

ACCOUNTING BASES OF THEORY: WHY THEY MATTER

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Abstract

It is widely agreed that contemporary accounting practice is largely based on the application of professional accounting standards rather than on the application of sound, academic bases of theory. This has led to uncertainty within the field which has in turn inhibited the ability of accounting to develop into a more robust academic discipline. In conducting a thematic analysis of existing literature, this study will identify and expand on three key themes which will collectively establish the argument positing that a lacking basis of accounting theory has impaired the scholastic development of accounting practice worldwide. By introducing this argument to the academic community, this study will expose the economic risks associated with accounting's absent bases of theory and will consequently add value by highlighting the need for additional research into the development, clarification and refinement of accounting theories that will result in more useful accounting practices worldwide.

Keywords: Accounting Theory, Accounting Practice, Accounting Research, Accounting Education, IASB
JEL: A20, E16, G30, M41, M48

1. INTRODUCTION

A comprehensive theory of accounting has not to date been developed by accounting academics (Coetsee, 2010: 1). This has led to the development of uncertainty within the field which in turn has resulted in the emergence of challenges both in academia and in practice (Inanga & Schneider, 2005: 228). For instance, accounting academics are yet to reach consensus on what the academic status of the field currently holds despite the fact that accounting has been practised for centuries to date (Sterling, 1975: 28). In his work, Riahi-Belkaoui (2004: 40) describes accounting as a "full-fledged social science" in agreement with those who promote the recognition of accounting as a "social science discipline" (Inanga and Schneider; 2005: 242). Demski (2007: 153) however, categorically rejects this view and in so doing, questions the credibility of accounting as an academic discipline in light of the field's "overwhelming" focus on vocational training. In support, Fellingham (2006: 159) casts doubt upon the "academic sanctity" of accounting as an academic discipline given the disconnect that exists between research and education within the field. These classification arguments range between these two extremes, with some even viewing accounting to be neither a science nor an academic discipline, but rather an art instead (Sterling, 1975: 28).

Additionally, whilst accounting practice is afforded professional status in many countries, the legitimacy of accounting's claim to professionalism has been an area of debate for decades too (Burns and Haga, 1977; Gaffikin, 2008; Lotharius, 1962; West, 2003). Central to the issue of professionalism is the consideration of what the role and objective of accounting in society should be which has allowed for various interpretations across professional

practice. A further challenge associated with the absent basis of accounting theory lies in the lead role that practitioners have taken in shaping the mould of what accounting theory is understood to be today. In the absence of academic progress within this area, practitioners and professional standard setters have taken the lead role in developing not only the practice of accounting, but the academic foundation of this practice as well (Biondi & Suzuki, 2007: 589; Coetsee, 2010: 1;).

These problems have at a central level, collectively impaired the effective development of the field which Sterling (1975: 34) for instance, attributes to the profession's "inability to resolve issues". In contemporary times this sentiment is echoed too with some scholars contesting that as an academic discipline, accounting has not developed significantly within the last 80 years (Fellingham, 2007: 159)

2. OBJECTIVES, SCOPE AND METHODOLOGY

The objective of this study is to build a grouping of arguments for the need to develop an academically sound basis of accounting theory and in so doing, highlight the deficiencies that its absence has raised over time within academia and in practice. To achieve this, the study makes reference to collections of thought on social construction literature within the field and identifies key themes of discussion. This thematic analysis then delineates the framework through which arguments are raised to achieve the study's objective. As such, the study is scoped within this context.

The study consequently adopts a qualitative, explorative research approach through which secondary data is used to build the argued positions. This methodology is commonly used in social

construction studies of this nature and is accordingly considered appropriate for achieving this study's objectives. Evidence of its use lies in other studies with similar objectives to those of this study (Biondi & Suzuki: 2007; Potter: 2005; Young: 2006 and Suzuki, 2003) where arguments are posited for subsequent analysis and engagement against the backdrop of "neglected background context" (Suzuki, 2003: 66). As described by Young (2006: 581), it is through social construction works of this nature that questions may be raised with all its "liberating potentialities". To maintain structure, the study is organised under the three key themes mentioned earlier being *the academic status of accounting, the professional status of accounting and developments within practice*. Through these three areas, arguments are raised within an international context with some reference being made to South African practice specifically.

