RELEVANCE OF ACCOUNTING THEORY IN THE DEVELOPMENT OF GENERAL TENETS OF ACCOUNTING

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ABSTRACT

This paper assessed the relevance of accounting theory in the advancement of general tenets of accounting. Based on the study, accounting theorists concur that no broad theory of accounting has been advanced yet to create sufficient accounting tenets. This paper is to recognize the accounting tenets as not only the outcome of academic research but recent accounting practice via its standard-setting process, contributes greatly to the advancement of accounting tenets. Therefore, accounting theory and research try to create the accounting tenet which is pivotal in academic debate. The explanation in the paper is based on the normative, descriptive, and positive propositions to the advancement of accounting theory, decision-useful theory of accounting as well as interpretative accounting. Based on the aforementioned advancements of accounting theories, they are advantageous to account as a result of different accounting research propositions that will jointly enhance the level of accounting research and conceivably accounting theory. The position that these developments fulfil in establishing suitable accounting tenets, however, is still up for discussion and a thing of concern.

Keywords: *Accounting theory, Development, General tenets, Propositions, Professionals*

Introduction

The creation of rail lines and approval of the first Companies Act in England in the early 19th century gave birth to recent states for the advancement of accounting professions and institutions in England and the United State of America. However, the position of the professional accounting bodies at first stages was mostly limited to provide ad hoc solutions to the recent accounting problems, or at best they attempted to "theorize" accounting by compiling existent best accounting practices. In general, they not prepare to build a methodical theory of accounting while the ad hoc propositions to the recent problems facilitated some progress, especially in terms of precise technical problem areas, not adequate basic theory rising made the position of accounting untenable. The need for a basic theory as a frame of reference for the subject or as a logical set of concepts describing and guiding the accounting practitioners action by identifying, measuring, and communicating economic information was being increasingly felt (Scott,2006)

However, it was before the1930s that accounting advancement focused on the require for a methodical advancement of theories and the propositions to accounting that commenced to take form during this period attempted to create basic postulates and tenets, widen the basis of accounting by associating to those basic disciplines such as economics, behavioural science, and measurement theory, formalize accounting theory into a more abstract shape and created conceptual underpinning for accounting.

The force of the recent advances in the area of accounting came mostly from the research efforts of the leading professional accounting bodies and the contribution of accounting literature. International Accounting Standards Board is committed to creating fundamental-based accounting standards (IASB 2008). The main question is whether the fundamental accounting tenets are adequately good enough to allow suitable accounting standards while another question is whether the advancement of accounting theory can accommodate the general tenets of accounting.

The theory is usually created and rediscover using of the process of research (Wolk, Dodd & Rozycki, 2008). Therefore a suitable question needs to think of whether the tenets of accounting are adequately created and rediscover in a research procedures. Therefore, it should be to recognize as a fact that accounting tenets are not only advanced using of accounting research but practically, employing of the standard-setting procedure that is currently a key driver of the creating tenets of accounting. The position of accounting research in advances accounting tenets and notifying the standard setters' process is a germane to academic question (Coetsee, 2010). Accounting theory statement and theory that accepted by Associations showed the level of accounting research and practicable at that period, and given the distinct methods of measurements in the accounting system, it was hard for accounting practitioner to advance only one method of measurements in the accounting system as pointed out by the American Accounting Association in 1973 (Wolk *et al.* 2008). It was viewed by (Watts and Zimmer-mann, 1979) that no widely accepted accounting theory to determine accounting standards and oppose its impossibility whereas Belkaoui (2014) affirms that no broadly accounting theory influenced the advances in theory and those distinct theories derived from different propositions to the building of accounting theory. As a result of no broad theory influenced the advances in accounting theory, the question now is, on what grounds theoretical tenets of accounting are created? The question is hard to ask with diverse solutions.

Predicated on the above issues, the researchers examined the following objectives thus: (i) the nature and advancement in Accounting theories, (ii) examined the major advancements on accounting theory across positive theory of accounting, decision-usefulness accounting theory and accounting interpretation theory.

