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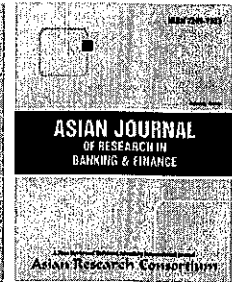
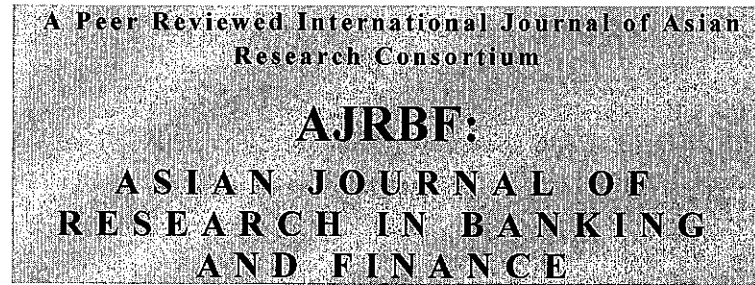
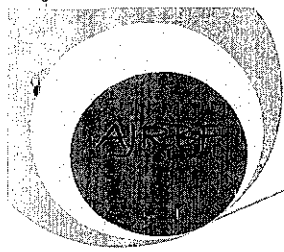
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RELEVANCE OF DIFFERENT THEORIES IN ACCOUNTING

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ABSTRACT

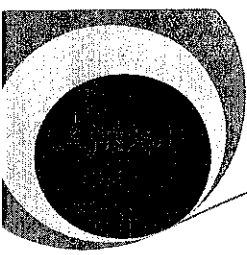
The principles that support the practice of accounting have become more complex than before. Emerging modern theories involving financial and non-financial phenomena continue to impact on the accounting practices as more and more sectors add up to an already exist list of stakeholders. The utilization of the various theories affecting the recording, reporting and control of financial information is, on the average, an objective way of supporting and presenting evidences of transactions subject to the verification and audit processes by interested stakeholders (Houck, 2003). However, the standardization and reconciliation of the various accounting standards as used and practiced by various countries with structural differences in basis for recording, reporting, control and audit of financial information is a great concern for the profession and must be the subject of harmonization at the soonest possible time (Peecher et al, 2006).

KEYWORDS: *Accounting Theories, GAAP, GAAS, Accounting principles, Accounting standard.*

1. INTRODUCTION

The accounting profession is a highly sensitive vocation that needs all the theoretical and principled support to make the practice work. It is because accounting and the practice of





accountancy are more than just professions requiring the identification, recording, reporting and control of financial information based on decisions by key executives. It is similarly a vocation with sensitive and comprehensive scopes of responsibilities that is global and pervasive in nature, detailed and accurate in presentation, organized and objective in terms of evidential support, relevant and substantive in terms of decision support, prompt and timely in terms of urgency, conservative and consistent in terms of qualitative character. Likewise, it is systematic and process-oriented in terms of transactional character.

The principles that support the practice of accounting however, has become more complex than before. Emerging modern theories involving financial and non-financial phenomena continue to impact on the accounting practices as more and more sectors add up to an already long list of stakeholders with growing and widely varying interests in the profession as well as the output it is expected to deliver. Logic, reason and even pragmatism has been noted to constitute the foundation of these theories spawning more sub-theories, principles and postulates, axioms that provide the bulk of theoretical support for the practice of accounting, auditing and consulting.

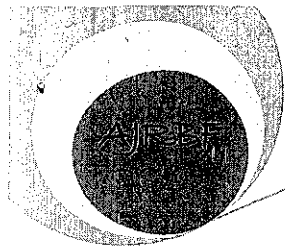
Experts admit that the accounting and auditing profession and the trust and confidence accorded to it by the various stakeholders are the stabilizing factors that serve as drivers needed by the economy to safeguard against the varying forms of excesses spawned by their own kind. Observers, moreover, are of the opinion that the global financial crisis is, in reality, the product of capitalism's own excesses against itself. Thus, not only do the relevant accounting theories explain the accounting phenomenon in particular, but clarifies the symbiotic relationships of the stakeholders in the conduct of business in the most ideal sense possible, in general.

2. THE RELEVANT ACCOUNTING THEORIES: COMPARISONS AND CONTRASTS

Analysis of every concept, practice and procedures in Accounting will enable the critical reader to identify and align the generally accepted accounting principles (GAAP), including the generally accepted audit standards (GAAS) with known universal theories affecting systems, fundamentals, relationships, processes, regulatory requirements, personal qualifications, reporting and communication systems, etc. The list can be long and detailed. This implies the high scholarly content of the profession and the niche it presently occupies in the economic environment.

Foremost among the theories include the systems-oriented characters that provide the procedural nature of the basis for accounting practice. Among these are the legitimacy, institutional and the stakeholder theories that explain the fundamental nature, status and collaborative responsibility of the various interests in the practice of accounting, auditing and consultancy. Here, the professional practice itself is initially governed by the above theories in support of the organizational nature as propounded by the entity theory. Thus, the responsibilities expected to be discharged by the professional is the disclosure, objectivity, relevance and substance-over-form principles that grant and bestow credibility to the financial reporting system. As such, the complementary nature of the legitimacy, institutional, entity and





stakeholder theories reinforces the need to recognize the profession as a pervasively stable means of social and business organizational structure with a life of its own.