3. RESEARCH FINDINGS AND INTERPRETATION

As mentioned previously, the objective of this study is to establish a collection of arguments that highlights the need to develop an academically sound basis of accounting theory. In doing so, the study structures the argument into three key thematic areas. In this section, these themes are identified and their constituent arguments are made.

3.1. Developments within Practice

The period between 2005 and 2006 saw the "largest accounting revolution in recent history" where the accounting standards prescribed by the International Accounting Standards Board (IASB) (namely International Accounting Standards (IASs)¹⁵ and International Financial Reporting Standards (IFRSs)¹) were adopted by over a hundred countries across the globe (Oberholster & Sacho, 2008: 117). This worldwide movement was largely stimulated by new regulations in Europe surrounding the European Commission's (EC) issue of Regulation 1606/2002 in July 2002, which required all publicly listed firms in European Union (EU) member states to adopt IFRSs for the financial years beginning on or after 1 January 2005. It was during this period that South Africa also adopted the standards of the IASB, subsequently bringing into rule that all domestically listed public companies on the JSE Limited (previously the Johannesburg Securities Exchange) (JSE) must comply with the requirements of the IFRS.

The global reach and authority over the academic foundations of accounting practice obtained by the IASB as a result, propelled in a sudden and abrupt power shift from academics to standard setters. In the years that followed, a number of challenges developed against the backdrop of development taking place through the dictates of the profession rather than through scholarly work. Professional standards rapidly developed in accordance with a central theme of "fair value" measurement (Biondi & Suzuki, 2007: 589) as a result. Notwithstanding the influence of

the global financial crisis (that followed shortly after the "revolution") in somewhat restraining the strong views of the IASB on fair value accounting, this measurement basis raised widespread criticism from the academic community. For instance, in their study, Biondi and Suzuki (2007, 590) pointed out that according to the IASB, the "fair value" model derives its value from providing capital providers with relevant, up-to-date information which serves to facilitate better decision-making whilst Barth (2007, 11) posits that "fair value" measurement is considered to be "unbiased, and thus, neutral". However, Biondi and Suzuki (2007, 591) point out that fair value measurement promotes a sense of exclusivity by focusing squarely on the supposed information needs of capital providers. Consequently, this brings in to doubt the utility of the "fair value model" in providing information to users who are not capital providers. In examining the IASB definition of "fair value" as "the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction" (IASCF, 2010b: A1110). Schmidt (2009: 271) points out that the basic premise of the "fair value" model is flawed in two critical ways. Firstly, the model assumes that markets exist for all items that will be valued on this basis, and, secondly, that such markets are active. In reality, this is by no means the case, with the liquidity problems experienced during the financial crisis being a suitable case in point (Jaggi, Lee & Winder; 2010: 469). Whilst these discussions are not meant to provide a comprehensive discussion on the weaknesses of the "fair value" measurement model, they should highlight the manner in which practitioners have incorporated new ideologies into accounting standards arguably, without suitable counsel from the academic community. As such, it is not uncommon to find accounting standards regularly change on an almost *ex-post facto* basis bringing with it significant consulting and compliance costs for corporations who are legally bound to adhere to them. Within this context, an academically sound theoretical basis for the practice of accounting is needed in order to avoid accounting academics delivering reactive criticism to accounting standard development. By having such a basis in place, standard setters would have to reasonably consider and justify their actions in accordance with a sound basis of theory which will in turn allow accounting academics a basis on which to rationally and impartially consider the credibility of their arguments.

