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Department of

Financial sciences and accounting

LECTURES IN :

Accounting Theory

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Course Description :

This course is an introduction to first year Master of Accounting students and represent a theoretical accounting theory. The purpose of these lectures is to provide Master students with the basic concepts about accounting theory: Pragmatic, normative school, positive school and critical theories of accounting. The course begins by examining the nature of theories and alternative forms of logic. The conceptual framework and key contemporary and historical accounting issues are examined, highlighting the role of theory in understanding current accounting standards, accounting practice and the use of accounting information by the myriad stakeholders in reporting entities. Throughout the course, examples of the relationship between theories of accounting and decisions facing real people (accountants and financial statement users) are highlighted. The student also learns about how to think about accounting theory, accounting measurement, accounting standards and modern developments in accounting disclosure... etc.

Course Objective:

The purpose of this course is to:

- Identifying accounting theories schools ;
- Auditing accounting concepts and terms such as: accounting measurement, accounting disclosure...etc.;
- Identifying accounting behaviours that may not serve accounting such as creative accounting, tax evasion;
- Identifying recent developments in the accounting industry such as social and environmental disclosure.

Course structure:

In regards to the organisation of the course, it comprises nine themes. The Nine themes are to be covered in the complete academic year. It is worth mentioning that accounting theory requires good knowledge of financial system, international accounting standard and financial system. Each theme is delivered in two lectures. This simply means that the overall number of lectures to teach the course is 18 lectures. As for the teaching approach, using the descriptive analytical approach .

THEME ONE: Introduction of Accounting Theory

Introduction:

Accounting is a branch of management science that is concerned with recording, analysing and interpreting financial transactions to users and other interested parties. According to Wood (1996), accounting is "The process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information" (Nwanyanwu, L. A. ,2006). Accounting theory is a set of concepts and ideas that guide the development and application of financial accounting practices (khatabook,2022). This lecture aims to introduce the student to the accurate scientific terms related to accounting theory.

1- WHAT IS THEORY AND HYPOTHESES

Accounting theory is about theory. How does theory differ from a law and from a hypothesis? A theory is an explanation, but not just any explanation. A theory asserts that wherever a set of circumstances accur, a similar result will be seen (Donleavy, G. ,2010). Stam (2010) defined **theory** as a 'systematic representation' of a valid problem expressed, as far as possible, mathematically, in the natural sciences or logically in the life and social sciences. The aims of systematic representations are to develop explanations of a problem, describe the delineating features of a phenomenon, and provide predictions (Sharma, N. ,2013).

A theory not only explains known facts; it also allows scientists to make predictions of what they should observe if a theory is true. Scientific theories are testable. New evidence should be compatible with a theory. If it is not, the theory is refined or rejected. The longer the central elements of a theory hold—the more observations it predicts, the more tests it passes, the more facts it explains—the stronger the theory (Darwin,2023). In addition, several philosophers have claimed that this question is the central philosophical question about science (Halvorson, H. ,2014).

Inside theories, there are postulates. As atoms are to molecules, so postulates are to theories postulates we can test in real life are called **hypotheses**. Formulating a hypothesis is called **hypothesizing** (Donleavy, G., 2010).

A hypothesis is a statement of the researcher's expectation or prediction about relationship, among study variables.

When we are formulating hypothesis, we must see these aspects.

- Tentative solution to problem may or may not be correct;
- Clear, precise, testable, and consistent with facts;
- Provide answer to problem, logical simplicity with the data we are providing.

There are many types of hypothesis:

- Null Hypothesis vs. Alternative Hypothesis: Null Hypothesis (also called statistical hypothesis) states that there is no relationship between two variables.
- Substantive vs. Statistical Hypothesis: Substantive hypothesis is not operational and it explains a kind of expected relationship between the variables that exists.
- Simple vs. Complex Hypothesis: There is one independent variable and one dependent variable. Also, In complex hypothesis, we have two or more independent and two or more dependent variable
- Positive, Negative or Null Hypothesis: the research hypothesis states your expectations in a positive sense. The null hypothesis is always stated in the negative.
- Universal vs. Existential Hypothesis: In universal hypothesis, we try to explain that all variables are true at all times or at a given point of time.
- Practical vs. Statistical Hypothesis: This statement describes the practical question to be answered by the test. It phrase as a question (Anupama, K. ,2018).

In addition, a hypothesis is either a suggested explanation for an observable phenomenon, or a reasoned prediction of a possible causal correlation among multiple phenomena. In science, a theory is a tested, well substantiated, unifying explanation for a set of verified, proven factors. A theory is always backed by evidence; a hypothesis is only a suggested possible outcome, and is testable and falsifiable (www.diffen.com, 2023).

2- THEORIES, LAWS AND THEOREMS :

A theory is not a law- it is sometimes wrong. It is also not a theorem. Only mathematics has theorems, because only in the abstract world of algebra. Geometry and numbers can we transcend the assumptions and approximations of the real world. As an example, Newton's law F=ma is simply taken to be true because that is what we observe. A theorem is what is generated by combining axioms and other theorems (Donleavy, G., 2010).

In addition, a theory consists of some basis statements called **axioms**, and some deducing rules (sometimes included in the axioms). A theory is the **ideas** on a set of topic and were you describe the experiment and result and finally you tell the statement by doing experiment. The theorems of the theory are the statements that can be derived from the axioms by using the deducing rules (wikipedia.org,2023).

Thus, a theorem is a mathematical statement whose truth has been logically established and has been proved and an axiom is a mathematical statement, which is assumed true even without proof. Example: The "Pythagoras Theorem" proved that a2 + b2 = c2 for a right-angled triangle.

Also, when see the relationship between theory and law; we can said a theory explains why something happens whereas law describes what happens when certain conditions are present (https://pediaa.com,2023).

3- ACCOUNTING THEORY, ECONOMIC AND LAW :

Accounting is the child of law and economic, historically speaking (Chatfiel 1974, ICAEW 2013).Law perscribes what is allowed. Law perscries what a country recognizes as legal ownership.In addition, the other parent of accounting is economics. Economic explains and predicts how people bhave toward their assets. Economics is concerned with how we acquire assets and how we use them. Economics is stronger parent of accounting because when economics says the substance is different from the legal form. We can almost say that in accounting it is economics that provies the substance, law that provides the form (Donleavy, G., 2010).

4- POSITIVE FACTS AND NORMATIVE OPINIONS :

Theories can be normative or positive (or descriptive). Alfonso Llanes (2018) writes:

"**Positive theory** is a theory that tries to explain how the world works in **a value-free** way, while a normative theory provides a **value-based** view about what the world ought to be like or how it should to work. In general, positive theories express what is, while **normative theories** express what ought to be'(Alfonso Llanes,2018). A positive statement is one that can **establish hypotheses** that can be **empirically tested**. In contrast, a normative statement is instead based on opinion or **subjective values**.

5- AGENCY THEORY :

Agency theory is part of the positivist group of theories, which derives from the financial economics literature. It postulates that the firm consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources. Furthermore, agency theory is based on the premiss that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor effectively whether their interests are being properly served by agents. It also assumes that principals and agents act rationally and that they will use the contracting process to maximize their wealth. This means that because agents have self-seeking motives they are likely to take the opportunity to act against the interests of the owners of the firm (Adams, M. B. ,1994).

6- ACCOUNTING HISTORY AND CONTEMPORARY ACCOUNTING THOUGHT:

In 1494, the first book on double-entry accounting was published by Luca Pacioli. Since Pacioli was a Franciscan friar, he might be referred to simply as Friar Luca. While Friar Luca is regarded as the "Father of Accounting", he did not invent the system.

Instead, he simply described a method used by merchants in Venice during the Italian Renaissance period. His system included most of the **accounting cycle,** as we know it today and **bookkeeping**. The first **accounting book** actually was one of five sections in Pacioli's mathematics book, titled Summa de Arithmetica, Geometria, Proportion et Proportionalita (Everything About Arithmetic, Geometry and Proportions) (Smith, M. ,2018).

However, Pacioli was simply the first to codify the **art and science** of double entry accounting. The practice itself had been around much longer. Many scholars believe that going back to Old Testament times accounting was being used in commerce. It is believed that accounting skills is what assisted Joseph, a Hebrew slave, to remain alive and to flourish in the court of first Potiphar and then of Pharaoh. His meticulous accounting and record keeping skills helped him rise to be the 2nd most powerful man in the known world (Ed Hensley,2022).

Accounting is both a **science and an art**. Its dependence on practice and association with an implementation based on set guidelines shows the artistic elements in accounting. However, the **method is subject** to the accountants and the changing business environment, and thus the established **principles** are not rigid. **The Art** is using the skills or techniques of any field and **Science** is obtaining knowledge about a systematic pattern including observation, study, practice, experiments, and investigation (https://www.tutorhelpdesk.com,2023).

In addition, **Contemporary thinking in accounting** is on efficiency, accuracy, and timeliness of accounting information for decision-making. To achieve efficiency, accuracy and timely production of accounting reports, accounting practitioners now emphasize on the adoption of mechanized accounting system employing computers (Nwanyanwu, L. A. ,2006).

7- DEFINITION OF ACCOUNTING THORY :

Accounting theory is defined as a cohesive set of conceptual, hypothetical and pragmatic proposition explaining and guiding the accountant's actions in identifying, measuring and communicating economic information to users of financial statement, (American Accounting Association (A.A.A) (Unegbu, A. O.,2014).In addition accounting theory is a set of assumptions, frameworks, and methodologies used in the study and application of financial reporting principles. The study of accounting theory involves a review of both the historical foundations of accounting practices, as well as the way in which accounting practices are changed and added to the regulatory framework that governs financial statements and financial reporting (ALICIA TUOVILA ,2021).

Also, Accounting theory has logically explained and underlined every accounting practice (Littleton & Zimmerman, 1962; Walden, 1951) having systematic principles and methodologies, different from accounting applications (Most, 1986) as well as guided in the formulation of new practices and techniques (Deb, R.,2019).

Accounting theory as G. D. Roy defines it is a body of knowledge that explains and justifies the accounting functions. What is deduced from the definition is that accounting theory will give answer to why- we have measured recognised and, reported one accounting event in a particular way and whether that adopted way is justified or not from the viewpoint of the objective of accounting. According to E. S. Hendricksen, accounting theory is a set of broad principles that provides a general frame of reference by which accounting practices can be evaluated, and guides the development of new practices (Hendricksen, E. S., and Van Breda, M. F. ,1992).

In accounting theory, a major issue is related to questions around measurement. In general, how should assets and liabilities be measured? By their historic cost, their selling price, updated by current costs to buy, or by the present value of future cash flows? Should we recognise all internally generated intangibles or only recognise them when they are evidenced by an external transaction, such as in a takeover price? Then again, what is the impact of implementing different measurement systems on the economy or market or on each individual stakeholder?

The term 'theory' can be used in different ways. As such, it can take on several meanings. One definition is that a theory is a deductive system of statements of decreasing generality that arise from an agreed or hypothesised premise. Another is that a theory is a set of ideas used to explain real-world observations. In his classic text on accounting theory, Hendricksen offered definitions of 'theory' and 'accounting theory', which are appropriate to this text. These are defined in points 1 and 2 below, respectively:

1- The coherent set of hypothetical, conceptual and pragmatic principles forming the general framework of reference for a field of inquiry;

2- logical reasoning in the form of a set of broad principles that (1) provide a general framework of reference by which accounting practice can be evaluated and (2) guide the development of new practices and procedure.

Theory can be described simply as the logical reasoning underlying the statement of a belief. Whether the theory is accepted depends on :

- How well it explains and predicts reality;
- How well it is constructed both theoretically and empirically;
- How acceptable are the implications of the theory to a body of scientists, professionals and society as a whole.

It is important to understand that accounting theory is not simply an abstract process It is not divorced from reality. In fact, its main objectives are to explain why and how current accounting practice evolved, to suggest improvements, and to provide the basis for developments in such practice.

Accounting theory is a modern concept when compared with, say, theories emanating from mathematics or physics. Accounting first developed as a set of tools to record activities or transactions. Even Pacioli's treatise (see next page) on double entry accounting was focused on documenting the processes involved and not about explaining the underlying basis for this method of recording. Chambers summarised a view that accounting has mainly developed in an improvised fashion rather than systematically from a structured theory:

Accounting has frequently been described as a body of practices, which have been developed in response to practical needs rather than by deliberate and systematic thinking (Godfrey, J., et al,2010).

THEME TWO: ACCOUNTING THEORY CONSTRUCTION

Introduction:

Accounting theories are the scientific and methodological evidence for the development of accounting science today. In addition, illustrate the various assumptions that each theory holds and their ability to influence accounting research. Thus, the student will learn these differences and their ability to provide added value to accounting theory. These theories are pragmatic accounting theory, Semantic and syntactic theory, Normative accounting theory and positive accounting theory.

1- Pragmatic accounting theory:

The period **1800-1955** is often referred to as the 'general scientific period'. The emphasis was on providing an **overall framework** to explain why accountants account as they do; that is, based upon **observation of pracice**.**empirical analysis** relies on real-world observations rather than basing practice on **deductive logic that is critical of current practices**. The major focus of accounting was on the **use of historical cost transactions** and the application of the **conservatism principle**. The scientific method was interpreted as being based on **empirics**.

However, while it has been labelled an **empirical period in accounting** development, there was a degree of **logical debate** about the merits of **measurement procedures**. This was especially the case after the Great Wall Street Crash in 1929. This led to the creation of the Securities and Exchange Commission (SEC) in the United States in the early 1930s. The SEC had a brief and legislative power to improve financial regulation and reporting, with many seeing the crash being caused by questionable accounting methods. Stephen Zeff reports that Healy and Kripke, two leading practitioners, were highly critical of the accounting write up practices in the United States in the 1920s. Such comments as '. . . write ups were used to create income or to relieve the income accounts of important charges' and '. . . you can capitalize in some States practically everything except the furnace ashes in the basement' and '. . . illustrated what they saw as the flagrant write up of assets in the 1920s.

The 1930s period also gave rise to several notable accounting publications and initiatives and saw the birth of professionally **based conceptual theory**. In 1936, the American Accounting Association (AAA) released A Tentative Statement of Accounting Principles Affecting Corporate Reports; in 1938, the American Institute of Certified Practising Accountants (AICPA) made an independent review of accounting principles and released 6 PART.

A Statement of Accounting Principles (authored by Sanders, Hatfield and Moore). In the same year, the AICPA established the Accounting Procedures Committee, which published a series of accounting research bulletins. The nature of these bulletins (and other accounting theory publications at the time) was summarised in the preface of Bulletin No. 43: Forty-two bulletins were issued during the period 1939 to 1953. Eight of these were reports on terminology. The other 34 were the result of research by the committee on accounting procedures directed to those segments of accounting practice where problems were most demanding and with which business and the accounting profession were most concerned at the time. As a result of this sporadic approach to the development of accounting principles; the AICPA established the Accounting Principles Board and appointed a director of accounting research in 1959. Overall, this period focused on the existing practical 'viewpoint' of accounting and, as research gained momentum over the period, the theories promulgated to explain practice became more detailed and complex (Godfrey, J., et al 2010).

Pragmatic approaches are based on observing the **behavior of accountants** or those who use the information generated by accountants. This approach can be mainly divided as **descriptive pragmatic** approach and **psychological pragmatic** approach.

Descriptive pragmatic approach is the oldest and method of accounting theory construction that is used worldwide. Theories are developed from **how accountants**

act in certain situation. Which are then tested to see if accountants act the way the theory suggests. On the other hand, **Psychological pragmatic** approach depends on the reactions they observe from the accountants' outputs or financial report. The reactions are taken as evidence that the outputs or financial reports are useful and contain relevant information.

The descriptive pragmatic approach to accounting theory construction is an **inductive approach**– it is based on continual observation of the behavior of accountants in order to copy their accounting procedures and principles. Hence, a theory can bedeveloped from observations of how accountants act in certain situations. In contrast, **psychological pragmatic approach** requires theorists to observe users' response to the accountants' outputs such as financial reports(www.coursehero.com,2023).

