

Free market assignment



Managers would effort to provide adequate ND reliable Information to attract Investors and therefore to maximize welfare. According to Watts and Zimmerman (1 979), corporations produced financial statements voluntarily, for example in the US before disclosures became an obligation by government mandate. This means ‘ not producing information will be penalized by higher costs of capital, resulting to a good reputation with respect to financial reporting will Improve the firm’s ability to raise capital and so to lower firm’s cost of capital(Padlock’s 2011, p. 4).

It has been argued that since various parties eave different interest in an entity, parties would request their own desired financial information of the organization and be prepared to pay for it. Not all users will have the same information needs; ‘ given the numerous groups having legitimate claims on the company, it is possible that if certain information is made public it may be beneficial to one group, and harmful to another’ (Unchristian 1997, p. 51). In the absence of regulation, entities can reduce certain costs. The overload of accounting regulations can result In cost burden on many entitles.

As Collins and White (2006) Tate: The burden of regulatory and related compliance has grown and continues to grow. This burden appears to be particularly onerous on smaller entities and their external accountants and this burden is certainly consuming resources which could be better utilized improving business operations. Clearly, the increased number of corporate collapses has led to the burgeoning regulation of financial reporting In Australia and world-wide but, despite this, large corporations continue to collapse unexpectedly causing substantial loss to Investors and other stakeholders.

Accounting Theories: The Market for Excuses. *The Accounting Review*, 54(2), up. 275. Part A (Question 2) Pro-Regulation Perspective The disclosed financial statements are seen as public goods, which ‘ if supplied to one person, are available to all others,’ (Taylor and Underdone, 1985). Also as Degas (2010, p. 40) states: Accounting information is a public good: once it is available, people can use it without paying and can pass it on to others. Parties that use goods or services without incurring some of the associated production costs are referred to as free-riders’.

Supporters of Pro-regulation perspective believe that ‘ regulation is essentially a protection of the public interest,’ (Williams 1964, p. 91). AS Burton (1975, p. 21) states: In a broad sense we hope [that disclosure regulations] will contribute to a more efficient capital market.... The way in which we hope that will be achieved is first by giving investors more confidence that they are getting the whole story and second by encouraging the development of better tools of analysis and more responsibility on the part of the professional analyst to understand what’s going on.

We think that by giving them better data we can encourage them in the direction of doing a better job, thus leading, we hope, to more effective capital markets. Supporters of pro-regulation perspective also think that the increase of reporting regulation and disclosure has been the protection of stakeholders. As Collins and White (2006, p. 69) state: The continual development and enhancement of standards, reporting and disclosures is intended to have many benefits for the various stakeholders in these entities as well as for the entities themselves.