The IASB is also in pursuit of a globally converged set of accounting standards (Biondi & Suzuki, 2007: 589) which has given rise to challenges in reconciling the cultural, political and regulatory practices of countries with the accounting practices required of IFRS (Rezaee, Smith & Szendi; 2010: 144). As pointed out by Oberholster and Sacho (2008, 128), the implications of enforcing a "one-size-fits-all" approach are potentially most damaging to developing economies. In territories where local, generally accepted accounting practice (GAAP) is in adoption, abruptly enforcing IFRS compliance could place undue pressure on such economies to modify legislation that may be in conflict with IFRS. In addition, the need to reform their education systems to accommodate IFRS training (not only for

¹⁵ IAS standards were issued between 1973 and 2001 by the then International Accounting Standards Committee (IASC). In April 2001 the IASB took over the roles of the IASC, adopted all IAS standards and continued standard development, calling the new standards IFRS standards. The terms "IAS" and "IFRS" are often used in an interchangeable way.

preparers, but for auditors as well) combined with the need to invest significant human capital in establishing and understanding reconciliatory calculations between taxation practices and IFRS practices, are also factors that could place pressure on such economies. Implementing such initiatives to accommodate the practice of IFRS is by no means a cheap exercise, and successfully implementing a system of IFRS into any territory will require significant time and funding.

As Biondi and Suzuki (2007: 592) state, “‘standardisation’ is an *ex post facto* phenomenon”. Having a situation where significant time and costs are expended globally, to implement a system of accounting that later reveals itself to be one that fails to provide quite simply, the right information to the right users in the right way, is wasteful. The results of global convergence could be socially and economically disastrous in light of the time and cost investments territories would need to make in order to achieve IFRS compliance. Accordingly, embarking on a project of this scale brings with it a multitude of significant and intricately complex implications that require serious and well-structured academic discourse founded on a sound basis of theory. In the absence of such theory, as with the implementation of fair value accounting, a range of reactive discussions and criticisms may arise from academics on the dangers associated with the global convergence of accounting standards. An academically sound basis of theory is necessary to allow for rational, proactive discussion and analysis between academics and practitioners, thus facilitating a better understanding of the potential implications of such ambitious projects.

In taking the lead role in developing the principles that underlie the practice of accounting, the IASB has also prescribed a fundamental premise to the use of their standards, being that of “decision-usefulness”. Under this premise, the IASB states that only information that is deemed to be useful to users must be reported. As pointed out by Inanga and Schneider (2005: 228), this premise of “decision-usefulness” is treated as an “accounting theorem”, yet remains untested in relation to other established theories, for instance those within the psychological and behavioural sciences. In essence, they state that “decision-usefulness” is not a concept which research has demonstrated to have consistency and predictive value. In the first instance, there is no scientific backing to support what decisions are made by users of financial information, and, in the second, there is no scientific backing to support what types of information users find useful. The concept of decision-usefulness therefore remains a subjective concept based on assuming firstly, who the users of financial statements are and secondly, what their information needs entail. On this assumption, financial statements are prepared with the belief that the information contained therein is useful (Inanga & Schneider, 2005: 228). Through properly conducted academic research into developing a sound basis of theory for the practice of accounting, the subjectivity and apparent weaknesses in such theories can be identified proactively through empirical testing. Accordingly, through active collaboration between academics and practitioners, the time-consuming process of

publishing research in reaction to decisions made by practitioners can be avoided.

In this section, developments in practice were discussed in relation to the challenges they have created through the absence of a sound theoretical basis of accounting theory. The prescription of fair value accounting has emerged of a central feature of IFRS compliance and engagement at an academic level has brought to the fore weaknesses in its application. In addition, the move towards a globalised set of accounting standards has also highlighted additional challenges of implementing global projects in the absence of sound theoretical considerations. The notion of “decision-usefulness” was also engaged with, unpacking the challenges it creates within practice.