Philosophical pragmatism is ". . . marked by the doctrines that the meaning of conceptions is to be sought in their practical bearings, that the function of thought is as a guide to action, and that the truth is pre-eminently to be tested by the practical consequences of belief." Thus, the pragmatic approach involves the development of ideas that are in agreement with the real world and find usefulness in realistic situations. As applied to accounting theory, the pragmatic approach involves the selection of accounting concepts and techniques based on their utility. Principles and procedures are held to be useful if they accomplish the objectives of management or if they help, stockholders or other readers interpret accounting statements and al.cl in meeting their specific objectives. Theory that does not have an immediate practical use is assumed poor theory.

The method used by the AICPA prior to 1959 (and to a large extent since) in the development of accounting principles was largely pragmatic in approach. Specific procedures or techniques were studied and certain procedures were recommended on the basis of their usefulness without a reliance on a general overall framework of accounting theory and without the necessity for an interdependence of the several procedures recommended in different areas. The principles and procedures recommended, however, gained respectability only if they subsequently became genarally accepted.

By a reliance on general acceptance, the pragmatic approach leads to a form of **"common law"** in accounting. That is, principles, procedures, and techniques are considered to be good if there is a precedence for their general acceptance in a given area. Furthermore, acceptance may move into another area if the same type of utility can be found in the new area. For example, LIFO started as an accepted practice in only very restricted areas and only under specific conditions; but the usefulness of the method was soon applied to other areas until it has become a generally accepted procedure in most areas of inventory valuation. As new problems arise, procedures are recommended on the basis of similarities to generally accepted practices. This is similar iii many respects to the development of common law over time (Hendriksen, E. S.,1982).

In addition, criticism of the approach:

- It doesn’t include analytical judgement (not questioning the quality of accounting work)
- It doesn’t challenge accounting technique & therefore not allowed for change
- Focuses on accounting behavior not measuring the attributes of the firm, assets, liabilities & profits as it is not concerning about semantics of accounting phenomena (http://www.harithhaiqaljarom.blogspot.com,2023).

2- Semantic and syntactic theory:

Syntactical This represents the logical relations in the theory. This concerns the **rules of the language employed**, e.g., the rules of grammar for English or the rules of mathematics for a **mathematically expressed theory**. Syntactical relations are logical connections that cement together and explain the important concepts of the theory

A purely syntactic theory, whilst important, may be sterile if it does not explain or predict anything about the real world. A less sterile theory can be concerned with predicting or explaining some phenomena or with prescribing a course of behaviour. It can be a collection of propositions and conclusions, which are designed to illustrate the principles of a subject. Other terms such as 'hypothesis' or 'supposition' are often used instead of theory. In essence, the syntactical part of the theory is the simplest form of the theory and is based on an explicit (or implied) statement of a belief expressed in a language such as written language or mathematical language.

syntactic theory in the context of accounting involves the structuring of set of accounting words (example, balance sheet, assets, liabilities, bad debt, provision for depreciation, amortization, conservatism, good will and so on) and figures/numbers under the systematic operation of prescribed formats and **grammatical rules** to convey accounting information to the users.

Katz (1966) **specifies four components** of syntactic descriptions. These are: One, set of words describing the situation (for example, cash, inventory, accounts payable, accounts receivable; debenture, share capital, retained earnings); two, order of the words (for example, presenting assets in the balance sheet by order of liquidity); three, specific group of words (for example, intangible assets such as goodwill, patent right, copy right); four, the syntactic categories to which each of the words belongs (for example, income category may consists of sales revenue interest income, rental income and commission received)(AMINU, H. ,2013).

Semantic is sometimes referred to as **rules of correspondence or operational definitions**. It connects symbols, words, terms or concepts with real-world objects, events or functions and is seen to make a **theory realistic**.

In accounting semantic theory concerns itself with the correlation of propositions to objects or events and manifests itself in terms of **measurement theories**: for example, measuring the effects of **inflation** on assets and liabilities and adjusting the accounts to reflect these adjustments. Theorists in this area argue that by applying these adjustments, the accounts then have semantic content and can be related to the real world (which they see as being market prices). Input semantics – assigning numbers to the transaction inputs of accounting, e.g. assets, liabilities, revenue, expenses. This transaction-based approach is often criticised as a mathematical system divorced from logical analysis or output semantics (Allan Hodgson and Victoria Wise ,2010). Hendriksen and Van Breda (2001) posit that semantic theory of accounting represents the study of meanings of messages transmitted via various accounting reports. Firstly, the semantic aspect of financial accounting is present in the relationships among individual items (for example turn over, gross profit and net profit relationships). Second, the meanings of these relationships are to be drawn by the users or their professional advisors. The meaning of the massages transmitted via accounting reports represents the interpretation assigned there to by the users or their advisors. Third, proper understanding of the meaning of accounting information requires proper appreciation of the semantic rules.

The two theories were criticized for using the **principle of historical cost (HCA)** in measurement, which was not able to be a tool for measuring the assets and liabilities of the enterprise in light of a changing economy.

3- Normative accounting theory:

The 1950s and 1960s saw what has been described as the 'golden age' of normative accounting research. During this period, accounting researchers became more concerned with policy recommendations and with what should be done, rather than with analysing and explaining the currently accepted practice. Normative theories in this period concentrated either on deriving the 'true income' (profit) for an accounting period or on discussing the type of accounting information which would be useful in making economic decisions.

- True income: True income theorists concentrated on deriving a single measure for assets and a unique (and correct) profit figure. However, there was no agreement on what constituted a correct or true measure of value and profit. Much of the literature during this period consisted of academic debate about the rnerits and demerits of alternative measurement systems.

- Decision-usefulness: The decision-usefulness approach assumes that the basic objective of accounting is to aid the decision-making process of certain 'users' of accounting reports by providing useful, or relevant, accounting data; for example, to help investors (current and potential) decide whether to buy, hold or sell shares. One test of usefulness already discussed is the psychological pragmatic reaction to data. Others do not identify a particular group but argue that all users have the same requirement for accounting data.

In most cases, decision-usefulness theories of accounting are based on classical economics concepts of profit and wealth or rational decision-making. They usually make adjustments to historical cost measures to account for inflation or the market values of assets. They are, in essence, measurement theories of accounting.

They are normative in nature because they make the following assumptions:

- Accounting should be a measurement system;
- Profit and value can be measured precisely;
- Financial accounting is useful for making economic decisions markets are inefficient; or can be fooled by 'creative accountants';
- Conventional accounting is inefficient (in an information sense);
- There is one unique profit measure.

These assumptions were rarely subjected to any empirical testing. Their proponents usually described their derived accounting system as the 'ideal'. They recommended it to replace historical cost and prescribed its use by all and sundry.

Normative researchers labelled their approach to theory formulation scientific and, in general, based their theory on both analytic (syntactic) and **empirical (inductive)** propositions. Conceptually, the normative theories of the 1950s and 1960s began with a statement of the domain (scope) and objectives of accounting, the assumptions underlying the system and definitions of all the key concepts. The domain of accounting was general. I t was in relation to the entire income statement and balance sheet, not just specific accounting items such as accounting for doubtful debts only. Also, it was in relation to all users of financial statements and not confined to a specific user or user group.

The normative theorists also made assumptions about the nature of a firm's operations based on **their observations**. Detailed and precise accounting principles and rules and a logical explanation of the accounting outputs were outlined. The deductive framework was to be rigorous arid consistent in its analytic concepts. Financial statements should mean what they say; they should have semantic connections with the real world.

Although financial statements are abstractions and reductions of firms' economic affairs, since they summarise the stock and the movement of economic resources, they should be pragmatic only to the extent that they were surrogates for direct experience.

The **pragmatic tests** were that, when observing financial statements, users should act as though they actually observed the events the financial statements represented.~ Although this methodology has both **syntactic and semantic features**, it relies mainly on syntactic relations and therefore has been labelled 'hypothetico-deductive'.

An important question in this accounting research concerns the usefulness of accounting data. Are the quantitative data we derive from given sets of operations based on an overall theory of accounting useful to users of financial statements? To find the answer, what was usually done was to take the output data of specific accounting systems and determine whether this data helped decision, makers make the right financial decisions. This is a direct approach to testing accounting theory. The arrows signify the output of each model. Decision makers use accounting data to make predictions about the company. Based on these predictions, they decide what to do, such as sell shares in the company or buy more (Godfrey, J., et al ,2010).

A normative accounting theory seeks to prescribe some basis of **accounting measurement**, **particular accounting procedures**, and the contents of financial reports (Kabir, H. ,2005).

Normative theory **cannot be tested empirically** because it is **impossible to prove empirically what it should be**. Furthermore, the assumptions underlying some of the normative theories are untested, and it is not clear whether the theories have a solid foundation. The fact that normative theory is based on discontent judgments increases with the normative approach as it becomes clear that it is difficult, and perhaps impossible, to gain general acceptance of any particular normative accounting theory (Patty, T. F. Q., et al,2021).

4- Positive accounting theory:

During the 1970s, accounting theory saw a move back to empirical methodology, which is often referred to as positive methodology. Positivism or empiricism means testing or relating accounting hypotheses or theories back to experiences or facts of the real world. Positive accounting research first focused on empirically testing some of the assumptions made by the normative accounting theorists. For example, by using questionnaires and other survey techniques, attitudes to the usefulness of different accounting techniques were determined. A typical approach was to survey the opinions of financial analysts, bank officers and accountants on the usefulness of different inflation accounting methods in their decision-making tasks (such as predicting bankruptcy or deciding whether to buy or sell shares)(Godfrey, J., et al ,2010).

As a theory, a scientific accounting theory should be able to explain the actual choices of accounting standards. (Watts and Zimmerman, 1979) stated the beginning of a positive theory of accounting by exploring those factors influencing management's attitudes on accounting standards that are likely to affect a firm's cash flows and in turn are affected by accounting standards. These factors are taxes, regulation, management compensation plans, bookkeeping costs and political costs, and they are combined into a model that predicts that large firms that experience reduced earnings due to changed accounting standards favour the change. This theory become generally known as positive accounting theory (Watts and Zimmerman, 1986).

Positive accounting theory in principle assumes that the purpose of accounting theory is to explain and predict accounting practices. Positive accounting theory seeks to explain a process, which uses the ability, understanding and knowledge of accounting and the use of accounting policies that are most suitable for dealing with certain conditions in the future.

The development of positive theory cannot be separated from dissatisfaction with normative theory (Watts and Zimmerman, 1986). Furthermore, it was stated that the reason for analyzing accounting theory in a normative approach were too simple and did not provide a strong theoretical basis.

There are three fundamental reasons for the shifting of the normative to positive approach, namely (Watts and Zimmerman, 1986): The inability of the normative approach to test theory empirically, because it is based on premise or false assumptions so that the validity cannot be tested empirically. The normative approach focuses more on the prosperity of individual investors than the prosperity of the wider community. The normative approach does not encourage or allow the optimal allocation of economic resources in the capital market. It is given that in an economic system based on market mechanisms, accounting information can be a controlling tool for the community in allocating economic resources efficiently .Furthermore, (Watts and Zimmerman, 1986)stated that the rationale for analyzing accounting theory in a normative approach was too simple and did not provide a strong theoretical basis. To reduce the gap in the normative approach, Watts and Zimmerman developed a positive approach that was more oriented towards empirical research and justified various accounting techniques or methods that are now used or looking for new models for the development of accounting theory in the future.

There are three hypotheses of Positive Accounting Theory. **Predictions** made by Positive Accounting Theory are widely organized on three hypotheses formulated by Watts and Zimmerman (Watts and Zimmerman, 1986). These three hypotheses are in their opportunistic form, because according to Watts and Zimmerman (Watts and Zimmerman, 1990), this is the method most often used when they are interpreted:

Bonus Plan Hypothesis, Debt Contract Hypothesis, and Political Cost Hypothesis (Nasution, S. T. A., et al, 2020).

Belkaoui (2000) explains that for those who adopt a positive paradigm, the main problem is the current accounting practice and management's attitude towards these practices. Proponents of this view argue, in general, that techniques can be derived and justified based on their proven use or that management plays a central role in determining which techniques will be implemented. Consequently, the objective of accounting research related to the positive paradigm is to understand, explain and predict current accounting practices.

Positive accounting theory according to Watts and Zimmerman in Deegan (2004: 203) states the same thing as follows:

...is concerned with explaining accounting practice. It is designed to explain and predict which firms will not use a particular method... but it says nothing as to which method a firm should use. Deegan (2004:204) explains that positive accounting theories, such as those developed by Watts and Zimmerman and others, are based on the assumption based on a central economy, that all individual actions are controlled by self-interest and that individuals will act opportunistically to a degree where the action will improve their well-being.

Mariya (2006:49) states that: Positive accounting theory seeks to explain the observed accounting phenomena based on the reasons that led to the occurrence of an event. In other words, positive accounting theory is intended to explain and predict the consequences that occur if managers make certain choices. Explanations and predictions in positive accounting theory are based on contractual processes or agency relationships.

In addition, there are Difference between Normative and Positive Accounting Theory:

The normative theory is considered a **subjective personal opinion**, so it cannot be taken for granted and must be empirically tested to have a strong theoretical basis. In practice, professionals in the accounting field have fully realized that positive accounting theory is more likely to be applied than normative accounting theory. Positive accounting theory has **problem-solving** characteristics that are adapted to the reality of accounting practice. The approach used in positive accounting theory is the economic and behavioral approach.

The positive accounting theory approach aims to **explain and predict accounting practice**. One example is the use of positive theory in the hypothesis about the bonus program. This hypothesis shows that management whose remuneration is based on bonuses will try to maximize its bonuses through the use of accounting methods that can increase profits and ultimately increase bonuses. This theory will be able to explain or predict management behavior in terms of bonus programs.

The **scientific** view will produce a positive accounting theory and the **technological** view will produce a normative accounting theory. This classification occurs because of the different goals to be achieved or generated by accounting theory. A positive explanation contains a statement about something (event, action, or deed) as it is by the facts or what happened based on empirical observations. Positive explanations are directed to **provide answers** to whether a statement is true or false based on scientific criteria. Normative explanations contain statements and reasoning to **judge** whether something is good, bad, relevant, or irrelevant about certain economic or social policies. Normative explanations are directed to support or produce political policies so that they are policy-making (Patty, T. F. Q., et al,2021).

One of the main criticisms of Positive Accounting Theory is that it doesn't **provide prescription for accounting** and therefore doesn't provide any means of improving accounting practice. This, therefore results in alienation of practicing accountants**.** It does not say something about good or bad accounting policy of the company. Researchers do not take into account relations between managers and accountants in the companies in their empirical investigations.

5- SCIENTIFIC APPROACH APPLIED TO ACCOUNTING

Accounting is an exemplar of aspect of **objectivity**. More important than the true representation of deep underlying financial identities is the maintenance of a system of rules that blocks **self-interested distortion**. Otherwise, tax codes and corporate reports would lose their credibility. From this standpoint, **quantification** appears as a strategy for overcoming distance and distrust. This pertains also to the natural sciences, where **measurement** and statistics have been crucial in transforming local **experimental skills** into public knowledge. We need to understand **quantification** as a response to a set of **political problems**, part of the moral economy of science. Its use in science is analogous in important ways to the explicitly political and administrative purposes served by accounting (Porter, T. M. ,1992).

5-1 Definition of Science:

The first problem is to look at the difficult question: what is science? It is easy to find definitions stating that science is:

- A systematic and structured body of knowledge:
- Concerned basically with the general, not specific cases:
- Linked with the empirical world.

However, do such definitions really provide a clear basis for distinguishing science from non-science? Most of what is said is not unique to empirical science. It could be argued, for example, that philosophy and mathematics could fit within these definitions also; yet they are non-empirical sciences (Tilley, I. ,1972).

