

An Experimental Investigation of the Application of Order Effects in Correctly Determining the Fairness of Accounts Receivable

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This paper examines the application of order effects in the use of audit procedures in determining the fairness of accounts receivable presentation in financial statements. Novice and experienced participants were exposed to one of three randomly assigned cases (Fraud case, Error case and Fairly-stated case) using an interactive computer-based presentation. The computer tracked the audit procedure, the order of selection and the number of audit procedures selected by each participant. Hypotheses were developed that postulated relationships between order of procedure selection and correctness of auditor judgment, and also whether experience influenced the order and correctness of the decisions. Results indicate that there may be a path of audit review procedures that lead to a more accurate judgment on the fairness of accounts receivable. Experimental results indicated that experienced participants did not perform significantly better than novices in making a correct audit decision except in the Error case; rather, the procedure and order of procedure is correlated with the correctness of the audit decision. Seventy-one percent of misstatements, including 77% of fraud and 66% of the errors in accounts receivable were detected.

I. INTRODUCTION

Researchers have found that the order in which data is examined affects the decision-making process. (Arnold and Sutton, 1997, pp 63-64) Most research has been theoretical, seeking to understand the nature of the so-called order-effect bias. In this paper the authors explore whether there is an order effect bias in an applied situation, and if there is an optimal order of working paper review so as to determine a correct decision about the fairness of accounts receivable. In addition, experience is used as a moderator variable to investigate whether level of experience influences the correctness of the decision.

DATA AVAILABILITY: Copyrighted experimental materials are available for examination from the authors. These materials may only be used with the authors' permission. Participant data is also available on request.