3.2. The Academic Status of Accounting

In his study, Potter (2005) introduces useful context to the link between the absent basis of theory within accounting and how this phenomenon has historically inhibited the meaningful development of the field. He states that the inability of accounting theorists to reach a credible consensus on the academic status of accounting has in the past resulted in their research agendas being limited largely by the notion that development of the field equated to the development of technical practice. Consequently, the field of accounting had previously only been able to develop within a confined circle of accounting specialists and standard setters. In addition, research within the field had been confined to specialist accounting journals too which has led to a present-day phenomenon where the challenges accounting theorists face in developing the field of accounting are challenges known and appreciated by only a small group of scholars worldwide (Potter, 2005: 266).

Given the historically technical focus of accounting research, the field has in the present day developed a reputation for being dull and boring (Biondi & Suzuki, 2007: 587; Fowler & Malthus, 2007: 20). This has served as a disincentive for researchers from other fields of study to engage with aspects of accounting practice in a wider economic and social context thereby inhibiting the interdisciplinary development of the field. This is of particular relevance given the view that accounting is indeed interlinked with other fields (Suzuki, 1999; Suzuki, 2003). Whilst some accounting theorists do subscribe to the belief that accounting can be developed into a dynamic, multifaceted discipline of meaningful social and economic value (Fellingham, 2007; Gaffikin, 2008) the multidimensional relationship that accounting holds with other fields of study needs to be understood. In the absence of a sound academic basis from which these constructions can be explored, no consensus on its academic status can be reached. By extension, serious interdisciplinary research remains lacking.

This phenomenon is evidenced internationally where Inanga and Schneider (2005: 235) state that at many universities, the output of research in the discipline of accounting is minimal. They also state that internationally, it is common to find accounting education at the undergraduate level being heavily steeped in the training and practical elements of the discipline, aimed at equipping students for life in

practice. At a post-graduate level, the success and quality of a university's accounting department is then often assessed based on the performance of its students in professional examinations (Inanga & Schneider, 2005: 228).

In South Africa this is no different where the academic merit of South African accounting departments (that are accredited by the South African Institute of Chartered Accountants (SAICA)) is primarily assessed based on the performance of their students in Part 1 of the SAICA Qualifying Examination known as the Initial Test of Competence (ITC). This reality is echoed by Van der Schyf (2008a: 2) who, in relation to South African departments of accounting, states that "it is also common knowledge in South African academic accounting circles that the prestige of such academic departments is further enhanced by the performance of their alumni in Part 1 of SAICA's Qualifying Examination".

In an almost "matter-of-fact" sort of way, accounting students are prepared almost exclusively for life in practice resulting in them being ill-equipped to deal with the challenges of research and scholarly activity at advanced levels of enquiry, let alone within interdisciplinary context. As a result, a disincentive for professional accountants to later engage in research lies simply in the difficult nature of undertaking properly conducted research for which they are not suitably prepared. The absent basis of accounting theory further compounds this problem, making the goal of academic discovery within accounting seemingly more difficult to achieve, even for experienced academics within the field. In a study conducted by Nieuwoudt and Wilcocks (2005: 659) where insights into the attitudes and perceptions of accounting academics at South African (SAICA-accredited) universities towards research was obtained, 89% of respondents stated that the Chartered Accountant (South Africa) (CA (SA)) path that they had followed did not adequately prepare them for research. With regard to the absence of a theoretical base in accounting, and its implications for finding suitable research topics, 61% of respondents conceded that it is not easy to find such topics. Despite this, accounting academics in recent years, have come under pressure to improve upon their research output in the field (Van der Schyf, 2008a: 1).