5-2 Relationship between scientific approach and accounting:

A great deal of **misunderstanding** exists about the attempt to apply a **scientific approach** to accounting. Some believe that the attempt is to make scientists out of accounting practitioners. This view is not the aim of the approach. A scientist is one who uses the scientific method and, therefore, is mainly a researcher. The medical profession provides a good analogy of the difference between **researcher and practitioner** and the use and effect of the scientific method.

The medical researcher is a **scientist**, but the medical **practitioner** (the doctor) **is not**. The latter applies the tools of medicine. He or she is a professional person who is expected to use judgement to diagnose diseases and recommend treatments. The **'tools'** the doctor applies consist mainly of knowledge gained through scientific research by medical investigators. But, as in many other fields, **scientific research** has not found all the answers to medical questions and some of the conclusions are not as persuasive as others. The conclusions of research are generalisations, but the practitioner is faced with specific cases that may not conform exactly with general conclusions.

For these reasons, the **practitioner's judgement** is always necessary in **applying the 'tools'** of his or her trade. What is significant is that the practitioner takes a scientific attitude in practice - that is, he or she takes seriously the view that evidence to support a diagnosis or treatment is important. Accountants who believe in a scientific approach want empirical evidence and logical explanation to support accounting practices so that practitioners can recommend the most appropriate methods for given situations based on this evidence. People find statements more convincing when substantiated by **objective**, empirical evidence than statements based only on **debatable rationalisations**.

Another common **<u>misunderstanding</u>** about the application of the scientific view in accounting is that 'absolute truth' is desired, which of course is not possible. Therefore, those who argue against the scientific approach to theory formulation contend that it is fruitless to seek that which is impossible. Such an argument is based on the misconception that science discovers absolute truth. The scientific method is not perfect. It is a human invention to help us ascertain whether a statement should be considered realistic or not. The structure of the process in which this determination is made is such that no one can claim absolute truth in science. Thus, scientific truth is provisional. A statement or theory gains the status of 'confirmation' only after scientists in the area from which the theory evolves decide that the evidence is sufficiently persuasive, for example, when statistical tests show that the results obtained have less than a 5 per cent probability of occurring by chance. The history of science discloses that substitutions, adjustments and modifications of theories are made in the light of new evidence(Godfrey, J., et al,2010).

According to **Professor B. Colasse**, the accounting research has three main functions:

- Classifying and theorizing the accounting practices;
- The role of adapting accounting to the new necessities of information, extension of the application field of bookkeeping;
- The progress of knowledge in accounting.

In accountancy, we distinguish the fundamental research and the applied research.

The **fundamental research in accounting** is based on the analysis of bookkeeping as historical, social and organizational phenomenon. The results of this type of research contribute to the growth of the awareness related to accounting, because it defines concepts, methods and functions. This research does not correspond to the needs of the accountancy practice, but ensures the foundation and promotion of the accounting theories.

The **applied accounting research** is looking for the improvement of the accounting system depending on the operational context for the bookkeeping practices. Respectively, different new accounting models that would correspond to the „environment" are proposed.

Accountancy has no limits. Its theoretical, scientific and practical limits are limitless, related to the coverage of the economic phenomena and the way they are systematized, processed and presented. Therefore, one cannot pretend to know everything about bookkeeping(Liliana lazar ,2015).

Applied research is the use of **positivist research** methods to conduct critical tests between current accounting methods and to identify empirical regularities that contribute to the development of technologies of practice. This is the most common approach to applied research in the current literature.

The mission of **Canadian Accounting Perspectives** is to provide a forum for "applied research" in accounting. Identified three forms of applied research: (1) the use of existing knowledge to find solutions to current problems; (2) the use of positivist research methods to conduct critical tests between current alternative accounting methods and to identify empirical regularities that contribute to the development of technologies of practice; and (3) the use of disciplined inquiry and action research to develop mid-range theory and generate empirical results that advance the interests or increase the capabilities of an identified community. This third form of applied research may provide the best approach to bridging the schism between academe and practice(Richardson, A. J. ,2004).

THEME THREE: A CONCEPTUAL FRAMEWORK IN ACCOUNTING

Introduction:

Now to the initial question of how do conceptual frameworks contribute to the **quality** of corporate reporting regulation? The conceptual framework can be viewed as the constitution (statement of fundamental laws and principles) that keeps control over the process of accounting regulation. A constitution should have **long-term validity** and it should not be changed in response to **small changes** in the workings of society. This calls for a rather robust wording of the conceptual framework.

Therefore, a conceptual framework should contain that goal. As found, there is not unanimity among stakeholders on this issue and it is part of a **political process**. Thus, it is **impossible** to define what is meant by quality of corporate reporting objectively and often we are reducing this question to one of measuring the **cost and benefits of regulation** as in **Katherine Schipper** (2010). The practicability of analysing the costs and benefits of a given **change** in financial reporting standards.

1- An Evolving Conceptual Framework :

Whereas the talk of a **conceptual framework (CF)** for accounting is something of a post-**World War II phenomenon**, the groundswell for a definition of the underpinnings of financial reporting had its gestation during the previous forty years. In its official mode, the search for a CF emerged in the early 1970s.

In its official mode, the search for a CF emerged in the early 1970s. This followed the 'political crisis' related to the setting of accounting principles by the U.S. Accounting Principles Board (APB), the accounting irregularities with the conglomerate merger movement and several large, unexpected corporate collapses including those of Penn Central, National Student Marketing and Equity Funding. Those events presaged the U.S. Congressional interest that prompted the Moss (1976) and Metcalf (1977) inquiries. Nearly thirty years on there is a striking similarity with the possible effective demise of national standards setting bodies (e.g., the Australian

Accounting Standards Board [AASB] and the U.S.A.'s Financial Accounting Standards Board [FASB]) and their replacement with the International Accounting Standards Board.

Arguably, the theses coursing through Paton's Accounting Theory (1922), Canning's The Economics of Accountancy (1929), the coalescing of Sweeney's 1920sand early 1930s pieces in his Stabilized Accounting (1936), G.O. May's Twenty-Five Years of Accounting Responsibility (1964), the American Accounting Association's (AAA) A Tentative Statement of Accounting Principles (1936), the American Institute of Accountants' (AIA) Statement of Accounting Principles (1938), Paton and Littleton's (1940) An Introduction to Corporate Accounting Standards, Grady's Inventory of Generally Accepted Accounting Principles (1965) and (say) the AAA's A Statement of Basic Accounting Theory (1966) and Statement of Theory and Theory Acceptance (1977) were early, albeit partial and rudimentary, incursions leading to what now attracts the label CF.

Scholars take it that by CF is meant the underpinning of a general theory.

Homans and Curtis (1934/1970, p. 27):

The first conceptual scheme for all the sciences is the common-sense world . . . is a frame . . . somehow constructed by the mind, by which the mind classifies sense experiences;

Bohr (1958/1961, p. 67): When speaking of a conceptual framework, we refer merely to unambiguous logical representation of the relation between experiences(Dean, G. W., and Clarke, F. L.,2003).

2- Definition and role of accounting framework:

The idea of the conceptual framework is to provide a set of consistent principles to guide regulation and reporting of financial information as part of the political decision process(Christensen, J. ,2010).

A conceptual framework is a logical system of interrelated objectives and basic concepts that prescribe the nature, function, and limits of financial reporting, which is expected to lead to development of consistent guidance, whether rules-based or principles-based.

Conceptual frameworks developed by accounting standard setters are essentially based on identification of 'good practice' from which principles are derived inductively. The criteria for identifying 'good practice' are related to the assumed objectives of financial reporting.

The IASB's Framework is written in a descriptive style (in fact, it is IASB policy to use the word 'should' only in Standards) and seeks to avoid being excessively prescriptive. A principal reason for this is that it needs to have broad international applicability(Gornik-Tomaszewski, S., and Choi, Y. C. ,2018).

The IASB's Framework states that (2018, para. 3.2)

The objective of financial statements is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources.

It is also made clear (para. 1.7) what the objective is not, namely that **general purpose** financial statements 'are not designed to **show** the value of a reporting entity; but they provide information to **help existing** and potential investors, lenders and other creditors to estimate the value of the reporting entity'.

Yet the Framework leaves open the question of what information is **best able to help** investors, lenders and other creditors estimate the value of the reporting entity. It is sufficiently unconstrained that it can accommodate either a '**full fair value model'**, focused on the balance sheet, or a completely transaction-focused **'historical cost' model** (Barker, R., and Teixeira, A. ,2018).

The role of a 'conceptual framework' is to provide a **structure for thinking** about what is **'better' accounting and financial reporting**. It is a theoretical endeavour with the practical aim of clarifying the objectives of financial reporting, and how alternative practices are likely to help achieve those objectives. Whether as a company director, a chief accountant, an auditor or an accounting standard setter, one cannot make a rational choice of accounting procedures without some framework of principle. The purpose of the FASB project and other similar studies is to discover how much common agreement there is about objectives and the means to those objectives

There is general agreement that a set of accounts should (and does) **give information** about the financial situation, progress and prospects of a business or other entity, and about how different individuals or groups share in, or contribute to, its financial results. But there are inherent limitations to what the accounts can show. There is no unambiguous or correct definition of 'income' and 'value' on which to base measures of profit and net assets.

There is general agreement that accounting must be useful (so that improvements must similarly be judged by their usefulness) but there is otherwise little agreement about objectives and the means to achieve them. Lack of agreement may be explained as due to uncertainty, variety of needs and conflicts of interest:

- Uncertainty: Even when considering information for some specific purpose, or some particular use, there are considerable difficulties in establishing what actually is useful. It is difficult to discover precisely what accounting information is used and how; and it is difficult to show exactly how some proposed accounting information would be useful in making assessments about the future. Assumptions are hard to test. An experimental attitude to developments in accounting is needed, but given the complexity and uncertainty of the economic environment, people are often unlikely to agree on what information is most useful.

- Variety of needs: Different users will have different needs for accounting information depending on the situation and decisions they face, their level of understanding, and the alternative sources of information available to them.
- Conflicts of interest: The different individuals and groups involved with financial reporting, whether as users, preparers or auditors, often have conflicting economic interests, and any decisions about accounting practices (which will affect them all) have to be made after weighing up the consequences for these different parties and what their respective rights are. These problems make accounting and the establishment of a conceptual framework a 'political' as well as a 'technical' matter (Macve, R. ,2015).

3- Goals of a conceptual Framework:

Much has been said and written about a conceptual framework for accounting, so the focus here will be on the three paramount reasons to establish one:

- To describe existing practice.
- To prescribe future practice.
- To define key terms and fundamental is- sues.
- Conflicts among these goals, because they have contributed to the mythmaking, will also be explored.

Existing practice. One reason for bringing together accounting concepts is to provide an overview of what is done in practice. The basic objective of the description is to make understandable, in as cogent and simple a form as possible, what accounting is all about. A few broad principles generally are more comprehensible than a multitude of specific details

Future practice. In the course of developing descriptive concepts, theorists generally become aware of inconsistencies and other deficiencies in practice. One result of these discoveries is the desire to develop another type of conceptual framework; one that goes beyond mere description and prescribes what ought to be done. These frameworks are often called normative because they reflect the values, or norms, of their compilers.

Key terms and fundamental issues. Another major purpose of a conceptual framework is to lay down broad definitions of basic terms to be used in debates about what ought to be done in practice. (In this limited sense, a conceptual framework is like a constitution or other form of social contract that establishes basic principles.) These terms, moreover, help the profession and other interested parties identify the issues to be debated (Paul B. W. Miher ,1985).

Before going into the specifics of the **present** and proposed conceptual framework, it might be useful to consider the stated purpose and scope of the conceptual framework. The purpose of the **present IASB conceptual framework** is to assist the Board in **developing future** accounting standards, to assist the Board in promoting harmonisation of regulations and accounting standards, to assist national standard-setters, to assist auditors in formulating opinions, and to assist users (IASC, 1989). The FASB states a similar purpose (FASB, 1980b).

Thus, the purpose is twofold. One is to help the standard-setter to **develop future standards**, and the other is to help those **producing** and using the financial statements. A framework could be users' domain. To fulfil this purpose a framework should be invariant over a long period and formulate the general rules which constitute the core of financial reporting.

As already indicated, the IASB and the FASB are **jointly participating** in a project that is intended to lead to a **new conceptual framework**, which unites the two frameworks of the two institutions. This work is in progress and many preliminary working papers have been released for comment. In the exposure, draft of the joint Conceptual Framework (FASB/IASB, 2008) the purpose is reformulated as establishing concepts that **underlie financial reporting**. The framework is thought of as a coherent set of concepts that flows from an **objective**. Many questions are being asked and not many have an immediate answer.

4- The properties of accounting information in Conceptual Framework for Financial Reporting 2018:

The qualitative characteristics of useful financial reporting identify the types of information are likely to be most **useful to users in making decisions** about the **reporting entity** on the basis of information in its financial report. The qualitative characteristics apply equally to financial information in **general purpose** financial reports as well as to financial information provided in other ways.

Financial information is **useful when** it is relevant and represents faithfully what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

4-1 fundamental qualitative characteristics:

Relevance and faithful representation are the **fundamental** qualitative characteristics of useful financial information.

- **Relevance**: Relevant financial information is capable of **making a difference** in the decisions made by users. Financial information is capable of making a difference in decisions if it has **predictive value**, confirmatory value, or both. The **predictive value** and **confirmatory value** of financial information are interrelated.
- **Materiality**: is an entity-specific aspect of relevance based on **the nature or magnitude** (or both) of the items to which the information relates in the context of an individual entity's financial report.
- **Faithful representation**: General-purpose financial reports represent economic phenomena in words and numbers. To **be useful**, financial information must not only be relevant, it must also **represent faithfully the phenomena** it purports to represent. Faithful representation means representation of the substance of an economic phenomenon instead of representation of its legal form only.
- **A neutral depiction**: is supported by the exercise of **prudence**. Prudence is the exercise of caution when **making judgements** under conditions of **uncertainty.**

4-2 Enhancing qualitative characteristics:

Comparability, verifiability, timeliness and understand ability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented.

- **Comparability**: Information about a reporting entity is more **useful if it can be compared** with a similar information about other entities and with similar information about the same entity for another period or another date. Comparability enables users to identify and understand similarities in, and differences among, items.
- **Verifiability**: Verifiability helps to assure users that information represents faithfully the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.
  - **Timeliness:** Timeliness means that information is available to **decision-makers in time** to be capable of influencing their decisions.
  - **Understandability**: Classifying, characterising and presenting **information clearly** and concisely makes it understandable. While some phenomena are inherently complex and cannot be made easy to understand, to exclude such information would make financial reports incomplete and potentially misleading. Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information with diligence.

5- Qualitative characteristics of accounting information example:

Here is an example of how a company may use the above steps to help them with an important decision regarding their finances:

A children's toy company wants to **understand** how it can improve its sales within the next year. Their accounting team uses the **relevance characteristic** by extracting relevant information that may help them decide how they can improve their sales. This relevant information includes their cash flow statements from the past year, which shows their overall operating costs and sales income.

Then, they use the **reliability characteristic** to ensure that the cash flow statement is complete, neutral and free from error by checking that they included all relevant statements and confirming that the accountants who created the cash flow statement were unbiased. They also determine whether the calculations are error-free.

Next, they hire a professional auditor to perform the same calculations found in the cash flow statement to ensure the information is **verifiable**. During this time, the company enlists the help of individuals outside the accounting department by having them analyse the cash flow statement to determine how easy it is to **understand**.

Now, the company's accounting team **compares** their cash flow statement to previous cash flow statements to help them determine any trends that may help them improve sales. They can also add new financial information they receive in a timely manner while they **make decisions** (indeed editorial team,2023).

6- The elements of financial statements:

Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements.

✓ The elements directly related to financial position (balance sheet) are:

- Assets: An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- Liabilities: A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

- Equity: Equity is the residual interest in the assets of the entity after deducting all its liabilities.

✓ The elements directly related to performance (income statement) are:

- Income : Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants
- Expenses: Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants(IAS,2023).

