

# **Do Wealthy Economies have Better Accounting Quality? International Evidence**

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## **ABSTRACT**

The objective of this paper is to empirically test whether wealthy economies have better accounting quality compared to their ‘poor’ counterparts. According to Ball (2016), wealthy economies are likely to invest more in the establishment and development of a country-level reporting infrastructure such as accounting, financial, legal and political systems, which should ultimately lead to better accounting quality. Inconsistent to this, Pirveli, Koiava and Petriashvili (2018) argued that wealthy economies are likely to report more controlling-useful, but not necessarily more valuation-useful accounting information compared to the poor ones. To address the (at least partly) counterintuitive theoretical predictions, we examine accounting and market data of 40 countries’ capital markets, obtained from Compustat Global and Compustat North America, and spanned throughout the last quarter of century, 1992-2016. Country wealth and controlling- and valuation-usefulness of accounting information are proxied by GDP per capita, conditional accounting conservatism and value relevance of earnings and book values, respectively. Descriptive analysis, consistent with the prior literature, reveals that controlling-usefulness and valuation-usefulness significantly negatively correlate with each other, putting them as alternative (rather than compatible) objectives of the accounting system. The major finding shows that wealthy economies report significantly more controlling-useful, but about equally valuation-useful accounting information compared to their poor counterparts. The finding is interesting from investors as well as standard setters’ perspective.

**Keywords:** accounting quality; country wealth; country-level determinants of accounting quality; reporting infrastructure; accounting conservatism; value relevance of earnings and book values.

**JEL Classifications:** G14, G15, G38, M41.