Whilst development of the field through quality research is an international challenge, South African research output is a serious matter of concern (Nieuwoudt & Wilcocks, 2005; Van der Schyf, 2008a, 2008b; West, 2006), both in terms of quality and quantity. This has been widely acknowledged among South African academics who have accepted that the academic branch of accounting in South Africa has indeed fallen behind much of the world (Nieuwoudt & Wilcocks, 2005; West, 2006: 121). In a recent study conducted by Chan, Chen and Cheng (2007), countries were ranked based on the number of articles they published in 24 of the world's leading accounting journals. On research volume alone, South Africa ranked 33. This ranking did not assess the quality of articles published, where it is plausible that South Africa's ranking could have dropped

further if this variable had been accounted for. As pointed out by West (2006: 122), surveys like these highlight the disproportionate match between the status of South African accounting practice versus that of South African accounting research. Both within South Africa and internationally, the CA (SA) designation is highly acclaimed (Wadee, 2010: 6; West, 2006: 121). In addition, South Africa has been ranked number one in the world by the World Economic Forum (WEF) for the quality of its auditing and reporting standards for the past 6 years since 2010 (WEF, 2010: 303; WEF, 2011: 323; WEF, 2012: 325; WEF, 2013: 347; WEF, 2014: 341 WEF, 2015: 327). Academically however, South African Chartered Accountants rank far behind the world's leaders. For instance, within South African accounting research circles, scholarly activity is largely entrenched in the "teaching and learning" spheres of the profession, with many other research studies being centred on understanding the "perceptions" of participants relating to various aspects of the profession. As part of the background to this research, a survey was conducted on one of South Africa's leading academic journals, *Meditari Accountancy Research*, to identify the extent to which research addressing fundamental conceptual areas of accounting is published. By analysing the published articles contained within the ten issues published between 2006 and 2010, a total number of 83 articles were analysed. Of these, 43 (52%) articles related to other disciplines including auditing, taxation and financial management. Articles across all disciplines that were centred on "teaching and learning" totalled 16 (19%), while articles centred on performing "surveys" or understanding "perceptions" totalled 10 (12%). Despite this journal primarily being an "accounting" journal, only 14 (17%) articles actually dealt with technical or conceptual accounting issues. As pointed out by Nieuwoudt and Wilcocks (2005: 54), according to Sterling (1975), disciplines other than accounting demonstrate a developmental relationship between research, education and practice as follows:

Sterling's model on the relationship between
research, education and practice in fields of study
other than Accounting

$$R(x) \rightarrow E(x) \rightarrow P(x)$$

The outcome of $R(x)$, being research drives $E(x)$, being what is taught (i.e. education) and what is taught (i.e. education) in turn drives $P(x)$, being practice. Research remains the first and fundamental process to the development of knowledge within a field of study. However, within the practice of accounting, the relationship between research, education and practice operates differently as follows:

Sterling's model on the relationship between
research, education and practice in the field of
Accounting

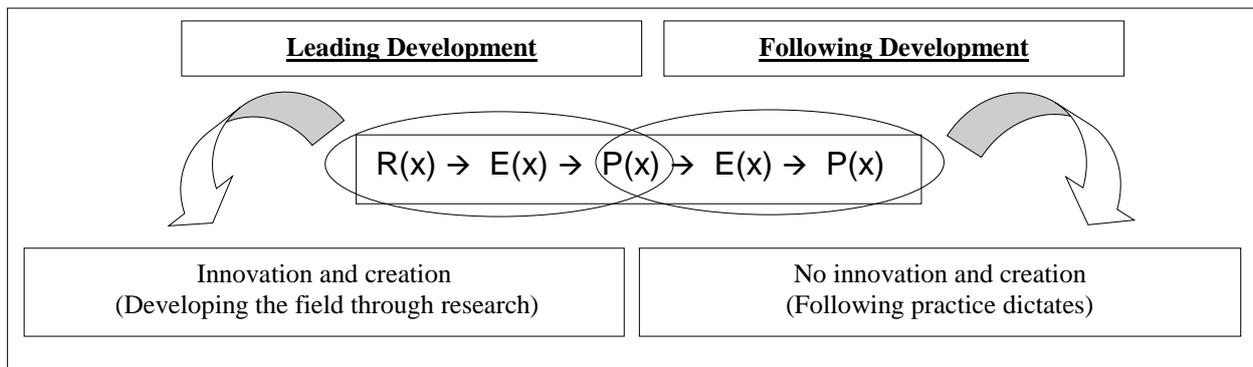
$$P(x) \rightarrow E(x) \rightarrow R(x)$$

$P(x)$, being practice, serves as the first and fundamental process to development and hence, drives $E(x)$, being what is taught (which is governed by the syllabi prescribed by professional bodies) and what is taught (i.e. education) is then merely carried out by new entrants into the market in the form of repeated practice $P(x)$.