✓

7- The relationship between accounting theory, accounting standards and the conceptual framework:

From the brief historical perspective above, it should be clear that that neither the framework published by the FASB, nor the Framework of the IASB or the Statement of Principles of the ASB could be described as the theory of accounting. Could be considered as the **body of normative accounting theory**, however unstructured such body of theory may seem to be. The FASB should be commended for its definitive work in this regard. Cognisance should be taken of the vast body of literature, research and debate that underlies this framework, has ultimately influenced the later similar documents published by the IASC and the ASB, and which will probably also have a material influence on the expected converged framework.

The conceptual framework constitutes merely (a part of) the body of accounting theory, a **normative theory**. There is also a **huge body of positive and inductive theories** to be found in accounting literature. Together they constitute the **body of accounting theory**.

Furthermore, underlying, and indeed surrounding the framework, the postulates, principles, procedures, rules and conventions of accounting are to be found.

Accounting standards do not necessarily encapsulate the principles (or postulates) of accounting. However, they often do describe procedures, rules and conventions.

Therefore, to term the current internationalisation of accounting standards as a move toward "principles-based standards" might be a touch ambitious. Sir David Tweedie, chairman of the IASB, as reported in Accountancy SA (March 2007:5). Implied as much with the statement that… (t)He IASB would be moving towards principle-based standards with vigour in the future. The need by the regulators and the audit firms for one interpretation or view on an issue had destroyed the principle-based approach to standard-setting and resulted in rules-driven standards': Principles-based standards will, inter alia, result in the elimination of exceptions to the scope of such standards and various accounting treatments. Application guidance will be limited (Vorster, Q. 2007).

THEME FIVE: MEASUREMENT ACCOUNTING THEORY

Introduction:

Accounting is a **measurement** and communication process used to report on the activities of profit-seeking business organizations. As a measurement and communication process for business, accounting supplies information that permits informed judgments and decisions by users of the data (lumen learning,2023).In addition, Accounting is a **measurement system**, which is plagued by the existence of alternative measurement methods. For many years, accountants have been searching for criteria, which can be used to choose the best measurement alternative. Generally, it is conceded by most accountants that the purpose for which the data are to be used (usefulness) is an important criterion to be considered in the choice of accounting method(Ijiri, Y., and Jaedicke, R. K. ,1966).

1- Accounting as a Measurement Discipline:

Accounting as a Measurement Discipline "Since the main functions of accounting are classification [chart of accounts] and evaluation, the thought of interpreting accountancy as a theory of measurement is not farfetched and sounds plausible" [Mattessich, 1964, p. 54]. Therefore, Mattessich interprets the basis of accounting as a nominal scale, i . e. , a scale which is unique up to injective maps. Of course, the nominal scale although basic is not the most important scale related to accounting (Orbach, k. n. ,1978).

In addition, Accounting is the science of measurement. It is treated as an enterprise information system, which primary task is the measurement and valuation. Measurement precedes valuation and is associated with the process of collecting the various figures and descriptive information in the process of accounting.

2- Accounting theory and measurement :

Mock and Grove (1979, 3) define a measurement system as ‘‘a specified set of procedures that assigns **numbers** to objects and events with the objective of providing valid, reliable, relevant, and economical information for decision makers.’’ Formal measurement theory is based on **mathematics**; in particular, set theory, where a set of numbers is assigned to different attributes of phenomena of interest via a mapping process(Romero, S., et al,2012).

Accounting is a core discipline, without which it is difficult to imagine the functioning of the economy. Accounting does not necessarily stand in a subordinate relation to economics. It reflects the reality, transposing processes to the financial dimension. Accounting is anapplied science, measuring and evidencing actions in the organizational unit. It is a science, because it features a subject, object and research methods. Already known accounting theorist **Yuji Ijiri** pointed out the most important tasks of the accounting theory, is **measurement of characteristic data issue**.

The measurement is one of the basic conditions for **rational action**. According to **Peter. Caws**, measurement is closely related to the scientific defining and "consists of determining the substantive order between the various manifestations of individual property and granting to scientific events the usefulness of **mathematical description**," while defining is an arrangement of information about the phenomenon and the nature of the dependencies that exist between various facts. The concept of measurement is not clear, for example, **Ackoff, Russell L** indicates that "there is no universal compatibility of scholars views and philosophers of **what exactly** is the measurement and how it should be carried out .According to K. Ajdukiewicz, measurement is the second (next to numbering) counting type of quantitative observations . The measurement can be described as an **information system**, in which records, processing and communicating of information on the results and achievements of the entity are done.

The measurement has become a subject of research in the late nineteenth century and early twentieth century, and the unit of measurement have been known since antiquity. Measurement in accounting is multidimensional. As indicated by S. Szejna, trying to describe the economic operations of measurement scales, it should be remembered that this process distinguishes four dimensions.

Thus, we can say there are four types of measurements: **nominal, ordinal, interval, and ratio scale**. Accounting has the potential to be in the ratio scale category.

Significant contribution to the development of the theory of measurement in the accounting filed Y. Ijiri, claiming that the **accounting system** is a simplified reality reflection. He saw the measure as a **specific language** representing the events and phenomena by means of **numbers** and the relationships between them within a predetermined number system. Measurement in accounting is sometimes mistakenly considered to be **absolutely true**, honest and accurate. A statement about the assumption of absolutely true measurement in accounting can be misleading to information users and is contrary to the approximate nature of measurement used in the social sciences .Not all accounting theorists recognize that the concept of measurement is of fundamental importance in financial reporting. A discussion of the relationship between the accounting measurement and theory of scientific measurement described **S. Weszerai Musvoto**. She claimed, "The **measurement** in the scientific sense plays **little or no role** in the preparation of **financial statements**"(Sadowska, B., and Lulek, A. ,2016) .

3- Measurement and disclosure in financial accounting:

The disclosure problem in financial accounting is caused by the need to decide what, of all the available **numerical and non-numerical information**, to include in a **set of financial reports**. The solution to this problem involves **asking such questions** as: who are the users of financial statements, what are their information needs, how much does the information cost to provide, what rights do users have to obtain it? A large part of present accounting theory is concerned with issues of this type. The '**positive' theories** of the Rochester School of Watts and Zimmerman (1978), the information economics approach (e.g. Beaver, 198 l), decision usefulness theories (e.g. Beaver, Kennelly and Voss, 1968) and the 'events' theory originating with Sorter (1969) are instances of this literature. The main characteristic of these theories is that they are purposive. They seek to obtain answers to very general questions by reference to the objectives of financial statements. It is unclear whether such theories are capable of being described by an axiomatic structure (see Hempel, 1965; Sterling, 1979; Stamp, 1981). Even if they are, it seems unlikely, in view of the considerable **empirical evidence** required regarding users' decision models, that an axiomatic **conceptual framework** dealing with the disclosure problem will be forthcoming in the foreseeable future (Willett, R. J. ,1987).

4- Theories of measurement accounting:

The application of measurement theory to accounting is not a new idea. Vickrey (1970), noticing the lack of a measurement theory in accounting, questioned the status of accounting as a measurement discipline. He applied the realist's theory of measurement to evaluate whether accounting was in **fact** a measurement discipline. **The realist's theory** of measurement advocates that measurements should reflect the empirical properties of the object they are representing (Michell, 1995). This means that measurements should reflect the intrinsic properties of the object being measured. Vickrey (1970) came to the conclusion that accounting is not a measurement discipline and that there is no property that is currently measured in accounting apart from the **numerosity of monetary units**. This suggests that there is no theory of measurement in the accounting discipline apart from a theory that describes the measurement of monetary units.

The difficulty with Vickrey's (1970) study is that in his attempt to **evaluate** whether accounting is a measurement discipline he applied the principles of the realist's theory of measurement. According to Luce et al. (1971), the realist's theory is suitable to the natural sciences. Accounting is a social science (Tinker, 1985) and so a theory of measurement that is appropriate to social sciences should be used.

Richard Mattessich (1964) also points out that accounting measurements **cannot be** inferred through **natural laws**, but through the intuition of the **experimenter**. It is evident from this that accounting measurements are dependent on the judgments of the accountant. It follows, then, that accounting measurement should be viewed relative to the environment of the accountant. Furthermore, even though this **view is old**, it is still applicable today in accounting (see Ryan et al, 2002).

Consequently, it can be argued that the theory of measurement that should be used to evaluate whether accounting is a measurement discipline should always involve a conventional component, that is, the agreement to code certain empirical attributes with certain numbers, and certain empirical relations with certain **numerical** ones. Thus, the principles of the representational theory of measurement (Decoene et al, 1995) that equate measurement to numerical coding should have been used by Vickrey (1970), instead of the realist's theory of measurement, in order to establish whether accounting is a measurement discipline.

Furthermore, Vickrey's (1970:738) belief that an extensive property is necessary for accounting to be a measurement discipline is beset with problems. Accounting is a social science. Luce et al. (1971) point out that there are problems in the application of extensive measurement to social sciences. This is because of the inadequate interpretation of the concatenation operation in the measurement of non-physical attributes. However, Luce et al. (1971) also indicate that some attributes of the social sciences can be measured extensively; and subjective probability is an outstanding example. But it would be unfair to apply a theory of measurement that only applies to a minority of attributes in a discipline. Such a theory would not make accounting a measurement discipline.

The IASB framework (2006) for financial reporting points out that the attribute of accounting phenomena that is subject to **measurement is value**. This suggests that for accounting to be a measurement discipline, there must be a theory of value measurement. Abdel-Magid (1979) asserts that the property subject to measurement in an exchange transaction is **exchange value**, which is measured by the monetary numerosity at the time of exchange. He also argues that accounting is a social science and, as a result, measurement that is used in social science should be applied in accounting. It can be inferred from this that in the accounting discipline monetary units represent the properties of the values of accounting phenomena. This suggests that the assignments of monetary units to the values of accounting phenomena in exchange transactions are expected to be processes of measurement.

Other notable attempts to develop a theory of accounting measurement are those by Ijiri (1965, 1975) and Mattessich (1964). None of Ijiri's (1965, 1975) attempts atdev eloping such a theory are in harmony with the principles of there presentational theory of measurement. For example, the **value allocation** rule of measurement (Ijiri, 1965) reveals the author's lack of understanding of the principles of measurement.

Crucial point that discredits Ijiri's (1975) attempts to develop a theory of accounting measurement is his inability to **distinguish between measure theory and measurement theory**. **Orbach, Kenneth Ned**. (1978) points out that part of the reason for Ijiri's (1975) failure to examine the qualitative basis of accounting measurement lies in the fact that he uses measure theoretic concepts instead of measurement theoretic concepts. Measure theory does not require the specification of the attribute to be measured, while measurement theory does. In Ijiri's (1975) study, there are no specified attributes that are the subject of measurement. This indicates that Ijiri (1975) used measure theory in his attempt to create a theory of accounting measurement (Musvoto, S. W. ,2009).

5- Fair Value Accounting vs. Historical Cost Accounting, Manipulation:

Fair value accounting is an improvement to the traditional form of accounting – the historical cost accounting. Under historical cost accounting, the initial price paid by the company during the purchase of **the asset or incurrence** of the liability is the one that matters. The price reflected on the balance sheet either is the purchase price or at a value reduced by obsolescence, depreciation or depletion (Nobes, 1997). For a **financial asset**, the price on the balance sheet does not change until the security is liquidated. Historical cost accounting is easy to understand because it is based on a **fixed price** that is always completely known, specifically the actual price that a company paid. Historical cost accounting is generally easier to follow since it is based on fixed and certain inputs. While this eliminates uncertainty from the initial valuation decision, it creates uncertainty in future periods about the true value of assets (Meunier, 2012). In both fair value accounting and historical cost accounting methods, the value of assets depicted on the balance sheet is always lower due to the depreciation, depletion and obsolescence.

In the **financial industry**, for example, certain assets, such as securities that have been labeled "trading securities" or "available-for-sale securities" may either appreciate or depreciate according to market movements and have always been subject to **market-based pricing**.

Both IFRS and US GAAP define the fair value of financial instruments under a three-level framework: it is set as the observable **market price** of the instrument, or (absent the former) the observable market price of a **similar item**, or (if none of the previous two can be found) the result of a **financial valuation model (**Véron, N. ,2008).

Also, both the historical cost and fair value accounting methods have some faults in that entities may **use them to manipulate their financial positions and results**. For instance, a firm using historical cost accounting method may manipulate its figures on depreciation in order to increase or overestimate the useful life of an asset or its residual value. In that case, the firm will overestimate its income. Entities use this shrewd way of inflating income to attract investors and creditors by deceiving them about the profitability and financial position of the business (Belinna, Yen & Yang, 2008). Using historical cost accounting, the management teams have more leeway to hide bad investment decisions and avoid the consequences of declining levels of equity and assets. Thus, it is unlikely for any entity to disclose its financial failure through historical cost accounting method (Jaijairam, P. ,2013).

The types of Value are Use in Business Valuation are:

- Book Value
- Depreciated Value
- Going Concern Value
- Liquidation or Break-up value
- Fire sale value
- Intrinsic Value
- Fair Market Value
- Replacement Value
- Strategic Value(Cleartax,2023).

In addition, some scholars saw, there are the four measurement basis in accounting :(a) Historical cost; (b) Current cost; (c) Realisable (settlement) value; and (d) Present value(Readyratio,2023).

6- Measurement and valuation in accounting:

Accounting valuation is the process of valuing a company's assets and liabilities in accordance with Generally Accepted Accounting Principles (GAAP) for the purposes of financial reporting. Valuation in accounting is a **common procedure** used to determine the value of an asset for the purposes of financial reporting. Accounting measurement is the representation of data in terms of a specific method, such as currency, hours, or units. The same data can be measured in a variety of ways. Maintaining a consistent accounting measurement allows firms and analysts to compare certain variables over a period of time(www.topaccountingdegrees.org/ 2023).

Notes: the most common business valuation methods:

- Asset Valuation. Your company's assets include tangible and intangible items.
- Historical Earnings Valuation.
- Relative Valuation.
- Future Maintainable Earnings Valuation.
- Discount Cash Flow Valuation.

THEME SIXE: FINANCIAL DISCLOSURE

Introduction:

Prepared for Congress (GAO 2002) reveal that many corporate managers provide only **minimal disclosure** when announcing a restatement. We observe three levels of disclosure. Some companies disclose their restatement prominently in the headline of a press release, usually one that is dedicated to the accounting misstatement **(high prominence)**. Other firms provide less **prominent disclosure**, typically citing an earnings release in the headline, but still discussing the misstatement in the body of the press release **(medium prominence)**. Most of the remaining firms simply restate prior-period comparative balances in an earnings release, with a footnote briefly explaining that the financial figures for the prior year have been changed **(low prominence)**(Files, R., et al 2009).

1- Definition of financial disclosure:

Financial disclosure is an abstract concept that cannot be measured directly. It does not possess inherent characteristics by which one can determine its intensity or quality like the capacity of a car. Corporate financial disclosure is any deliberate release of financial information, whether numerical or qualitative, required or voluntary, via formal or informal channels (Gibbins et al., 1990, p. 122). Companies disclose information through various means such as annual reports, conference calls, interim reports, prospectuses, press releases, and websites(Hassan, O. A., and Marston, C. ,2019).

In a recent survey, Verrecchia (2001) described disclosure studies as belonging to one of three categories (i) Association-based studies that document the effect of disclosure on equilibrium asset prices and trading volume through capital market traders' reassessment of firms' liquidating dividends. (ii) Discretionary based disclosure, which examines a firm's incentives for voluntarily disclosing or withholding information about its liquidating dividend. (iii) Efficiency-based disclosure where a firm makes ex ante commitments to publicly disclose or withhold information to reduce the costs of private information search by investors or to reduce the information asymmetry component of its cost of capital(Kanodia, C. ,2007). Buzby (1974) categorized his disclosure items into three groups. Group (i) contained items which were self-contained e.g., number of stockholders. These items could either be disclosed or not. Group (ii) consisted of items that could be disclosed in varying degrees of specificity e.g., earnings per share for the next year could be specifically estimated or a general comment on the expected direction of change could be given. Items in group (iii) information obtained by two pilot study questionnaires in which the sub element items had been separate components.