Review of Related Literature

Conceptual Review

Accounting theory is defined as logical reasoning in the shape of a set of broad tenets that furnish a general frame of reference by which accounting practice can be assessed and guide the advance of recent practices and procedures (Hendriksen,1992). In addition, accounting theory employs elaborate existent practices to demand a better understanding of them. However, the main objective of accounting theory is to furnish a coherent set of logical tenets that shape the whole frame of reference for the evaluation and advances in good accounting practices (Hendriksen,1992). Accounting is seen as the business language to communicate the periodical financial disclosures to minimized the information asymmetry, even though such information may be good or bad, subjective or not complete but still important to the interested people (Jordan & Messner, 2012, Andon, Baxter, & Chua, 2014; Boedker & Chua, 2013). Accounting theory comprises basic propositions, definitions, tenets and concepts and how they are derived and it is used to elaborate existing practices and procedures to acquire better knowledge in areas of diversities among users of financial reports (Dodd & Ruzycki, 2008) American Association(1996) ,AICPA(1970) and Anao, (1996) defined accounting theories as a cohesive set of a conceptual, hypothetical and practical assumption that elaborating and guiding the practitioners' actions in identifying, analysing, measuring, interpreting and communicating economic data to the users of annual report and accounts. In aggregate, we can deduce that, accounting theory is a set of ideas that are widely accepted as a description of the practices of accounting (Ram & Tapria, 2019). Based on this, the practice of accounting cannot become to reality without an adequate theoretical background because theories are derived from constant observation, examination of problems, and procedures theoretically. Hence, theories are now considered to be a backbone of accounting. (Osho & Adebambo,2018)

Characteristics of Accounting Theory

The following are the characteristics as highlighted by (Ram & Tapria, 2019)

i) Accounting theory serves the double position of originating and elaborating accounting practices. Currently, problems in practice serve as fundamental to the advance of recent theories and at the same time, it elaborates the reason behind the existent practices

ii) Sound accounting theory furnishes logical support to practices of accounting that will not only be regarded as general tenets to be referred for appraising and guiding the existent practices of accounting but also creating the recent practices as providing an answer to a different environmental challenges

iii) No theory will be accepted globally until it has any of several philosophical theories in it. Therefore, accounting theories have in-built dynamism which enables them to put in place and create accounting practices by metamorphosis business environment

iv) Accounting theories are verified, tested as well as assessed by the accounting practice to examine the existence of deviation from theory and practice, then deviation in accounting theory is subject to be modified and restated in such a way for emerge of recent phenomena of tenets.

v) Accounting theories furnish a methodical set of logical postulates of tenets, which are in support to facilitate as based on logical rationale to the existent practices.

The Nature of Accounting Theory and the Advances in Theory

Accounting theory has been examined by distinct schools of thought, the first school focuses on the advances in accounting tenets at the same time narrates accounting theory as a logical rationale behind the form of a set of wide tenets that (i) furnishes a broad frame of reference by which practices of accounting be assessed and (ii) guides the advancement of recent practices and procedures (Hendriksen 1992). Another school of thought describes accounting theory as an activity to elaborate, at the same time predict accounting practice with the main objective to furnish base on the prediction and narration of accounting behaviour and activities (Belkaoui, 2014).

The theory tries to narrate the links and predict ideals or real situations (Wolk *et al*. 2008) whilst the first school determined the tenets of accounting and the second tries to assess the practical aspects of it. The first school upholds that accounting theory employs elaborate existent practices to acquire a better understanding of them as expressed by (Hendriksen ,1992). These two schools thought of the theory of accounting are segmented into two major techniques for the advancement of theory as a whole such as normative and descriptive methodologies. Normative methodology queries the existent theory to explain what it should be whereas descriptive examines the fundamental ideas to explain what they are (Hendriksen 1992; Belkaoui 2014).

The normative methodology of accounting is more prescriptive and has prevailed which primarily determined the recognition of financial transactions and distinct measurement principles of accounting by given attention to how these should be reported (Deegan & Unerman 2006; MacNeal, 1970; Paton & Littleton, 1940). This has two qualities, namely, the attachment of the word and the entity described (Jensen, 1976). By contrast, descriptive narrates, elaborates, and predicts the ideals situation (Deegan & Unerman 2006). The normative and descriptive methodologies are differentiated by the sequencing process to advance theory and normative is a deductive procedure that objectives are formed from which tenets are advanced. The descriptive technique is an inductive procedure that centres on observations of the real situation of the world and mainly focused on the record that underlying ideals (Coetsee, 2010). However, the predictive system is sometimes identified as a third process and is continuing than the inductive which does not only document observations, but elaborates and forecasts them, hence invariably known as a positive research methodology (Deegan & Unerman, 2006).

