

# Introduction

Professor A. Rashad Abdel-Khalik has an outstanding dossier of distinguished accomplishments and services in both education and research in accounting. Since the early 1990s, he has been actively involved in university accounting programs in Taiwan, Hong Kong, and Singapore. He taught at the University of Illinois, Columbia University, Duke University, and the University of Florida before returning to the University of Illinois at Urbana-Champaign and holding the position of Director of the V. K. Zimmerman Center of International Education and Research of Accounting. He has published articles in leading accounting journals and publications of the American Accounting Association and Financial Accounting Standards Board.

In honor of Professor Abdel-Khalik, the 2007 APJAE Symposium on accounting was held at the National Taiwan University in December last year and five of the papers presented were selected for this special issue as a tribute.

**Cohen**, in his paper titled “Does Information Risk Really Matter? An Analysis of the Determinants and Economic Consequences of Financial Reporting Quality”, points out that a drawback of prior empirical disclosure studies is their failure to consider the endogenous nature of disclosure quality. The study addresses this concern by identifying the determinants and economic consequences of financial reporting quality. The authors find that some firm-specific characteristics, such as investors’ demands for firm-specific information and proprietary costs, are associated with financial reporting quality. In addition, after controlling firm-specific characteristics that lead to firms’ decisions on reporting quality, firms with higher reporting quality do not have a lower cost of equity capital. The result is inconsistent with prior studies and implies that financial reporting quality does not constitute an additional systematic risk factor, but, rather, a diversifiable one. The findings demonstrate that future disclosure studies should take into consideration the endogenous nature of disclosure quality.

**Allen, Guo, and Weintrop**’s paper, “The Information Content of Quarterly Earnings in Syndicated Bank Loan Prices”, investigates the impact of earnings information privately released to syndicated banks on loan valuation. It contributes to extant literature by analyzing the information content of earnings on bond prices. The authors find that the loan market reacts to private earnings information approximately one month before it is publicly announced. In addition, loan returns reaction has asymmetric sensitivity to gains/losses. The information content of syndicated bank loan prices is most pronounced for borrowers with predominant intangible assets that experience declining earnings. The paper concludes that when earnings convey relevant information about the borrowing firm, the syndicated bank loan market will incorporate that information into prices rapidly.

“The Framing and Evaluation of Multiple Hypotheses”, by **Mock, Wright, Srivastava and Lu**, examines how auditors frame and evaluate a set of multiple hypotheses. In prior experimental studies, it is generally assumed that hypotheses are framed as mutually exclusive and exhaustive, despite the fact that there is a lack of evidence for the assumption. Using verbal protocol analysis and actual probability assessments, the authors suggest that most auditors frame hypotheses as non-mutually exclusive and exhaustive sets of causes. In addition, they find that auditors have

difficulties in revising probabilities in a manner that is logically consistent with their framing of hypotheses. Their findings show a contradiction to the generally made assumption in previous research and suggest future studies need to control for the hypothesis framing. They also indicate that further training and decision aid for auditors are needed.

In “Exploring the Extent and Determinants of Knowledge Sharing in Audit Engagements”, **Chow, Ho, and Vera-Muñoz** indicate that improvements in audit effectiveness and efficiency are critical for accounting firms in the face of intense competition today. Knowledge sharing in audit engagements is essential to the enhancement of audit effectiveness and efficiency. However, prior academic studies only reported some possible factors affecting auditors’ knowledge sharing behavior, but did not test whether those factors indeed affect such behavior. Using data collected from two ‘Big-Four’ audit firms, the authors propose to provide some empirically testing evidence and a framework for organizing those factors. This study contributes to previous literature in two aspects: first, it provides some initial evidence on this topic; second, it advances the understanding of the extent and determinants of such sharing.

**Tung, Wang, Lin, Lai and Hsu**’s paper, “The Use of Extended Credit (Channel Stuffing) to Avoid Reporting Losses”, points out that, for accounting standard setting, it is important to know possible reasons of earnings management and its potential effects. The main objective of this study is to find whether managers grant extended credit at the end of the fiscal year to accelerate customer purchases, which allows companies to escape an immediate revenue shortfall by smoothing income. Their conclusions are that managers are more likely to use extended credit to avoid reporting losses and channel stuffing will adversely affect the information content of reported earnings. Besides, they also find that the unexpected accounts receivables (UAR) does not provide incremental information on channel stuffing.

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