2- Motivations for Accounting disclosure:

Agency theory may explain why managers voluntarily disclose information (see e.g. Chow & Wong-Boren, 1987; Cooke 1989a,b, 1991, 1992; Firth, 1980; Hossain et al., 1994). Managers, in the knowledge that shareholders will seek to control their behaviour through bonding and monitoring activities, may have an incentive to try and convince shareholders they are acting optimally and disclosure may be a means of achieving this.

In addition, **the disclosure of ratios** in company accounts may provide users of financial statements with new information not calculable elsewhere, or may simply provide information available elsewhere in the same or different form. Also, **Signalling theory** was developed by Spence (1973) to explain behaviour in the labour markets (see also Watts & Zimmerman, 1986, p. 165), but can help explain voluntary disclosures. Signalling is a reaction to informational asymmetry in markets; in this case, companies have information that investors do not. Asymmetries can be reduced if the party with more information signals to others. In this case, managers of higher-quality firms will wish to distinguish themselves from lower-quality firms through voluntary disclosures.

In addition, **legitimacy theory** is based on the premise that companies signal their legitimacy by disclosing certain information in the annual report. Legitimacy theory is centered on the notion of a contract or agreement between an enterprise and its constituents (see Shocker & Sethi, 1974). A number of researchers have invoked legitimacy theory to explain disclosures in environmental and social reporting (e.g. Guthrie & Parker, 1989; Patten, 1992; Deegan & Gordon, 1996). By voluntarily revealing certain information, directors can communicate with stakeholders (such as environmentalists, shareholders and other investors, Government agencies etc.) who as a result will feel more assured about their performance (in both financial and non-financial terms) of the company(Watson, A., et al 2002).

3- Accounting disclosure and firms' financial attributes:

Firms are inclined to provide **voluntary disclosures** when they plan to issue public debt or equity or acquire another company in order to give investors explicit information and influence their perceptions (Healy & Palepu, 1993, 1995). Disclosure is anyway required because managers are held responsible and have to meet certain business and financial targets. Managers tend to provide voluntary disclosure in order to make investors aware of their managerial ability and avoid misevaluation of their actions and performance. It is evident that poor corporate performance is likely to result in high CEO turnover (Morck, Schleifer, & Vishny, 1990). The size of voluntary disclosure is a matter of question, because the provision of extensive disclosure in good periods would of course improve managers' corporate picture, but would question their skills and decision-making in bad periods.

Accounting disclosure **reduces the uncertainty** regarding firms' financial targets, the means of meeting these targets, i.e. the accounting methods and policies that are chosen, and firms' potential for wealth and growth. In certain cases, e.g. stock valuation, depreciation of tangible fixed assets, etc., the accounting regulation gives firms the right to choose among a number of alternative accounting methods for a given accounting transaction/event. It appears, therefore, that the disclosure of firms' accounting policies is of particular use especially where there is flexibility in financial reporting.

Accounting disclosure reduces the information asymmetry between informed and uninformed investors (Bushman & Smith, 2001), which would otherwise lead to market inefficiencies and the mispricing of firms' stocks (Diamond & Verrecchia, 1991; Kim & Verrecchia, 1994). Firms that provide extensive disclosures tend to exhibit a significant appreciation in their stock returns, which may be unrelated to their current financial performance (Gelb & Zarowin, 2002; Healy, Hutton, & Palepu, 1999). The provision of accounting information through voluntary disclosures gives financial analysts a better picture of firms' financial performance and capacity, and enables them to issue superior and more reliable forecasts (Bhushan, 1989a, 1989b; Lang & Lundholm, 2000). It is evident that analysts' ratings are positively associated with the amount of disclosure (Gigler & Hemmer, 2001). The above considerations would also have favourable implications for the stock market efficiency (see Merton, 1987).

The **reduction of uncertainty and information asymmetry** would smooth the communication between managers and other related interested parties, such as shareholders, lenders, regulatory, tax and supervisory authorities, financial analysts, etc. This would therefore tend to reduce the related agency and political costs that might otherwise arise (Bushman & Smith, 2001; Healy & Palepu, 2001). Lower information asymmetry would also reinforce the liquidity of the market (Lev, 1988), and thus lead to lower costs in issuing equity capital (Glosten & Milgrom, 1985; Diamond & Verrecchia, 1991) and debt (Clarkson, Guedes, & Thompson, 1996; Sengupta, 1998).

Indeed, firms that provide extensive accounting disclosures tend to display lower trading costs (Botosan, 1997) and bid-ask spreads (Botosan & Plumlee, 2002; Welker, 1995). In contrast, higher information asymmetry would result in wider bid-ask spreads and higher cost of capital, because investors would require a higher return to compensate them for bearing higher information risks (Amihud & Mendelson, 1986; Merton, 1987).

Thus, we can say the **benefit of accounting disclosure** are: Quality of accounting information disclosure of debt covenants, Changes in the accounting policies, International Financial Reporting Standards, Risk Profile and employee incentive schemes and Hedging practices (Iatridis, G. ,2008).

4- Accounting disclosures and accounting quality:

According to the International Accounting Standards Board (IASB), reported accounting information should possess the following qualitative characteristics. It should be relevant and assist users in evaluating past, present, and future events. It should be reliable, free from material error, and presented faithfully. Reported accounting information should also be comparable, consistent, and understandable in the way it is presented. Information to be included in the financial statements should be material in the sense that its potential misstatement or omission might influence significantly the decision-making of users. The disclosure of accounting policies employed in the preparation of the financial statements should be clear and accompanied by explanatory information on any changes in those policies.

Recognition, measurement and disclosure of financial information can affect companies' market picture and financial situation, and would therefore require their utmost attention and consideration.

Firms with **high accounting quality** in their reported disclosures would be expected to provide stakeholders with verifiable information about losses, financial failures and other unfavourable financial events that are depicted on financial accounts and affect a company's performance(Iatridis, G. E. (2011).

5- Environmental Factors Influencing Accounting Disclosure Requirements:

5-1 Economic Factors: The economic environment is important to the development of accounting in general, reporting, and disclosure in particular (Belkaoui 1985). The association between the economic environment and accounting has been discussed in a wide body of the accounting literature (Mueller 1967; Radebaugh 1975; Choi and Mueller 1984; Arpan and Radebaugh 1985; and Belkaoui 1985). The evidence on the association between the economic environment and accounting standards and practices is, however, mixed. Frank (1979) and Nair and Frank (1980), found an association between economic variables and accounting groupings. Belkaoui (1 983), however, failed to find a relationship between the economic environment and differences in accounting reporting and disclosure adequacy. Nobes (1988) suggests that economic factors may be more useful in explaining financial reporting differences between developed and developing countries than financial reporting differences among developed countries.

5-2 Degree of Economic Development: A country's stage of development has an influence on accounting development and practice. In countries with extremely low levels of economic development, there is little economic activity and correspondingly little financial, tax, or managerial accounting (Arpan and Radebaugh 1985). As economies develop, the social function of accounting to measure and communicate economic data becomes much more important. Additionally, developed countries have more resources available to devote to accounting regulation and the standard-setting process.

5-3 Type of Economy: There is also some evidence that the type of economy is associated with accounting standards and practices observed in different countries (Frank 1979; and Nair and Frank 1980). Some national economies are mainly agricultural, others rely on the service sector, and still others are diversified economies with large industrial bases. The agricultural sector in most countries is financed through government subsidy and credit programs. As agricultural economies industrialize, it becomes more important to develop alternative sources of financing. A reliable accounting system with high levels of disclosure becomes important to attract outside sources of financing. Creditors and investors are more willing to invest in enterprises if they have reliable and adequate disclosure of activities and results of operations.

5-4 Equity Market Factors: One factor that may help explain the different levels of disclosure among developed countries is the relative degree of development of the equity market in each country. Gray et al. (1984b) argue that the growth of stock exchanges results in the expansion of information availability as present and potential investors interested in buying and selling shares exert pressure on corporations to increase their public disclosure. In general, the presence of levels of public disclosure that are higher in countries with developed active equity markets than in countries with relatively inactive equity markets suggests the influence of stock market activity on the quality and quantity of public disclosure. In this study, three variables are used to capture the possible association of the degree of equity market development with disclosure requirements of stock exchanges in different countries and are discussed below

5-5 Size of Equity Market: One indicator of the development of an equity market is the size of the equity market. In general, one would expect that the greater the size of an equity market, the greater the likelihood that it will be more developed and have more rigorous disclosure requirements

5-6 Activity on the Equity Market: In considering how developed an equity market is, it is important to consider not only the size of an equity market but also how active the market is. A stock exchange may be large as measured by market capitalization, but relatively inactive. For example, in terms of size, the Tokyo Stock Exchange (TSE), with a market capitalization of $2.7 trillion at the end of 1987, surpassed the New York Stock Exchange (NYSE), which had a market capitalization of $2.2 trillion at the end of that year.

5-7 Dispersion of stock Ownership: It may be important to consider not only how developed an equity market is, but also the extent of dispersion of stock ownership in an equity market. For example, in 1985 the top ten business families in Pakistan controlled 29.33 percent of the total market capitalization of the Karachi Stock Exchange; a survey by the Kuala Lumpur Stock Exchange in 1985, revealed that 47.8 percent of total capital stock listed on that stock exchange was owned by institutions, most of which were state-run and state-controlled (Rowley 1987). In countries where the state, banks, or certain families have substantial equity holdings, there is generally little physical separation between those who own, and those who manage capital. In such cases, capital owners have greater access to the internal information of corporations and do not have to rely to a great extent on public disclosure and reports to monitor their investments. Thus, the demand for public disclosure and reporting is generally low in such countries.

In contrast, in countries such as the U.S. and the U.K., where stock ownership is more widely dispersed, individual stockholders do not have the same bargaining power visa-vis the corporation to access the internal information of the corporation. As a result, they have to rely largely on published reports, and hence, they demand greater public disclosure by corporations. Thus, in countries with relatively dispersed stock ownership, one would expect to find more rigorous levels of accounting disclosure requirements(Adhikari, A., and Tondkar, R. H. ,1992).

6- **Financial disclosure indices measurement:** Companies in a number of ways disclose information. The main disclosure vehicle is the annual report and accounts. In addition, there may be interim and quarterly reports, prospectuses, employee reports, announcements to the Stock Exchange, and other printed material. Information can also be disclosed more informally, at meetings with analysts, or in telephone conversations. This information can be divided into two broad categories, **required disclosure, and voluntary disclosure**.

Required disclosure is laid down by statute, professional regulations and the listing requirements of stock exchanges. The extent to which companies comply with legal and regulatory requirements depends on the strictness or laxity of the government, professional and other regulatory bodies. Voluntary disclosure, in excess of the minimum, may arise where corporate perceptions of the benefits arising outweigh the costs.

Information in the annual report consists of qualitative and quantitative data. The quantitative data is both financial and non-financial. In addition, many annual reports contain illustrations, diagrams and graphical presentations.

One method of measuring the information disclosed would be to count all the data items, i.e. the number of words and numbers, shown in the accounts. Copeland & Fredericks (1968) have suggested this approach to evaluate disclosure of changes in common stock. They contrasted this objective approach with a subjective procedure for grading disclosure as excellent, average or poor. In fact, they did not choose the counting method, but developed an index based on their subjective views about the needs of an 'educated investor'.

In view of the nature of the variable, information disclosure, and the measuring device, a disclosure index, it is necessary to consider two criteria that are typically employed in the social sciences when evaluating measurements. These criteria are **reliability and validity.**

The index scores awarded to companies can be considered to be **reliable** if the results can be replicated by another researcher. Since the scores are extracted from printed annual reports which remain constant over time there is no obstacle to repetition. The index scores can be considered to be **valid** if they mean what the researchers intended. That is to say, do the index scores have any meaning as a measure of information disclosure? The majority of the authors has not considered this question explicitly. Cooke & Wallace (1989), as noted, have stated that researchers should **provide evidence** that the measures are valid and reliable (Marston, C. L., and Shrives, P. J. ,1991).

There are several ways of measuring disclosure by looking at either one method or one type of disclosure. For example, Marston and Shrives (1991) concentrate on the **disclosure index**, whereas Jones and Shoemaker (1994) examine **textual analysis**

techniques. Healy and Palepu (2001) discuss concerns about measuring voluntary disclosure and consider the disadvantages of three measurement proxies: **management forecasts analyst ratings, and self-constructed disclosure indices** developed by researchers. They consider that analyst ratings and self-constructed disclosure indices are likely to be noisy measures of disclosure. The following figure shows (Hassan, O. A., & Marston, C. ,2019):

Table 1 Measures for disclosure identified.

	Marston and Shrives (1991)	Jones and Shoemaker (1994)	Healy and Palepu (2001)	Beattie *et al.* (2004)	Beyer *et al.* (2010)	Leuz and Wysocki (2016)
Type of Disclosure	Mandatory, voluntary	Thematic analysis of narratives in annual reports, etc.	Voluntary	Narratives in annual reports	Voluntary, mandatory, quality	Mandatory, voluntary, quality
Methods/ Measures Identified	Disclosure index	Characters, words, lines, sentences, paragraphs, themes, whole documents	Self-constructed measures (disclosure indices)	Semi-objective: Textual analyses — thematic content analysis Disclosure index studies	Natural language processing technologies Self-constructed indices	Text-based measures Disclosure index
			AIMR scores (analysts' ratings)	Subjective — usually analysts' ratings	AIMR scores	AIMR scores
			Management forecasts		Management forecasts and conference calls	Specific disclosures such as management forecasts, conference calls and segment disclosures
					Properties of reported earnings	Properties of reported earnings
						Binary indicators and frequency of disclosures.

Source : Hassan, O. A., & Marston, C. (2019).

7- Financial Disclosure index :

Disclosure Indexes are extensive lists of selected items which may be disclosed in corporate annual reports (Marston and Shrieves, 1991). The disclosure index has been considered as the best method to measure the extent of disclosure to which a disclosure is required. Different studies sought to examine and identify various type of disclosure can be broadly categorised as financial or nonfinancial and quantitative and qualitative (Marston and Shrieves, 1995). A disclosure may be either mandatory, voluntary as well as recommendatory. Disclosure may also be quantitative, involving numbers, or qualitative, involving description and it may also be expressed in terms of money (turnover) or another type of amount (number of customer, weight of production etc.) (Marston and Robson, 1997). Furthermore, disclosure may be found to be expressed in words and numbers alone, graphically, and pictorially(Hossain, M. A. ,2002).

THEME SEVEN: ACCOUNTING STANDARDS (IAS/IFRS)

Introduction:

The search to establish international accounting standards commenced in 1973 with the establishment of the International Accounting Standards Committee (IASC), subsequently renamed the International Accounting Standards Board (IASB). In 2002, the Financial Accounting Standards Board (FASB) in the U.S. and the IASB entered into the **Norwalk Agreement** which had the declared aim of issuing converged, high-quality standards. This would involve significant changes to U.S. GAAP and International Financial Reporting Standards (IFRSs). Although substantial progress was made, differences remained and agreement could not be reached, particularly with accounting for leasing and financial instruments.

1- IAS and accounting quality:

The first IAS were published in 1975 by the IASC, which was formed in 1973. Since then, the process for setting IAS has undergone substantial evolution, culminating in the 2001 restructuring of the IASC into the IASB. In recognition of the quality of the core set of IAS, in 2000 the International Organization of Securities Commissions recommended that the world's securities regulators permit foreign issuers to use IAS for cross-border offerings (IOSCO [2000]). As of 2005, almost all publicly listed companies in Europe and many other countries are required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS).

