hypothesis one which says there is no significant effect of Knowledge of IAS 37 on RCL among Senior Accountants in Nigerian Listed Companies was therefore rejected. The result is consistent with the argument of Palumbo, et al. [13] that job-knowledge was a better predictor of task performance.

4.3 Test of Hypothesis Two

This section relates to hypothesis two of the paper. The hypothesis was tested by comparing how respondents with various Educational Attainments/professional qualifications assign a probability percentage to the expression probable during RCL. The hypothesis is restated as follows:

H₀₂: There is no significant effect of educational/professional qualifications on RCL among Senior Accountants in the Nigerian listed Companies.

This hypothesis was tested using One-way between groups ANOVA. The descriptive statistics (frequency percentages) of the data is in Table 5.

Table 5 reported the data on the effect of Educational Attainments on RCL by Nigerian Accountants. It can be deduced that, the total of percentages distribution of probability percentage assign by the senior Accountants based on the educational/professional qualification was given as: 36 (19.12%), 44 (23.40%), 64 (34.04%), 28 (14.90%) and 16 (8.51%) for 1-20%, 21-40%, 41-60%, 61-80% and 81-100% respectively.

That means irrespective of the levels educational/professional qualifications, majority of senior Accountants assigned lower percentage probability (between 1-40%) to the expression 'probable' than the probability percentage of between (41-100%). This result is in conformity with prospect theory assumption that most people are irrational in their judgements and decision making and that they always act bias when face with a decision under condition of uncertainty. To determine the significant differences between the responses however, One-way between groups Analysis of Variance were run below.

Table 3. Data and descriptive frequencies relating to the judgements of senior accountants with different knowledge of IAS 37 on RCL

	1-20%	21-40%	41-60%	61-80%	81-100%	Total
Excellent knowledge of IAS 37	2	3	10	2	2	19
Good knowledge of IAS 37	11	21	31	8	7	78
Average knowledge of IAS 37	2	2	7	8	2	21
Little knowledge of IAS 37	20	16	9	7	4	56
Zero knowledge of IAS 37	1	2	7	3	1	14
Total	36	44	64	28	16	188
	19.12%	23.40%	34.04%	14.90%	8.51%	100%

Source: Field Survey, 2015

Table 4. ANOVA result showing the significant difference in the judgments of senior accountants with different knowledge of IAS 37 on RCL

	Sum of squares	Df	Mean square	F	Sig.
Between groups	20.829	4	5.207	3.930	.004
Within groups	242.490	183	1.325		
Total	263.319	187			

Source: Field Survey, 2015

Table 5. Data and the descriptive frequencies relating to the effect of educational attainments on RCL by Nigerian accountants

	1-20%	21-40%	41-60%	61-80%	81-100%	Total
Postgraduate with professional Qualification	2	3	10	2	0	17
Undergraduate with Professional Qualification	11	21	31	8	5	76
Postgraduate only	2	2	7	5	4	20
Undergraduate only	20	16	9	8	2	55
Professional Qualification only	1	2	7	5	5	20
Total	36	44	64	28	16	188

Source: Field Survey, 2015

Table 6. ANOVA result of the effect of educational/professional qualifications on RCL by senior accountants of Nigerian listed company

	Sum of squares	Df	Mean square	F	Sig.
Between groups	25.882	4	6.470	5.26	.000
Within groups	225.283	183	1.231		
Total	251.165	187			

Source: Field Survey, 2015

One way between groups ANOVA was conducted to explore the effect of Educational/professional qualifications on RCL as measured by assigning lower/higher probability percentage to the expression 'probable'. Accountants were divided according to their level of educational/professional qualifications. There was a statistically significant effect of educational/professional qualifications on RCL at $P < .05$ in the percentage scores for the five level of educational attainments. $F = (4, 183) = 5.256$, $P = .000$. The effect size was calculated using Eta squared by dividing the sums of squares for between groups (25.882) by the total sum of squares (251.165) as thus $(25.882/251.165) = 0.10$. This is considered medium size effect according to [17]. Hypothesis two which says there is no significant effect of educational/professional qualifications on RCL among Senior Accountants in Nigerian Listed Companies was therefore rejected. This finding concurs with the findings of [6] who asserts that educational attainments have a significant bearing on job performance. It is also in line with the position of It is also in line with the position of [2] that education not only positively influences core task performance, but also is positively related to creativity and citizenship behaviors.

