



# Comparability and Independence of Accounting Information Across Industries

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## DESCRIPTION

Effects of concurrent independent directors in the same industry on the comparability of accounting information for the period of 2008–2019 using a sample of Chinese A-share listed companies. We find that CIDSIs can effectively increase the comparability of accounting information and that this benefit is mostly attained by restricting earnings management. Additionally, they see that CIDSIs can offer an industry-wide perspective on the company's board reports. The association between CIDSIs and accounting information comparability is significantly moderated by variations among concurrent companies as well as internal and external contexts. This connection increases the likelihood of receiving non-standard unqualified audit opinions and lowers audit fees. Our findings demonstrate the value of appointing independent directors, which has ramifications for businesses.

High-quality accounting information can assist shareholders and investors in making more effective decisions by eliminating information asymmetry. Accounting information informs the capital market about a company's financial status and business performance. However, not all publicly traded corporations' accounting information is of unquestionable quality. Financial fraud has been more frequently reported in the press in recent years. For instance, the Kangmei Pharmaceutical Co. was penalised 2.459 billion RMB for financial fraud over three consecutive years and the Luckin Coffee Company acknowledged to fabricating a 2.2 billion RMB transaction between the second and fourth quarters of 2019 on 2 April 2020. In the later instance, five Kangmei independent directors were jointly held accountable for more than 100 million RMB for failing to promptly identify any misleading information in the company's annual reports. This fraud has caused the public to question the effectiveness of the independent director system in addition to academics and practitioners placing more emphasis on the accuracy of accounting information. The independence, diligence and ability of independent directors to spot fraud are therefore being called into question. Given the importance of independent directors in corporate governance, it is vital and

necessary to talk about how well they perform their duties.

The public's confidence in accounting information is harmed by persistent information fraud. On the other hand, increasing the comparability of accounting data can raise the accuracy and dependability of such data. Comparability was initially mentioned as an essential element of the quality of accounting information in a report on qualitative quality characteristics of accounting information published by the U.S. Financial Accounting Standards Board (FASB) in 1980. An objective and impartial evaluation of a company's financial situation is made possible by a high level of comparability of accounting information, which also makes it easier to compare the performance of various accounting entities. Additionally, it increases the reliability and relevance of company strategic decisions. However, it is difficult to quantify accounting information comparability accurately and little early academic research exists in this area. Numerous research are looking into accounting standards and both internal and external aspects of company governance in the wake of the establishment of the ground-breaking measurement model for accounting information comparability. The literature suggests that adopting both convergent accounting standards and International Financial Reporting Standards (IFRS) enhances the comparability of accounting information. Comparability of accounting information is also impacted by top managers' relationships, internal controls and the level of legal oversight.

Research on the comparability of accounting information not only serves as a guide for developing and implementing accounting standards, but it also safeguards the interests of small and medium-sized investors and suggests new directions for governmental regulation, thereby fostering the steady and healthy growth of the capital market. Independent directors are emphasized in discussions of accounting information comparability and corporate governance because they monitor the accuracy of the data in financial reports and provide support and strategic recommendations for crucial choices like a company's choice of accounting policies. The amount and calibre of information independent directors access to have a significant

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impact on their efficacy. Emphasize the degree to which independent directors make up the board, their educational backgrounds and the degree to which they are vital to the network. These studies attest to the use of information by independent directors in fulfilling their duty as external experts in governance. On the other hand, several research seriously doubt the independent directors' capacity for providing advice and oversight.

Independent directors are more likely to have good professional knowledge, a tonne of work experience and a solid reputation in the industry if they are evaluated by the human capital market

and obtain concurrent employment offers in the same sector. Our second main concern is whether, when compared to other directors, directors holding concurrent positions in the same industry benefit from the insights and social resources that enable them to recognize and avert risks as early as possible, maintaining a high level of comparability in accounting information. These issues have both theoretical and practical significance, as their resolution could increase the efficiency of the independent director system and improve the comparability of accounting data.