In addition, the Financial Accounting Standards Board has embarked on a comprehensive project aimed at convergence between IFRS and U.S.standards. A goal of the IASC and IASB is to develop an internationally acceptable set of high quality financial reporting standards. To achieve this goal, the IASC and IASB have issued principles-based standards, and taken steps to remove allowable accounting alternatives and to require accounting measurements that better reflect a firm's economic position and performance (IASC [1989]). Limiting alternatives can increase accounting quality because doing so limits management's opportunistic discretion in determining accounting amounts (Ashbaugh and Pincus [2001]). Accounting amounts that better reflect a firm's underlying economics, resulting from either principles-based standards or required accounting measurements, can increase accounting quality because doing so provides investors with information to aid them in making investment decisions. These two sources of higher accounting quality are related in that, all else equal, limiting opportunistic discretion by managers increases the extent to which the accounting amounts reflect a firm's underlying economics. Consistent with this line of reasoning, Ewert and Wagenhofer [2005] develop a rational expectations model that shows that accounting standards that limit opportunistic discretion result in accounting earnings that are more reflective of a firm's underlying economics and, therefore, are of higher quality. Accounting quality could also increase because of changes in the financial reporting system contemporaneous with firms' adoption of IAS, for example, more rigorous enforcement. Thus, we predict that accounting amounts resulting from application of IAS are of higher quality than those resulting from application of domestic standards.

Second, even if IAS are higher quality standards, the effects of features of the financial reporting system other than the standards themselves could eliminate any improvement in accounting quality arising from adopting IAS. Cairns [1999], Street and Gray [2001], Ball, Robin, and Wu [2003], and Burgstahler, Hail, and Leuz [2006] suggest that lax enforcement can result in limited compliance with the standards, thereby limiting their effectiveness(Barth, M. E.,et al ,2008).

Finaly,International Accounting Standards (IAS) are a set of rules for financial statements that were replaced in 2001 by International Financial Reporting Standards (IFRS) and have subsequently been adopted by most major financial markets around the world(IAS,2023).

2- Objectives of International Accounting Standards:

The IFRS Foundation's newest mission statement as of 2015 proclaims: Our mission is to develop IFRS that brings transparency, accountability and efficiency to financial markets around the world. Our work serves the public interest by fostering trust, growth and long-term financial stability within the global economy." Thus, it can be interpreted that the main objective of IFRS adoption is to effectively instill higher quality financial reporting standards that would improve the transparency of the firms, thus reducing information asymmetry and improving the information environment between managers and financial statement users. Additionally, the use of only one global reporting language aids analysts and investors in better monitoring firms, which requires firms to more actively compete against each other, thus beneting shareholders (Ball, 2006). Another proposed benefitt of IFRS adoption is the increase in quality and comparability of reporting via limiting managerial judgment in the accounting process (Barth et al., 2012). This concept aligns with analytical evidence from Ewert & Wagenhofer (2005) who show that limiting choices for managers signicantly lowers opportunistic earnings management practices, which ultimately improves accounting quality (Trimble, M. ,2017).

3- What are IFRS?

IFRS are accounting rules (‘standards’) issued by the International Accounting Standards Board (IASB), an independent organisation based in London, UK. They purport to be a set of rules that ideally would apply equally to financial reporting by public companies worldwide. Between 1973 and 2000, international standards were issued by the IASB’s predecessor organisation, the International Accounting Standards Committee (IASC), a body established in 1973 by the professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and Ireland, and the United States. During that period, the IASC’s rules were described as ‘International

Accounting Standards' (IAS). Since April 2001, this rule-making function has been taken over by a newly-reconstituted IASB.' The IASB describes its rules under the new label 'International Financial Reporting Standards' (IFRS), though it continues to recognise (accept as legitimate) the prior rules (IAS) issued by the old standard-setter (IASC). The IASB is better-funded, better-staffed and more independent than its predecessor, the IASC. Nevertheless, there has been substantial continuity across time in its viewpoint and in its accounting standards (Ball, R. ,2006).

The early international accounting standards IASs) included many options and the regulatory content was weak; the result was not dissimilar from the early efforts to harmonize accounting standards in the European Union by the accounting directives. In 1995, the European Union chose to support the work of the IASC rather than develop its own accounting standards. Further impetus to global standard setting came from the International Organization of Securities Commissions (IOSCO) that sought establishment of IASs to facilitate cross-listing of firms. The IASC worked on the core standards requested by IOSCO until 1999, and IOSCO recommended them (with some supplemental treatments) in 2000. The major breakthrough came in 2002, when the European Union decided to require listed companies to prepare their consolidated statements under IFRS as of 2005 and to provide an option for member states to allow or require IFRSs also for individual statements and for unlisted companies. Many other countries, including Australia, adopted IFRSs at the same time.

IFRS [is] rapidly becoming the universal language. It is becoming the language of our analysts". The great success is ascertained by the recent move of the USA towards IFRSs, despite the fact that it has always been proud of its own accounting standards. In 2007, the Securities and Exchange Commission eliminated the reconciliation requirements for foreign listed firms that prepare their financial statements under full IFRSs; and in 2008, it proposed a roadmap for the use of IFRSs for all US listed companies. Again, this is a development that would have been hardly anticipated by most observers.

A major reason for this move towards IFRS in the USA was the convergence project with the FASB that began in 2002 with the Norwalk Agreement under which many differences between IFRSs and US GAAP were eliminated, and new standards were developed jointly with the IASB. Despite their joint development, the resulting standards are not always equal. For example, the new IFRS 3 on business combinations includes an option for the measurement of minority interest that is not included in SFAS 141R. This indicates different views on certain fundamental issues (Wagenhofer, A. ,2009).

4- The New IASB Structure:

The IOSCO endorsement of the IASC's standards, in 2000, not only marked the culmination of nearly three decades of work by the IASC but it also indicated a significant change in future expectations of international standards. The Board of the IASC therefore decided to re-constitute it as a smaller committee (the IASB) with mostly full-time members and with a much larger technical staff.

The new framework is described by Figure 1. The model is based, in some important respects, on that of the USA's Financial Accounting Standards Board (FASB). A governing body, the Board of Trustees, raises the funds from a wide variety of sources (including corporates, audit firms and market regulators) and appoints the members of the standard-setting body (IASB), the Advisory Council (SAC) and the Interpretations Committee (IFRIC). It also monitors the IASB's compliance with its constitution. The IASB sets the standards independently, but within the broad objectives laid down in its constitution, and according to a due process of exposure and consultation. The 14 members are (with two exceptions) full-time and are selected for their skills and knowledge, not as representatives of any group or constituency. Board members (other than the two part-time members) are required to resign from their previous employment, with no commitment to re-employment when their term on the Board has ended, thus ensuring their independence from their former employers.The Trustees, in making appointments, are required by the constitution to ensure that the membership of the Board has a broad geographical spread and maintains a balance between former auditors, preparers and users of accounts. Decisions of the Board are made by a simple majority of eight of the 14 members, in order to avoid the possibility of a blocking minority being able to force untidy compromises. The composition of the Board is designed to achieve independent, rational decisions based on an evaluation of the issues, arguments and facts which emerge from the due process of consultation and exposure and guided by the Board's conceptual framework.

Figure 1 : The new IASB structure

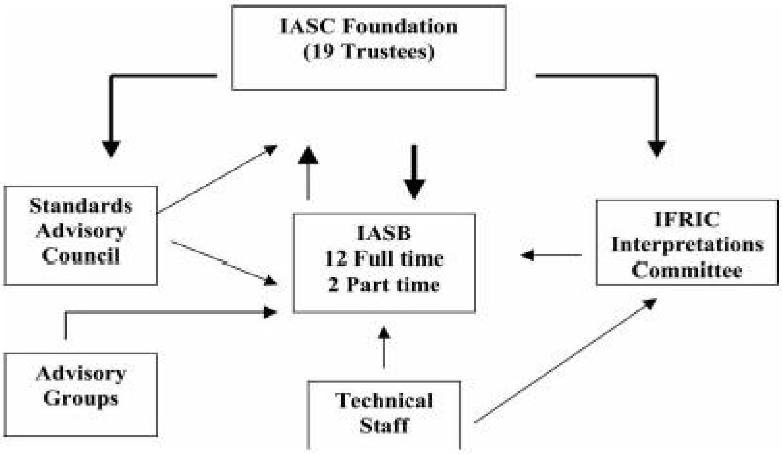

Figure 1. The new IASB structure. *Note*: The thick lines represent the Trustees' power of appointment. The thinner lines represent flows of advice, feedback and information.

Source :www.IASC.com 21-03-2023

In addition to the process of setting standards, the IASB issues interpretations, developed by the International Financial Accounting Interpretation Committee (IFRIC). IFRIC members are appointed by the Trustees and its interpretations are approved by the IASB. These interpretations are intended to fill important gaps in current accounting standards, not to provide detailed application guidance, which could be obtained by thorough consideration of the existing standards and the conceptual framework.

5- The Norwalk agreement: the FASB and IASB agree to collaborate:

In September 2002, the FASB and the IASB met jointly and agreed to work together to improve and converge U.S. GAAP and IFRS. That partnership is described in "The Norwalk Agreement," issued after that joint meeting. The Norwalk Agreement set out the shared goal of developing compatible, high-quality accounting standards that could be used for both domestic and cross-border financial reporting. It also established broad tactics to achieve their goal: develop standards jointly, eliminate narrow differences whenever possible, and, once converged, stay converged (FASB,2023)**.**

6- The Adoption of International Accounting Standards in the European Union:

In 2000, as part of its Financial Services Action Plan, the European Commission announced its intention to require International Accounting Standards for use in the group accounts of all companies listed on stock exchanges within the European Union (EU) from January 2005. This proposal was formally approved in July 2003. Member states were given discretion to apply this requirement to a wider group of companies and their accounts. This Regulation not only applies to full members of the EU but also to members of the European Economic Area (such as Norway). This gave further impetus to the adoption of International Accounting Standards within Europe. These standards had already been adopted by many large internationally listed companies in countries such as Germany and Switzerland, which permitted international standards as an alternative to local standards, and several of the 'transition' economies of Eastern Europe, which did not have established local standards, were either adopting or permitting the use of international standards. Notably, Russia intends to require the use of international accounting standards by its listed companies from 1 January 2004.

The adoption of International Accounting Standards by the EU was, however, only one further step in a long process of developing international standards. Earlier in 2000, IOSCO, the international organisation of securities regulators, had recommended that its members allow multinational issuers to use International Accounting Standards Committee (IASC) standards in cross border offerings and listings. This was the culmination of many years of work by the International Accounting Standards Committee (IASC), from its foundation in 1973, and particularly in the period of its programme to achieve a complete set of core standards (1995 onwards) which was specifically directed towards achieving the IOSCO approval. As a result of this approval, International Accounting Standards are now fully accepted for overseas registrants by most of the world's stock exchanges, the notable exception being those of the USA where the Securities and Exchange Commission (SEC) allows overseas registrants to present accounts prepared on international standards but requires that the results be reconciled to those that would be reported under US generally accepted accounting principles (US GAAP).

In addition to the use of International Financial Reporting Standards (IFRS) by listed companies, many countries adopt international standards for unlisted companies or model their domestic standards on international standards. This practice is becoming more widespread. For example, the Australian government has decided to adopt international standards for the statutory accounts of all domestic companies from 2005 onwards, and New Zealand has indicated that it will follow, in 2007. A recent survey (Street, 2003) of 59 countries shows that 56 have either adopted, intend to converge with, or intend to adopt IFRS. A wider survey, by Deloitte and Touche (2003) suggests that more than 90 countries will either require or permit IFRS for listed companies by 2005(Whittington, G. ,2005).

THEME EIGHT: ACCOUNTING AND CAPITAL MARKET

Introduction:

Financial accounting is a way for businesses to keep track of their operations, but also to provide a snapshot of their financial health. By providing data through a variety of statements including the balance sheet and income statement, a company can give investors and lenders more power in their decision-making(AMY DRURY ,2021).In addition, accounting information is judged to be of high value because it affects the market's ability to direct firms' capital allocation choices(APergis, N., et al,2011).

1- Why do we believe markets are efficient?

Why do we believe markets are efficient? The answer boils down to a visceral faith in the mechanism of arbitrage. We believe markets are efficient because we believe arbitrage forces are constantly at work. If a particular piece of value-relevant information is not incorporated in price, there will be powerful economic incentives to uncover it, and to trade on it. As a result of these arbitrage forces, price will adjust until it fully reflects the information. Individual agents within the economy may behave irrationally, but we expect arbitrage forces to keep prices in line. Faith in the efficacy of this mechanism is a cornerstone of modern financial economics (Lee, C. M. ,2001).

2- Demand for capital markets research in accounting:

A large fraction of published research in leading academic accounting journals examines the relation between financial statement information and capital markets, referred to as capital markets research. This voluminous published research is an indication of the demand for capital markets research. There are at least four sources of the demand for capital markets research in accounting that explain its popularity: (i) fundamental analysis and valuation; (ii) tests of capital market efficiency; (iii) role of accounting in contracts and in the political process; and (iv) disclosure regulation.

Shareholders, investors, and lenders have an obvious interest in the value of a firm.In an efficient market, firm value is defined as the present value of expected future net cash flows, discounted at the appropriate risk-adjusted rate of return.A firm's current performance as summarized in its financial statements is an important, but not the only input to the market's assessment of the firm's future net cash flows and thus into the firm's market valuation. This is consistent with the Financial Accounting Standard Board's (FASB's) conceptual framework that financial statements should help investors and creditors in ‘‘assessing the amounts, timing, and uncertainty’’ of future cash flows (FASB, 1978).

Also,Fama (1970, 1991) defines an efficient market as one in which ‘‘security prices fully reflect all available information’ ’Whether security markets are informationally efficient is of great interest to investors, managers, standard setters, and other market participants.The interest stems from the fact that security prices determine the allocation of wealth among firms and individuals. The security prices themselves are influenced by financial information, which explains academic and practicing accountants and standard setters' interest in market efficiency research. Market efficiency has important implications for the accounting profession. For example, rewards from fundamental analysis would diminish in an efficient market.A switch from one accounting method to another without a direct cash flow effect, a signaling effect, or incentive consequences does not affect security prices in an efficient market. Choice between disclosure in footnotes and recognition in financial statements (e.g., accounting for employee stock options) is less contentious from the perspective of its effect on security prices in an efficient market.Naturally, the opposite would be true in all of the above examples if markets were not efficient. Therefore, there is a demand for empirical research on market efficiency.

In addition, Positive accounting theory (see Watts and Zimmerman, 1986) predicts that the use of accounting numbers in compensation and debt contracts and in the political process affects a firm's accounting choices. A large body of literature in accounting tests predictions of positive accounting theory. Many of these tests entail the use of capital market data. For example, tests of the economic consequences of accounting examine stock price reactions to new accounting standards, and study whether cross-sectional variations in these stock price reactions are related to financial variables that proxy for contracting and/or political costs. To perform powerful tests of positive accounting theory and to ameliorate the effects of correlated omitted variables on the tests, researchers attempt to control for the effect of financial information on security prices that is unrelated to the positive accounting theory. This creates a demand for capital markets research that aids researchers in designing more powerful stock-price-based tests of the positive accounting theory.

Finally, in the US, the FASB, with authority delegated by the Securities and Exchange Commission (SEC), is charged with issuing standards that govern the disclosure of financial information by publicly traded firms.Capital markets research can help ascertain whether FASB's stated objectives are served by the standards it has issued, either singly or collectively.For example, do financial statement numbers prepared according to a new standard convey new information to the capital markets? Are financial statement numbers prepared according to a new standard more highly associated with contemporaneous stock returns and prices? What are the economic consequences of the issuance of a new disclosure standard? The nature and extent of standard setting is also likely influenced by standard setters' perception of whether security markets are informationally efficient.Thus, standard setters have an interest in the capital markets research on tests of market efficiency(Kothari, S. P. ,2001).