Internationally, the profession has developed largely through the dictates of practitioners and academics who have accordingly directed their academic activities to fulfil the vocational requirements of these practitioners. To date, global academic research has not significantly influenced the development of accounting standards, and by using International Financial Reporting Standards (IFRS) as a basis for accounting education in South Africa, academicians have been able to remain

technically relevant within practice. In the process however, they have become largely disconnected from the discourse surrounding the theoretical and by extension, the developmental dimensions of accounting thought. By merely participating in the IASB's standard development processes, many South African academics have developed a misplaced sense of belief that they are actively involved in the development of the field. In essence, academic activity surrounding IFRS application is merely reactive to the dictates passed down by the International Accounting Standards Board (IASB). By expanding upon the model of Sterling (1975), the reactive stance on academic development within accounting, in contrast to the active academic development through practitioners within the field can be represented as follows:

Figure 1. Leading development versus following development



The $P(x) \rightarrow E(x) \rightarrow P(x)$ representation on the right-hand side of the figure depicts the reality of development within the field through academic efforts. As it currently stands, academics are not seen to lead discussions on the theoretical foundations of accounting practice and hence do not play a leading role in developing the discipline through academic research.

In contrast, the $R(x) \rightarrow E(x) \rightarrow P(x)$ representation on the left-hand side of the figure reflects the state of accounting research by practitioners. The diagram highlights the developmental trajectory of the field which is largely driven by commercial dictates, rather than through appropriate, theoretical underpinnings.

In this section, it was argued that in the absence of a sound theoretic basis for the practice of accounting, dissent continues to exist in relation to the academic status of accounting. Against the backdrop of this uncertainty, the field has primarily developed within a technical context which has resulted in a deficit as far as interdisciplinary research within the field is concerned. The focus on technical accounting has meant that the socio-economic dimensions of accounting have not been adequately engaged with which has in turn impaired the development of the field as a meaningful area of academic and social influence. In addition, this has resulted in the field being largely developed by the dictates of profession-orientated and commercial goals thereby inhibiting the academic development of the field as a result.

3.2. The Professional Status of Accounting Practice

Accounting is viewed by many to be a disciplined practice focusing on depicting economic phenomena as they occur. As Potter (2005, 270) points out, accounting information is believed by many to be an "objective, faithful representation of the economic phenomena it describes". The IASB is an institution that subscribes to this school of thought, evidenced through its professional standard narrative. For instance, the revised conceptual framework of the IASB contains definitions relating to qualitative characteristics that are required to be present in a set of financial statements before the information contained therein can be considered to be "decision-useful". One such characteristic is "faithful representation" (International Accounting Standards Committee Foundation (IASCF), 2010a: A34), explained by the IASB as follows:

Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent.

In addition, the IASB's revised conceptual framework (IASCF, 2010a: A27), describes the objective of financial reporting as follows:

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the

entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.

Accordingly, the need to “faithfully represent” financial information is indicative of the stance that the IASB has adopted in its view on the role and objective of financial information. In summary, they view the role of accounting as being to faithfully capture and depict economic phenomena as they occur and thereafter, to report details pertaining to them to users who have need of such information. In light of views such as these, Gaffikin (2008: 222) states that there are those who subscribe to the belief that accounting is merely meant to “objectively serve the practical interests of business and should not be involved in contributing to broader social goals and policies”. He then goes on to explicitly state that if such a view of accounting holds true, then it quite frankly “flies in the face of claims to professionalism” (Gaffikin, 2008: 222).