4.4 Test of Hypothesis Three

The hypothesis was tested by comparing the levels of previous experience in performing RCL with the level of probability percentage given to the expression 'probable' during RCL. The hypothesis is restated as follows:

H0₃: There is no significant effect of previous experience on RCL among Senior Accountants in the Nigerian listed Companies.

This hypothesis was tested using One-way between groups ANOVA. The descriptive statistics (frequencies percentages) of the data is expressed in Table 7.

Table 7 reported the data on the effect of Previous Experience on RCL by Nigerian Accountants. It can be deduced that, the total of percentages distribution of probability percentage assign by the senior Accountants based on the previous experience was given as: 36 (19.12%), 44 (23.40%), 64 (34.04%), 28 (14.90%) and 16 (8.51%) for 1-20%, 21-40%, 41-60%, 61-80% and 81-100% respectively. That means irrespective of the levels previous experience, majority of senior Accountants assigned lower percentage probability (between 1-40%) to the expression 'probable' than the probability percentage of between (41-100%). This result is in conformity with prospect theory assumption that most people are irrational in their judgements and decision making and that they always act bias when face with a decision under condition of uncertainty. To determine the significant differences between the responses however, One-way between groups Analysis of Variance were run below.

One way between groups ANOVA was conducted to explore the effect of Previous Experience on RCL as measured by assigning lower/higher probability percentage to the expression 'probable'. Accountants were divided according to their level of Previous Experience. There was a statistically significant effect of previous experience on RCL by Nigerian Accountants at $P < .05$ in the percentage scores for the five level of Previous Experience. $F = (4, 183) = 2.897$, $P = .023$. The effect size was calculated using Eta squared by dividing the sums of squares for between groups (13.416) by the total sum of squares (225.979) as thus $(13.416/225.979) = 0.06$. This is considered medium size effect

Table 7. Data and the descriptive frequencies relating to the effect of previous experience on RCL by Nigerian accountants

	1-20%	21-40%	41-60%	61-80%	81-100%	Total
Often perform RCL	4	3	10	2	2	21
Seldom perform RCL	9	21	30	0	0	60
Never perform RCL	1	0	1	8	7	17
Once perform RCL	21	2	9	8	2	40
More than once perform RCL	1	18	16	10	5	50
Total	36	44	64	28	16	188

Source: Field Survey, 2015

Table 8. ANOVA result of the effect of previous experience on RCL by Nigerian accountants

	Sum of squares	Df	Mean square	F	Sig.
Between Groups	13.416	4	3.364	2.897	.023
Within Groups	212.523	183	1.161		
Total	225.979	187			

Source: Field Survey, 2015

according to [17]. This finding support the views of [7] who found that previous experience affect auditors judgments on going-concern concept.

5. CONCLUSION AND RECOMMENDATIONS

This paper concludes that knowledge of IAS 37, educational/professional qualifications and previous experience significantly affects Recognition of Contingent Liability (RCL) during preparation of financial statements. On that note therefore, the paper recommends that individual Accountants should strive to improve their level of knowledge of IAS 37 above the average level for quality discharge of Accounting Judgments during RCL. Furthermore the study recommends that individual Accountants level of educational/professional qualifications should be improved for proper RCL. Accountants should possess both the postgraduate degree and professional qualification for quality Accounting Judgment during preparation of financial statements. In the same vein, the paper recommends that individual Accountants strive to perform Accounting Judgement on RCL more than once in order to increase the frequency of their Accounting Judgement performance which translate into quality Accounting Judgment during RCL.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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