In auditing, this corresponds to the principle of auditor independence which recognizes the practitioner auditor as an entity totally independent from his client (Emby & Davidson, 1999, Quick & Rasmussen, 2004, Windsor & Rasmussen, 2009). In effect, the profession belongs to the few professional practice that demands unbiased relationship with his clients, both mentally and in fact.

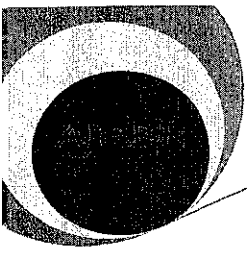
On the other hand, the stakeholder theory defines the varying interests of parties involved in the conduct of business such as the shareholders, management, employees, the government, creditors, customers and the immediate society in a balanced fashion without any sector grabbing more privileges than the others. Likewise, the fact that the entity theory defines the distinctiveness of the profession from its practitioner, the institutional theory recognizes the personality status of accountancy as an institution in itself occupying a permanent niche in society and the business community as well. This is further enhanced by the agency theory that accountants become agents or representatives of their professional practices, hence delineating as well as defining the relationships among stakeholders. Here, practitioners are demanded complying with the qualification requirements of professional accountants (UNCTAD, 1999).

Further into this level, the socio-political theory embedded within accounting presupposes the practice of accounting as an institution composed of the human capital with its own needs and wants. Thus, power and authority are components of the political economy theory that similarly clarifies and attaches the concept of social responsibility, disclosure, transparency and good governance within the bounds of its corporate existence and operations. Moreover, the demand for the utmost concern for its own sustainability in terms of existence, competitive operations and support system for the next line of stakeholders and corporate managers are part and parcel of the sustainable competitive advantage attaching to the responsibility theory needed to be recognized for effective planning processes (Lee & Jeong, 1995). Here, the theories of growth and development intersects with

On the other hand, a comparison of the free market and regulatory approaches to standard setting in accounting is a pervasive character of the profession attaching five other theories such as: the public interest, capture, private-interest/economic interest group, institutional and the political economy theories. Here, the theoretical implications include a form of rule, standard and policy setting that will govern the regulatory processes of recording, reporting and control of financial information as a component of the deliverables of the profession (Asare, Cohen & Trompeter, 2005).

Accounting is traditionally a procedural approach that takes into account the critical decisions made by management in the conduct of business that in turn is reflected in the financial reporting system. Thus the systems theory, sometimes called the nuts and bolts theory of input-process-output, serve to describe to use of decisions as inputs to the system. Here, the data processing system is impacted by the need to transform the data into useful information for use of the various decision makers in the organizational hierarchy for the secondary purpose of





balancing the various perspectives of the decision processes that includes customer satisfaction, shareholder value, learning and growth and internal efficiency or processes (Kaplan & Norton, 2004). Thus, the essential component of the practice is the communication effectiveness in the attached professional responsibility.

3. THE CONFLICTING THEORIES

Among the more controversial theories in accounting is the interplay between the principle and theory of substance over form. While the accounting practice generally accepts substance as a deciding factor when equally confronted with the principle based on form, the prevailing practice is a test of whether the choice is based on substance or based on the form. For example, the intent of the decision maker becomes more objective and evidential than the procedural compliance. Thus, in an example involving investments, the intent of the investor is more substantive as basis for recording such investment as 'available for sale' or as 'control investment' in a subsidiary. Hence, the controversy in this theoretical approach concern the choices to be decided upon by practitioners which is expected, and likely, will affect the recording, reporting and control of financial information needed for decision making by the various stakeholders.

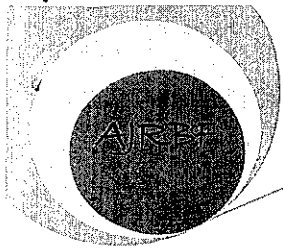
Likewise, the conservatism principle approach in the recording, reporting and control process which is based on cost or original acquisition cost principle is now impacted and confused with the new pronouncements and standards of fair value accounting, impairment of assets and the allowance method of recognizing declines in the values of the resources of the entity. Hence, the theory and principle of conservatism is in direct contrast with the adoption of the fair value accounting and the implementation of the asset impairment standards (DeMark, 2009, Wallison, 2008). This adoption can provide issues in a period of volatility in a crisis-laden economy.

4. CONCLUSION

The utilization of the various theories affecting the recording, reporting and control of financial information is, on the average, an objective way of supporting and presenting evidences of transactions subject to the verification and audit processes by interested stakeholders (Houck, 2003). However, the standardization and reconciliation of the various accounting standards as used and practiced by various countries with structural differences in basis for recording, reporting, control and audit of financial information is a great concern for the profession and must be the subject of harmonization at the soonest possible time (Peecher et al, 2006). This is a risk recognized that may spawn some form of a major financial crisis (Luttwak, 1999, McMillan 2004, Reuters, 2009).

Business transactions wherever they are conducted are based on common theories and principles and must be specifically recognized based on a common benchmark of theories and principles and regardless of the laws governing economic units. Here, the role of accounting associations must be deputized by each economic unit representing the government in translating accounting information into common accounting procedures acceptable to all accounting associations and practitioners (Neu, 1991, Siegers & Van der Bergh, 1999).



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