3- Earning management and stock market:

There has been numerous research on earnings management that examines how managers manipulate certain financial statement accounts such as accruals and, or real economic activities for their own self-interest (Roychwdhury, 2006; Cohen and Zarowin, 2010; Ibrahim et al., 2011). Earning is an item of the income statement that can be manipulated. Earnings is a product of cash flows and accruals so it can be managed through means such as accruals, changes in capital structure, and changing accounting methods as stated by Jones (1991). Jones uses total accruals in the study of earnings management by firms in the import business. These firms can benefit from import relief and thus will attempt to decrease earnings during import relief investigations by the United States International Trade Commission (ITC). One unique aspect of the study is that it used the discretionary component of total accrual instead of the discretionary aspect of single accrual. Jones focused more specifically on discretionary accruals, and noted, "discretionary accruals are used as a measure of managers' earnings manipulations" (Jones, 1991).

Fazeli and Rasouli (2011) investigated real earnings management as relates to the emerging market using (Tehran Stock Exchange). Their study examined cash flow from operations, production costs, and discretionary expenses firms listed in Tehran Stock Exchange from 2002 – 2007, as the avenue to prevent negative earnings for the year. Fazeli and Rasouli research was based on Roychwdhury (2006) who made strong case for real activities manipulation by management. Roychowdhury developed an empirical method to detect real activities earnings management by examining cash flow from operations, production costs and discretionary expenses; noting that these variables will capture the actions of managers as regarding the effect of real operations better than accruals. Both studies show that firms try to avoid losses by engaging in overproduction as to lower the cost goods sold, to improve profit margins firms will reduce their discretionary expenditures, and another means used by firms is offering price discounts to temporarily increase sales (Roychwdhury, 2006; Cohen and Zarowin, 2010; Fazeli and Rasouli, 2011). The results of Fazelli and Rasouli are plagued by the use of the error term from a regression model as a measure of earnings management. Moreover, classification into whether a firm managed earnings or not was based on whether or not the firm reported small positive earnings (Amadi, F. Y., and Amadi, C. W. (2014).

4- The market reaction to annual and interim accounting disclosures:

European studies which have investigated the stock price reaction to earnings announcements confirm the seminal findings of Beaver (1968) in the US: earnings disclosures lead to signifcant stock price changes or trading volume increases. In the UK, Firth (1981) reported both abnormal absolute stock returns and significant trading volume increases at annual earnings announcement dates under the period 1976–78, for a sample of 120 companies. Similarly, Pope and Inyangete (1992) observed a strong increase in the volatility of security returns around announce- ment dates for a sample of 3,541 UK annual earnings announcements between 1985 and 1987. With a different approach, Hew et al. (1996) confirm that UK annual earnings have information content for investors, since positive (negative) unexpected annual earnings were found to cause signifcant positive (negative) returns. Results in Finland, Spain or France are consistent with those obtained in the UK. Using data from the Finnish stock market, Kallunki (1996) showed that positive (negative) unexpected annual earnings announcements are associated with positive (negative) abnormal returns at the announcement dates. In the same vein, Gajewski and Que´re´ (2001) analysed the French market response to annual earnings announcements by comparing actual earnings with those expected by financial analysts. Their data indicate that positive unexpected earnings lead to positive abnormal returns, while negative unexpected ones cause negative returns. This result is consistent with a study by Gajewski (1999) which found that trades on the Paris Stock Exchange increase signifcantly around earnings announcements.

5- The relationship between stock returns and accounting numbers:

Unlike event studies that concentrate on the market reaction to accounting disclosures over a short time interval, association studies analyse the relationship between stock returns and accounting data over a long period. While the former studies examine the role of accounting data in providing incremental information that may affect investors' perception of the firm's future prospects, the latter provide evidence of the role of these data as a summary of the events that have affected the firm during the reporting period. Contrary to market reaction studies, association studies do not infer any causal connection between accounting figures and stock prices. They do not even presume that market participants use accounting data in their valuation process. They only posit that if accounting data are good summary measures of the events incorporated in security prices, they are value-relevant because their use might provide a value of the firm that is close to its market value(Dumontier, P., and Raffournier, B. ,2002).

6- IFRS Adoption and Capital Markets:

In Nigeria, a study conducted by Okoye, P. V. C., Okoye, J., F. N., & Ezejiofor, R. A. (2014), used descriptive statistics to determine the impact of IFRS adoption on the stock market movements in Nigeria for a period of two years from 2011 to 2012. They observed that the adoption of IFRS in Nigeria increases **credibility** of the financial reports, since IFRS generated credible reports, they further recommend that Governments should advocate for the adoption of IFRS. The study did not however make a distinction on the voluntary and mandatory adoption of the IFRS, which yield different results. The study duration was equally too short to draw any meaningful conclusions from it.

The study of Daske, H., Hail, L., Leuz, C., & Verdi, R. (2013). analysed firms adopting IFRS in a mandatory setting by collecting data from the year 1990 to 2005 obtained from 36 countries. Using the linear regression models to analyse the research objective. They concluded that **liquidity** of capital markets increased with the adoption of the IFRS, they further found out that the cost of capital reduced with adoption of IFRS. The study's limitation is that the data used was for the IAS, rather than the IFRS applicable at the moment.

The effect of IFRS on capital markets was examined by Procházka, D., & Pelák, J. (2015). in the post IFRS period in the EU by review of empirical evidence. They observed that the voluntary adoption of IFRS by firms leads to improved **transparency** through enhanced communication to the investors. This in turn gets appreciated through reductions in the cost of capital and increased following by foreign analysts. Further, they observed that the adoption of IFRS in the EU returned mixed results in Europe and therefore they found it not suitable to generalize that the adoption of IFRS will automatically lead to developments and improvements in capital markets. They attributed this to effects of country specific regulations. The conclusions about the EU may not be applicable to other contexts like developing countries.

A review to determine the main consequences of IFRS adoption between 2000 and 2013 was conducted by Lourenço, I. M. E. C., & Branco, M. E. M. de A. D. (2015). They reviewed 67 journal articles and observed that the generally, the adoption of IFRS leads to improved accounting quality, increased capital markets analysts ability to predict, improved comparability of accounting information and better use of accounting information. They further noted that the attainment of the above results is not automatic since country factors and company factors play a role. They concluded by positing that the use of common rules is not enough to create a common business language since management incentives and institutional factors influence the financial reporting. The study did not look at the developing markets and countries with low enforcement mechanisms, since most literature relates to countries with strong enforcement (Kimeli, E. K.,2017).

THEME NINE: ACCOUNTING PATHOLOGIES- FRAUD, FAILURE AND EVASION

Introduction:

Accounting fraud is intentional misstatements or omission of amount by deceiving users of financial statement, especially investors and creditors. Although the latest revision auditing standards is enlarging CPA's fraud detection responsibility, effective detecting accounting fraud has always been a problem for accounting profession(Wang, S. ,2010).

1-Definition of Accounting fraud:

According to the Association of Certified Fraud Examiners (ACFE), fraud is "a deception or misrepresentation that an individual or entity makes knowing that misrepresentation could result in some unauthorized benefit to the individual or to the entity or some other party (Bhasin, M. L. ,2013).

Accounting fraud has a wide meaning; it consists of intentional manipulation of financial statements, which are done in order to create an illusion about a company's wealth. The main actors in the process are either employees (i.e. accountants) or the organization itself, with top management team. Therefore, the reason why an accounting fraud is committed, beyond the purpose of deceiving stakeholders is often related to obtaining more favorable financing or avoiding debt obligations.

Accounting fraud is the intentional manipulation of financial statements to create a false appearance of corporate financial health. Furthermore, it involves an employee, accountant, or the organization itself misleading investors and shareholders. A company can falsify its financial statements by overstating its revenue, not recording expenses, and misstating assets and liabilities(www.investopedia.com,2023).

2- fraud detection and accounting fraud :

The following part of the literature review aims to provide an introduction to fraud detection, analysing first the statistical methods, applied with a computer and specific algorithms, and subsequently those techniques that do not use informatics systems such as whistle blowing, fraud triangle and brainstorming. The detection of fraud and accounting data manipulation, using statistical methods, starts with data mining. It consists of extrapolating data that later will be used as assumptions to calculate financial indicators, which measure insolvency or fraud risk. Successive to the collection of data, statistical methods, such as **Benford's law, Altman's z-score and Beneish's M-score**, will be applied (utino, M., and Merlo, M.,2019).

3- classification of data mining techniques for fraud detection :

A classification framework for financial fraud is suggested is based on the financial crime framework of the U.S. Federal Bureau of Investigation , which is one of the established frameworks for financial fraud Detection. Fig. 2 consists of two layers, the first comprising the six data mining application classes of classification, clustering, prediction, outlier detection, regression, and visualization , supported by a set of algorithmic approaches to extract the relevant relationships in the data(Sharma, A., and Panigrahi, P. K. (2013).

Figure 2: classification of data mining techniques for fraud detection

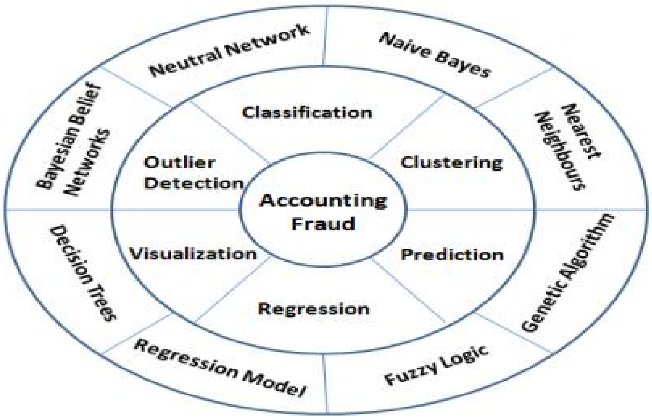

Fig. 1: The Conceptual Framework for Application of Data Mining to FAFD

Source : Sharma, A., & Panigrahi, P. K. (2013). A review of financial accounting fraud detection based on data mining techniques. arXiv preprint arXiv:1309.3944.

4- EXAMPLES OF ACCOUNTING FRAUD :

Common violation was the inflation of revenue and/or earnings, or the shifting of revenue and/or earnings. Two cases that describe the typical violation are SEC v. McCormick & Company and SEC v. Tandem Computers Incorporated et al. In the case of McCormick & Co., the firm and the general manager of a division were accused of inflating revenues. This was accomplished by ‘‘ the systematic deferral of the recognition of substantial amounts of promotional and advertising expense; and the recognition of sales revenue in a fiscal period for goods that were prepared for shipment in that period but not shipped until a later period’’ . The accused general manager was also a member of the Board of Directors. Because the manager had incentive clauses based on bottom line accounting numbers in his contract, he was shifting his bonus forward one period, increasing its present value.

The case of Tandem Computers et al. was similar. In this case, the CEO, COO, and controller were also named in the case. Tandem was alleged to be involved in a concerted effort to lie about the financial health of the firm. This was allegedly accomplished by shifting sales revenue, recognizing a contingent order as a sale, and recognizing revenue on goods not yet shipped. The allegations of shifting revenue or income, or inflating revenue or income, comprise 18 of our final 62 firms.

Another common allegation involved firms who made false or misleading statements about the financial prospects of the firm. Two classic cases are SEC v. Equity Gold et al. and SEC v. Zoe Products. Equity Gold was a firm that claimed to be in the gold mining business, and also reclaimed old mines. It is alleged that from its inception the firm and the directors engaged in systematic false

statements regarding the amount of gold in reserves and the amount of drilling done in testing for gold, in an attempt to increase the price of the stock selling on the OTC. At one point they claimed to possess more gold at one mine than had been taken from any gold district up to and including the year 1959 (i.e. this mine had more gold in it than the entire California district during the California Gold Rush). The statements made by Zoe Products are, in retrospect, just as ludicrous. Zoe Products was in the business of producing and marketing natural vitamins, and in an 8-K report they claimed to have found a product that they marketed as 'Sober-Aid'. This product would return an intoxicated person to sobriety. It is easy to dismiss these kinds of cases based on materiality, but in this regard the case of Zoe Products is illuminating. Zoe traded on the OTC, and as of 1982 (the year of the announcement of Sober-Aid) had the following financial information: book assets of $1 387 000; long term debt of $26 000 (much of this was a car loan and some revolving credit card debt used to buy an office copier); one employee; 6059 shareholders, and a maximum market value of $45 221 498. It would appear that someone believed the claims made by Zoe (Gerety, M., and Lehn, K. ,1997).

5- Creative Accounting and Fraud:

Narrow definitions of creative accounting "The exploitation of loopholes in financial regulation in order to gain advantage or present figures in a misleadingly favourable light." Oxford Dictionary of English "A form of accounting which, while complying with all regulation, nevertheless gives a biased impression (generally favourable) of the company's performance." Chartered Institute of Management Accounting (2000), Official Terminology Wide definition of creative accounting "Any and all steps used to play the financial numbers game, including the aggressive choice and application of accounting principles, both within and beyond the boundaries of generally accepted accounting principles, and fraudulent financial reporting. Also included are steps taken toward earnings management and income smoothing." Mulford and Comiskey (2002, p. 15).

Preferred definition of creative accounting "Using the flexibility in accounting within the regulatory framework to manage the measurement and presentation of the accounts so that they give primacy to the interests of the prepares not the users." Fraud "A knowing misrepresentation's of the truth or concealment of a material fact to induce another to act to his or her detriment." Black's Law Dictionary, 7th edtion (1999) "… 'fraud' comprises both the use of deception to obtain an unjust or illegal financial advantage and intentional misrepresentation's affecting the financial statements by one or more individuals among management, employees, or third pares. Fraud may involve:

• Falsification or alteration of accounting records or other documents.

• Misappropriate of assets or the.

• Suppression or omission of the effects of transactions from records or documents.

• Recording of transactions without substance.

• Intentional misapplication of accounting policies.

• Wilful misrepresentation of transactions or of an entity state of affairs." Auditing Standards Board, Statement of Auditing Standard, SAS 110(Jones, M. J. ,2010).

6- Tax evasion:

Tax evasion is a complex phenomenon and is structural in nature, as it reduces the efficiency of the economy and increases social inequality (Vasardani, M. ,2011). Tax evasion is a very old idea. The oldest evidences that confirm the existence of tax evasion are tax mutinies, which were first reported by ancient historians.

The economic theory of a tax evasion is not as old as the phenomenon itself. According to Sandmo (2005), the beginning of the theoretical concept of tax evasion from the perspective of practitioners' experience and theoreticians' ideas can be dated to 1972. In that year, the first scientific paper about tax evasion was published, "Income Tax Evasion: A Theoretical Analysis" by Allingham and Sandmo. Tax evasion is defined by The European Commission as a phenomenon, which "generally comprises illegal arrangements where tax liability is hidden or ignored, i.e. the taxpayer pays less tax than he/she is supposed to pay under the law by hiding income or information from the tax authorities". (EC – Taxation and Customs Union, 2017) (Saxunova, D., and Szarkova, R. ,2018).

Nwocha (2017) defined tax evasion as an illegal method employed by taxpayers to reduce or escape the payment of their tax liabilities. Nangih and Nkemakola (2018) see tax evasion as a deliberate refusal of a taxpayer to disclose his/her source of income to tax authorities to pay less or none of his/her tax liability. Fakile and Agdebie (2011) submitted that tax can be evaded partially or fully. Whereas partial evasion involves the understatement of individual's or corporate earnings, full evasion occurs when an individual or corporate body who is eligible to pay tax fails to register with relevant tax authorities (Enofe, A., et al, 2019).

THEME TEN: THE ACCOUNTING SUSTAINABILITY

Introduction:

Accounting is constantly engaged in a dual hybridisation process, seeking to make visible and calculable the hybrids that it encounters, while at the same time hybridising itself through encounters with a range of other disciplines.'