In contrast to this school of thought, there is the view that accounting practice “creates” the macro-economic reality we observe through the practice of economics (Suzuki, 1999: 71) rather than it merely being a calculative practice that “depicts” economic reality. This understanding of accounting practice is further echoed in the work of Potter (2005: 267), who points out that it is the language that arises from the practice of accounting (through terms such as “income, expenses, assets and liabilities” etc.) that goes about creating the economic reality that we “observe” through the practice of economics. In essence, by observing economic phenomena and thereafter reducing their occurrence to understandable, consistent and identifiable concepts, the practice of accounting creates a reality that would otherwise, not have “existed”. Suzuki (2003: 74) further supports this view by stating that through the use of “accounting rhetoric” economic reality is not “depicted”, but instead “created”.

Through analysing the foundations upon which IFRS-generated accounting information is prepared and presented, it is apparent that financial information consists of items to which values are assigned based on principles of “recognition” and “measurement” (with further supporting information often being provided in the form of additional “disclosure”). Accordingly, through the preparation of such financial information, certain economic realities are selectively not included. For instance, a strong management team, pleasant working conditions and positive staff morale are all examples of economic phenomena that exist in reality but are not depicted in accounting information. Hence, it can be concluded that accounting goes about “creating” a reality based on the representation of selected economic phenomena and by so doing, fails to accurately “depict” economic reality.

In summary, the role of accounting in society falls within one of two schools of thought. On the one hand, it is believed to play the role of “depicting” economic reality. By accepting this view as truth, the objective of accounting practice should be a neutral, passive one, merely used to facilitate economic activity through responsive decision-making. On the other hand, some scholars believe that accounting practice instead “creates” economic

reality. By accepting this view, the objective of accounting practice should be to actively regulate the behaviour of economic participants by incentivising them to engage in certain economic practices and abstain from others.

In his book, Gaffikin (2008: 179) states that that dominant characteristic of any profession is its commitment to serving “the public interest”. If one subscribes to the school of thought that portrays accounting practice as a neutral information-provider of pre-existing economic realities, the public interest is certainly not a dominant concern of accounting practice and as such, brings into question its professional credibility. In the absence of a sound basis of theory through which academicians shape accounting practice, the credibility of the profession remains questionable. By extension, the rights and privileges afforded to so-called “professional accountants” is cast into doubt as well.

In justifying professional status through serving “the public interest”, the identity and information needs of financial statements users need to be considered (Côté, Durocher & Fortin, 2007; Inanga & Schneider, 2005; Young, 2005). For instance, Young (2005: 579) argues that the primary users of accounting information are almost taken for granted by practitioners to be current and potential investors, creditors and other capital providers. Albeit to a lesser extent, other stakeholders such as employees, government officials and revenue authorities are also assumed to be users of financial information, in an almost “matter-of-fact” sort of way. Contained within the initial Exposure Draft issued by the IASB on their Conceptual Framework Improvements Project, were details pertaining to their views on the objective of financial reporting. Among these was the belief that “present and potential capital providers” are the “primary user group” of financial statement information (IASCF, 2008: 27). On this premise, a revised conceptual framework was developed where the IASB termed the preparatory foundation of the development as being from the “entity perspective”, where financial reports are envisioned to “reflect the perspective of the entity, rather than the perspective of the entity’s equity investors” (IASCF, 2008: 15). The rationale behind this perspective was the belief that the entity has “substance of its own” (IASCF, 2008: 25), which is distinct from the substance of its owners.