The second school of thought in accounting theory elaborates and forecasts, despite that descriptive observed the fundamental and predicting the situation which is more positive in nature. The outcome of various accounting theorists does not reflect a distinction between normative and descriptive underlying phenomena as they should be. It is prescriptive as against descriptive theory that narrates and sets out the tenets of what ought to be done. Inanga and Schneider, 2005) shared that normative theories are attributable by the objective of propositions and deduction

Positive theories try to explain real global issues as they occur in the real world. Research and literature on positive theories involve fact and finding observations of the relevant phenomena from which a problem is defined. The positive accounting theory aims of mapping accountants' behaviour with pivot words such as why, where or how has attempted to elaborate the current accounting as demanding whether particular accounting data is important to the interested people, what accounting method is suitable to solve a managerial problem and even has logical for fair value accounting (Inanga & Schneider, 2005; Watts & Zimmerman, 1986; Barth, Beaver, & Landsman, 2001). The critics of positive accounting have argued about its natural science attached methodologies and limited application of generalized positive accounting theories hypotheses due to varying business environment and time (Ball, Robin, & Wu, 2003).

Advancement in Accounting Theory

In the years between 1960s and 1970s, two major advances in accounting occurred and this have a significant influence on the advancement in accounting theory as of now. The normative was firstly move to positive accounting methodology which leads to the thrust of frontline accounting research whereas, second transpire to a decision usefulness accounting. In the years between 1956 and 1970 which serves as the normative period that the values and beliefs for best practices were advanced (Godfrey, Hodgson, Holmes and Tarca 2006) while the normative proposition limited to displayed valid fact and finding of the assumption based on the normative prescriptions. Wolk *et al*. (2008) agreed that the postulated principle proposition was outdated in 1970. The normative proposition has been regarded as non-scientific and reasons why it was not employ based on no certainty concerning the detail of normative theory that would be accepted by accounting researchers (Godfrey *et al.* 2006). The resultant effect transpire from normative to positive accounting research which cantered on accounting research moved from the advance of accounting tenets to more scientific techniques of narrating and predicting the practice of accounting.

Godfrey *et al*. (2006) emphasized that positive accounting theory is at which profession has sought a more normative proposition by seeking theory to harmonize the practice of accounting to more important. However, the question can be raised neither nor the practice is creating theory as this is not a pure normative proposition.

In the 1960s, the second advancement of decision usefulness accounting commenced in which Statement of Basic Accounting Theory was brought out by the American Accounting Association in 1966, and this period serves as base year for the orientation (Hicks 1966). Belkaoui (2014) therefore narrates the position of accounting as to produce data concern the economic activities that come out from a company's activities within its immediate environment. Through the decision-usefulness orientation, the concentration shifted from the tenets of accounting to the accounting procedure in which the information has furnished. Some erudite scholars demanding accounting by providing a comprehensively research base of the social sciences in the last two decades and explain that accounting as a human activity which include all research propositions such as interpretative and behaviour research (Reiter & Williams 2002)

The Positive Accounting Theory

The scholar on research methodologies from social sciences, elaborates positivist support as it is a rejection of metaphysics. It concerns by providing truth through factual means as well as phenomenon position that upholds the aspiration of knowledge in which describe, designs and also to predict the real situation that we experienced. The objective of science is thus what we can observe and measure (Henning, Van Rensburg & Smit, 2004)

The concentration of a positive accounting theory is to provide truth by narrating the reality and its fact and finding tool that gives the research process validity. The descriptive proposition commencing by incorporating based on experienced testing instruments to expand and forecast the real situation of the world, positivism is established. Under this proposition, the theory of accounting is advanced by designing models and testing them. The assumption is never totally the truth, but since it is not rejected through research, therefore, it is the truth. The positive accounting theories also bring together the activities of narrating and predicting and presently, the whole of this theory is concentrates on elaborating the rationale for present practice and predicting the state that accounting and associated data play role for useful decisions making (Godfrey *et al.* 2006).

Positive accounting is an authentic research technique that can be put into practical use in accounting research (Boland & Gordon 1992). Inanga and Schneider (2005) advanced the precise purpose of absence of accounting research to enhance accounting practice. He further said there is a ground-laying error in the accounting research process as stated and there is no theory to deploy

as a referral document on the establishing hypotheses to be experienced in research which serves as the major problem of accounting theory. The non-availability of theory established in both the educational sector and practice as well as a research literature itself and due to training and inadequate knowledge with a research interest tends to non-conduct thorough research outcomes to demand professional needs of practitioners. In other words, accounting research established what looks to be a highly advanced research context that is an environment dominated by obtained globally experienced methodology, instead of theory.