Although the literature on sustainability/social responsibility/environmental accounting and reporting (SEAR) has increased over the last decade further research should still be conducted to gain a better understanding of current practice and the discourses around the subject. Moreover, different ways of assisting all types of organizations and institutions should also be explored, in order to develop more sustainable and responsible patterns of behaviour. This research topic is even more urgent nowadays, at a time when sustainability performance does not seem to match the expectations raised by the sustainable development concept and, moreover, when the economic and financial crisis could be further eroding social and environmental concerns and values and creating a sustainability downturn.

1- sustainability – sustainable reporting :

To arrive at a more operational concept of sustainability necessary for recommendations regarding daily life the detailed consequences of this first and very general definitions have to be understood. There is no single, allover accepted definition of sustainable reporting. It is a broad term mainly used to describe a company's reporting on economic, environmetal and social performance. In can be synonymous with triple bottom line reporting, corporate responsibility reporting. Sustainability reporting is becoming more prevalent, driven by:

- a growing recognition that sustainability related issues can materially affect a company's performance,

- demands from various stakeholders groups for increased levels of transparency and disclosure and

- the need for companies (and the business community more generally) to appropriately respond to issues of sustainable development;

An important distinction is made between sustainability reporting and corporate philanthropy, that latter being defined as the act of donating money, goods, time or effort to support a charitable cause. Some of the most known definitions of sustainability reporting are the following:

- Sustainability reporting is… the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. (GRI)

- Corporate sustainability is business approach that creates long term shareholders value by embracing opportunities and managing risks deriving from economic, environmental and social development.

Corporate sustainability leaders achieve long term shareholders value by gearing their strategies and management to hammerless the market's potential for sustainability products and services while at the same time successfully reducing and avoiding sustainability costs and risks. (Sow Jones Sustainability Index) .

2- Accounting sustainability reporting:

‘Sustainability accounting’’ has become a generic term. Review of the literature reveals a blurred picture of what is covered by this and related terms, such as ‘‘sustainability management accounting’’ and ‘‘sustainability financial accounting’’.

Linking accounting to sustainability or sustainable development can therefore be seen as a way forward when lecturers want to teach students how to apply accounting in practice. As sustainability stems from the concern for ecology and social well-being for now and the future, accounting for sustainability includes not only traditional financial goals but also environmental and social goals.

This broad focus can help organizations in setting new values for an organization. Sustainable development is also about improving quality of life and creating social capital and thus usually has a long-term focus. Management accounting can be essential for achieving sustainable development because it generates data and provides feedback about performance at the organizational as well as the individual level in relation to the sustainability objectives. To capture the performance of organizations usually a mix of financial and non-financial measures is used, depending on the organizations’ strategies (Yakhou and Dorweiler, 2004; Van Veen-Dirks, 2010).

Sustainability accounting describes a subset of accounting that deals with activities, methods and systems to record analyse and report:

- First, environmentally and socially induced financial impacts,

- Second, ecological and social impacts of a defined economic system (e.g., the company, production site, nation, etc.), and

- Third, and perhaps most important, the interactions and linkages between social, environmental and economic issues constituting the three dimensions of sustainability.”

Research into accounting and sustainability covers a diverse range of accounting processes and practices (Thomson, 2007) that can be seen as ''new phenomena produced out of two or more elements normally found separately'' (Miller, Kurunmäki, & O'Leary, 2008: 943), combining aspects from a stable and dominant discipline (accounting) with an emerging discipline (sustainability) (Frame & O'Connor, 2014; Kastenhofer, Bechtold, & Wilfing, 2011; Pretty, 2011). **Examples** of these accounting-sustainability hybrids include biodiversity audits (Jones, 1996), carbon accounting (Ball, Mason, Grubnic, & Hughes, 2009; Hopwood, 2009), corporate social reporting (Gray, 2010), energy costing (Bebbington, 2010), external social audits (Georgakopoulos & Thomson, 2008; Harte & Owen, 1987), full cost accounting (Bebbington, Gray, Hibbitt, & Kirk, 2001), shadow accounts (Gray, 1997) and the sustainable balanced scorecard (Figge, Hahn, Schaltegger, & Wagner, 2002).

3- Reasons for sustainability accounting :

Apart from the intrinsic motivation of some managers and the general importance of accounting for sustainable development of a company, there are six various reasons that may encourage:

- Greenwashing: one reason for dealing with sustainability accounting can be derived from the motivation of management to signal concern and to collect data for communicating and reporting purposes rather than to improve sustainability performance. In this view, accounting serves as a tool to support cost efficient communicative activities contra sustainability (Gray, 2006; Lindblom, 1994).

- Mimicry and industry pressure: mimicry has relevance as an explanation of management activities (e.g., Abrahamson, 1991, 1996; Rikhardsson, Bennett, Bouma, & Schaltegger, 2005; Qian & Burritt, 2008) and may also be a motivation for management to talk about and deal with sustainability accounting. Mimicry can be seen as a way in which new accounting ideas about sustainability can be introduced, but emulation of methods can also be seen as being uncritical of associated problems (Frenkel, 2008).

- Legislative pressure, stakeholder pressure and ensuring the ‘‘licence to operate’’: stakeholder pressure and the introduction of mandatory information and reporting requirements through governmental legislation is another possibility. It is the easiest for most people to think of (e.g., as discussed in relation to the EU chemical regulation, REACH, or in the context of stakeholder pressure with published toxic release information). In case of enforced information requirements on sustainability, institutional compliance and stakeholder communication and dialogues can become necessary for the continuation of corporate activities (Adams, 2004; Cooper & Owen, 2007; Mitchell, Agle, & Wood, 1997; Murillo-Luna, Garce´ s-Ayerbe, & Rivera-Torres, 2008; Unerman, 2007).

- Self-regulation: self-regulation is a voluntary activity where a company or an industry association restrains its actions or commits itself to certain non-market actions (e.g., the disclosure of social and environmental information). The corporation or industry seeks to improve its performance and reputation in a voluntary way, set within a framework whereby commercial or profit making considerations may be important (see CMAC, 2005, p. 12), but not necessarily the main driver. Self-regulation on an industry level is often introduced in order to impede further mandatory government regulations, to maintain social acceptance and reputation, or to prevent competing companies from free-riding (e.g., by not bearing the costs of information management) (Gunningham, 2007; Gunningham, Grabosky, & Sinclair, 1998).

- Corporate responsibility and ethical reasons: corporate responsibility is a contested notion as it is frequently attributed to individuals rather than institutions, although the notion of responsibility accounting recognises the practical importance of both (Ashman & Winstanley, 2007). For an individual to be held responsible, the process begins with perception of phenomena, then proceeds towards identification of certain morally significant features, such as impact on others, harm, or pain. From the perspective of corporate responsibility, the corporate information gathering system provides it with a way of perceiving, the first step in acting responsibly (Stone, 1976,

p. 118), prior to the identification of the morally significant features of corporate activities. If the information system is incomplete, lacks relevance, or does not assist with comparability of different alternatives the likely outcome is irresponsible corporate activity and impacts (Campbell, 2007; Maignan & Ralston, 2002). The centrality of accounting information in the process of promoting and maintaining responsible corporations is linked with the view that accounting is concerned with the individual behaviour or the behaviour of individuals in groups, such as in departments, divisions or corporations (Card, 2005). Ethical motivation and legitimation for accounting to address sustainability issues is of uncontested importance (see for example Dillard, 2007). The focus of accounting information will direct and guide corporate decision makers (Burritt, Hahn, & Schaltegger, 2002). For managers who aim to improve corporate sustainability, sustainability accounting thus plays a crucial role.

- Managing the business case for sustainability: one reason to introduce sustainability accounting is to identify and realize the economic (e.g., cost reduction or sales revenue increasing) potential of voluntary social and environmental activities (Salzmann, Ionescu-Somers, & Steger, 2005; Schaltegger & Wagner, 2006). Corporate management will be motivated by this reason if it has some inkling that the company may have a business case for pursuing sustainability, but which would only be made transparent with better information.

4- The role of accounting and accountants in sustainability:

It is asserted that corporate sustainability reports play principal role in measurement and evaluation of performance for targets and implementation of sustainable development and corporate sustainability. The reports indicate the current situation, indicators and activities of companies in the direction of corporate sustainability and, implicitly, sustainable development. In essence, financial and non-financial reports are used for evaluating the impact of business operations and decisions made by their managers. One of the main functions of accounting information system is financial reporting, and this report has prominence in the conventional reporting system. In the triple bottom line(TBL) reporting that includes non-financial indicators and is accepted as sustainability reporting, environmental, social and economic (financial) results are equally important. In an environment where environmental, social and financial elements interact with each other and the company is located, the corporate sustainability, success and adaptation of the companies necessitate environmental and social, as well as financial, results of their operations to be available for reporting and measuring. So as to manage and pursue any issue related to business, it has to be measurable. One of the basic measurement systems in business is accounting, as it enables the evaluation of business operations and their results.

Nevertheless, the structure of conventional accounting's systems would be limited in reflecting the activities of contemporary business models and their consequences (Jones, 2010a, 2010b). For that reason, accounting needs to be concurrently transformed to be capable to meet the requirements. The capitalist point of view, business-oriented, commitment to neo-classical economy, the use of quantitative measurement system and monetary terms and technical accounting practices are some of the reasons for the insufficiency of the traditional accounting system in measuring the non-financial results of the effects of business activities. Considering the development of accounting, we may conclude that the management, shareholders and investors constitute the focal point of accounting, while profit is the major indicator of corporate performance.

In addition to these, conventional accounting is only bookkeeping and is interested in the costs of the business operations which impact on the company’s activities in determining the costs of the goods and services. At the basis of this perspective is an assumption regarding the inputs to the process whereby goods and services are produced and profit is created. In this process, capital and finance are traditionally considered as inputs, and finance is assumed limited. Whereas today, the inputs of the process are environmental resources, people and finance, and environmental resources are assumed limited, while human resource is variable and financial resources are unlimited. Furthermore, it is also inevitable to consider the social and environmental impacts of the process on the stakeholders, in addition to the outputs of the process, i.e. profits, goods and services (Aras and Crowther, 2009b; Aras and Crowther, 2007).

Under the circumstances that organizations are evolving in line with the needs of the time, it will be obvious that improvement and innovations in accounting are required to accompany this evolution to meet the challenges that cannot be resolved with the existing set of rules. In this context, accounting information systems and accountants need to evolve to respond to sustainability by adapting its traditional characteristics and developing new abilities.

In this respect, the main contributions of accounting in sustainability can be outlined as below:

- developing sustainability accounting standards, and national and sectorial sustainability reporting standards;
- establishing the connection between non-financial and financial values of corporations;
- reporting the results and interactions of corporations' activities related to the planet and the humankind;
- making corporate sustainability traceable and manageable; and
- having a role in informing and educating related parties.

Besides, accountants may also be effective in the development of innovative ideas to support better sustainability practices, and in the structuring of new arrangements, as well as in reporting and building trust (ICAEW, 2004). Accountants may also contribute in:

- Risk identification and management;
- Development of a framework for the production of reliable financial and non-financial information;

- Promotion of policies for determining necessity to report;
- Preparation and implementation of sustainability implication plans; and
- Management of independent audit and review processes (ACCA, 2008; Ballou et al., 2011; Jones, 2010a; 2010b; AICPA et al., 2010)

In addition, **Corporate sustainability reports** that are prepared by the accounting departments both represent the holistic picture of the company's sustainability activities and demonstrate how and to what extent the company contributes to sustainable development (Herzig and Schaltegger, 2011).

Pollution, global warming and sustainability of natural resources produced by the activities of the firms, are useful in determining the costs of the activities in these areas and their effects on financial performance. When used for internal purposes, these reports would assist managers in planning and conducting business operations, while they may also be a means to motivate employees toward being responsible citizens.

5- Types of accountants professional groups & sustainable development:

Accounting community can be divided into 5 groups: developers of standards, professional bodies, professional firms, qualified accountants and members of the academic community. ACCA, FFI and KPMG (2015) focus on changes in the traditional roles of these groups in the context of sustainable development table (03).

Detailed analysis of the roles of these groups allowed outlining challenges for them while achieving sustainable development goals. Despite the existence of 41 IAS and 16 International Financial Reporting Standards (The International Accounting Standards Board (IASB)), as well as 80 specific industry voluntary standards, (The Sustainability Accounting Standards Board (SASB), there is a gap between the traditional accounting and reporting and sustainable development and SR. The key task for accounting standards developers in terms of sustainable development is harmonization of information disclosure for all types of capital used by the companies.

For 175 existing professional bodies representing accountants worldwide, the most urgent tasks in the light of sustainable development initiatives are development of such approaches to education, training, certification and improvement of professional competence of accountants that meet the interdisciplinary nature of sustainable development as a concept. 566,797 employees of global professional companies (B4) and companies of the lower levels all over the world, have sufficient resources, vision and opportunities to enhance their efforts in achieving SDGs, and can use appropriate accounting methodologies to implement sustainable development in the corporate environment of their customers.

For 2.5 million professional accountants whose interests are united by IFAC, the key challenge is to introduce the practice of evaluation, measurement and disclosure of sustainable development indicators into their daily practice, thus incorporating SDGs in the corporate environment. Academicians in the field of accounting must act as unifying link between these groups, creating a scientific product, which will act as a basis for the development of applied accounting methods and SR(Makarenko, I., and Plastun, A. ,2017).

Table 2: Accountancy profession group role in traditional and sustainable business

Accounting profession	Traditional role	Role in sustainability
Standard setter IASB, SASB	Setting the rules and guidance that professional accountants follow when preparing financial statements	Creating a framework for reporting sector-specific information; Filling information gaps; Borrowing from financial accounting practice and expertise; Providing relevant, integrated data
Professional body IFAC, ACCA, Institute of Chartered Accountants in England & Wales (ICAEW); Chartered Institute of Management Accountants (CIMA) along with other national representatives)	Promoting the role of professional accountants in modern economies, providing a route for trainees to gain professional accountancy qualifications; Representing the interests of qualified accountant members; Performing some regulatory and disciplinary activities; Supporting standard-setting activities, eg through commenting on proposal; Sponsoring and originating research into business and accounting issues; Generally acting in the public interest (eg commenting on proposed legislation and tax rules).	Supporting a number of the current global initiatives, providing facilities and expertise as appropriate; Support for the development of thinking about sustainability issues; Trying to raise awareness of sustainability issues among members, and business leaders more widely, through the publication of articles in member magazines and journals; Educational role
Professional firm (Big Four firms Other accountancy firm networks)	Providing regulated services such as the audit of financial statements; Providing tax advice and compliance services to clients; Offering additional advisory and assurance services in relation to mergers and acquisitions, fund raising, risk management, finance operations, business processes, etc; Participating in research and thought leadership on emerging accounting and business issues; Supporting professional bodies and standard setters; Training professional accountants	Developing their own methodologies and tools to help businesses understand their sustainability risks and opportunities; Providing support to major initiatives focusing on developing thinking and practice on SD
Qualified accountant	Working in professional firms to provide audit and advisory services to clients; Working in business, preparing management accounts for internal control and decision making or preparing financial statements for external reporting, e.g. to investors Working in the finance teams of public sector or non-profit organizations performing many other roles (e.g. as independent consultants, academics, writers); Participating in the development of accounting and tax rules, etc. through membership of committees or by responding to consultations	Helping to develop thinking about sustainability and to raise awareness of its importance for business success; Creating an agreed framework for companies to report on sustainability; Prioritizing business needs changing business processes so that sustainability risks and opportunities are addressed as part of routine management operations; Reviewing environmental or sustainability disclosures to see if they are fair, balanced and understandable; Identify risks and opportunities associated with natural capital
Academic	Conducting research into current issues in accountancy, providing degree courses for university students, participating in standard setting, sharing insights with professional accountancy bodies and other associations through membership of working groups, expert groups and forums	Develop relationships with all parties involved in the SD – international initiatives, accountancy bodies, accountancy firms working in the area and businesses and financial institutions, to help them understand sustainability risks; exploring differing approaches to value

Source: Makarenko, I., & Plastun, A. (2017). The role of accounting in sustainable development. *Accounting and Financial Control*, *1*(2), 4-12.

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