According to this perspective, it is understood that in exchange for the provision of capital to the entity, the capital provider obtains a proportionate “claim” to the entity’s resources and consequently, it is information on these resources and claims that needs to be provided to the grantors of these resources (who incidentally are also the owners of the “claims”) (IASCF, 2008: 26). The abovementioned point serves to highlight the conspicuous absence of empirical data supporting the IASB’s views on the users of financial statements: who they are, and what their information needs entail. As it currently stands, Young (2006: 591) further points out that properly conducted research into identifying the users of financial information and understanding their information needs has not been conducted by standard setters but instead, the identity and information needs of users are largely assumed. Inanga and Schneider (2005: 239) point out that the

result of these assumptions is that reported financial information often ends up in reality not even satisfying the information needs of capital providers. The fact that research into identifying users and their information needs is not properly conducted is also highlighted by Côté *et al.* (2007: 31), who point out that the extent of such research is limited merely to the so-called “consultative process” which standard setters engage in when developing new standards. This process however, is heavily skewed as highlighted in the comment made by Côté *et al.* (2007: 31) that states:

Preparers, as opposed to users, are more likely to participate because they are wealthier, less diversified (drawing income from few sources and being more vulnerable to any adverse economic effects associated with a proposed standard), and their economic interests are more homogeneous.

The abovementioned points are further supported by evidence obtained in a recent study conducted by Herz and Larson (2011) where 55 matters issued by the IASB for comment were analysed in relation to the responses that were received, focusing specifically on the split in responses between academics and practitioners. In summary, it was found that from all the responses received by the IASB only 2.7% of those were from academics. In addition, it was also noted that despite the application of IFRS and IAS being practised in over one hundred countries, responses were greatly dominated by traditional “Western” countries, where the United States, Canada, Australia, New Zealand, the United Kingdom and other European countries contributed to 80% of the responses received. From an African perspective, South Africa was the only country known to have responded to the IASB.

This highlights another important point. By developing theories that underlie accounting practices through processes that in reality consider only the views of certain interested parties, there is the danger that accounting practices may be developed through the dominant views of these very parties. As pointed out by Barth (2007: 7), academic research is “typically unbiased”. Accordingly, by developing the field through the use of practitioner processes as opposed to objective academic processes, the risk of development directed at achieving the predetermined objectives of controlling interest groups remains present. This in turn brings to the fore the questionable nature of accounting practice as professional and one that indeed serves the public interest.

In this section, the need to develop an academic basis for accounting practice was discussed within the context of the professional status that practitioners within the field currently hold. In the absence of a sound academic basis of theory, the objective of accounting practice and those that professional bodies claim to serve comes into question. By reflecting on the objective of accounting practice as posited by the IASB, the nature of public interest service was discussed in relation thereto highlighting the need academic clarity through a sound theoretical basis for practice.

CONCLUSION

The objective of this study was to establish a collection of arguments to outline the need for the establishment of a sound, academic basis of accounting theory. This was achieved through discussions around three key themes being *developments within practice, the academic status of accounting and the professional status of accounting*. In the absence of academics having developed a sound basis of theory, practitioners have taken the lead in developing accounting standards on which accounting practice is currently based. This has resulted in a number of challenges for the profession where for instance, debated ideologies such as fair value accounting (Barth, 2007; Biondi & Suzuki, 2007) and decision-usefulness theory (Inanga & Schneider, 2005) have been put into practice. Adding to this are the problems surrounding the assumptions on which these standards are based, for instance those relating to the identity and information needs of users. Given the inherent focus of financial reporting on meeting the information needs of financial statement users, it is recommended that updated research be conducted in both identifying these users and understanding their information needs. With the emergence of integrated reporting, greater levels of importance has been placed on stakeholder identification and engagement. In enhancing corporate efforts within this area, academic endeavours would do well to match in this regard.

Academically, the status of accounting among universities has been brought into question as a result, with development of the field through scholarly activity remaining as an area of particular challenge. The direction of the field’s development has also brought into question the discipline’s professional status owing to debates around the objective of financial reporting and whether this practice does indeed serve the public interest. In the absence of a sound basis of theory, this study posits that these areas of challenge will remain unchanged. As such, further research needs to be conducted to develop critical thinking in pursuit of an accounting basis of theory, largely through interdisciplinary endeavours of social construction.

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