However, for accounting researchers to stand an important position in the advances in accounting tenets, theories based on the fundamental tenets of accounting needs to be regarded as an ingredient of any positive research methodology. Therefore, the insights drawn from such research could be useful to standard setters in understanding the reactions that metamorphosis in accounting tenets may possess. Currently, the major application of positive accounting research does not focus on advance tenets of accounting but paramount as basic accounting researchers perform another opportunity that will have influence on the essence of accounting itself.

Decision Usefulness Theory

Decision usefulness theories concentrate on measuring and appraising the influence of accounting procedures and methods of reporting statement of account to individual and group of interested users of accounting data. The relevance of data communicated is a subjective concept depends on two folds viz, "who are the users of it?" and what are the decision models employed by users of accounting data? (Ram & Tarpria, 2019). Therefore, financial report is summary of report of the financial and non-financial conditions of an organization for a given period usually a year. The present level of decision usefulness and its interpretation should be in line with the set of stakeholders that have largely persisted. The “softer” decision usefulness and stewardship emphasis that will give opportunity for finance providers which dominated standard- setting by the United Kingdom (Laughlin, 2007)

Interpretation of Accounting Theory

Interpretation theories are among other classical accounting theory aimed at giving meaning to accounting practices and tries to fine-tune deviations in interpretations and meaning attached to the information communicated by producers to the users of accounting information as

they say, "It is not what you say but it is what people understand". The interpretation accounting theory resulting in the rationale behind traditional accounting practice while the contributors of interpretational theories focused on finding the consequences of the accounting practices followed by evaluating them (Paton& Littleton 1940; Sterling,1975). Interpretational theorists tried to make such theories that would help practitioners of accounting in resolving accounting issues.

Interpretative research is wider than describing and elaborating the positive techniques that underlying the ideals or events being researched and the reasons why they acted in a certain manner. This offers insights into how a given person in a given context, makes sense out of given ideals or events. This is not a theory motivated by setting and testing hypotheses but reports on the theory identified.

The interpretative accounting research attracts practical and political ways of standards setting to create the rationale behind the given advice on the process (Ahrens, Becker, Burns, Chapman, Granlund, Habersam, Hansen, Khalifa, Malmi, Mennicken, Mikes, Panozzo, Piber, M., Quattron, & Scheytt, 2008).This study, therefore, agrees that the nature and intellectual position of interpretative research in accounting must be cleared to create the opportunity for researchers and to investigate the rationale behind accounting practice and thus contribute to existing knowledge. The interpretative research is believed by social practices as well as management accounting, are not too natural real situation but they are socially structured and consequently, they can be transformed by the social actors themselves (Ryan, Scapens, & Theobald,2002). Hence, the objective of interpretative research is not to transform the social order but to document the data without bias.

Conclusion & Recommendation

This paper assessed the potential relevance that distinct kinds of accounting theory and research tries to develop of accounting tenets. This paper recognizes as a fact that no widely accepted accounting theory exists, that accounting tenets are not only resultant to academic research but present accounting practice via its standard-setting process that contributed immensely to the advancement of accounting tenets. It is paramount to think of the relationship, if any, between the theory of accounting and research as well as the standard-setting process respectively. When considering the ken position that theory of accounting and research play, the

explanation is concentrated on the normative and descriptive proposition to the growth of accounting theory, the positive accounting research, decision usefulness accounting theory, and the position of interpretative accounting research.

Many accounting researchers widely centred their research on the social sciences, because it recognizes the fact that accounting is a social activity. The creation of accounting tenets by the professional bodies is a practical and political procedure based on human interfering. Thus, interpretative research can fulfil a position in creating accounting tenets with concerned theories. All the stated research propositions should beyond the wider social aspects of accounting and it can be employed to assess the tenets of accounting itself. Discussion is required on how interpretative research to be included in the principles of accounting. Based on the aforementioned, the advances in accounting theories are advantageous to accounting because they divide the grip of the positivistic era and give room to accounting up to a different of research propositions that will jointly enhance the level of accounting research and conceivably theory of accounting. However, the aforementioned discussion is whether resulting in the advances in good accounting tenets by way of investigating, or whether the lacuna between the practice of accounting and research will keep on broaden The paper contributes to the existing literature by examine at the relevance of distinct types of theory of accounting and investigate the role play in advancing consistent tenets of accounting. The issue is whether a theory of accounting investigated and also contributed to accounting tenets established by the standard-setters. Limitation in this study was that the researchers fails to discuss grounded theory and relates the interpretive research with critical research accounting. The implication was that the study is not based on the empirical which may be subjective. Further studies needs to be carried out to investigate on the basis of empirical studies.

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