The traditional approaches to the formulation of accounting theory

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The nature of accounting: various images

Accountants draw on different images of the accounting process to elaborate different theories of accounting.

- **Accounting as an ideology**
  Accounting has been perceived as an ideological phenomena – as a mean of sustaining and legitimizing the current social, economic, and political arrangements.

- **Accounting as a language**
  Accounting has been perceived as the language of business. It is one means of communicating information about a business.

- **Accounting as a historical record**
  Accounting has been viewed as a means of providing the history of an organization and its transactions with its environment.

- **Accounting as current economic reality**
  The central thesis of advocates of this view is that both balance sheets and income statements should be based on a valuation basis that is more reflective of economic reality than historical costs.

- **Accounting as an information system**
  Accounting has always been viewed as an information system. It is assumed to be a process that links an information sources or transmitter (usually the accountant), a channel of communication, and a set of receivers (external users).

- **Accounting as a commodity**
  Accounting is also viewed as a commodity that results from an economic activity. It exists because specialized information is in demand and accountants are willing and capable of producing it.
**Theory construction and verification**
Accounting theory should be result of both a process of theory construction and a process of theory verification. A given accounting theory should explain and predict accounting phenomena when such phenomena occur, they should be regarded as verification of the theory.

**The nature of an accounting theory**
The primary objective of accounting theory is to provide a basis for the prediction and explanation of accounting behavior and events. We assume, as an article of faith, that an accounting theory is possible.

A theory is defined as a set of interrelated constructs (concepts), definitions, and propositions that present a systematic view of phenomena by specifying relations among variables with the purpose of explaining and predicting the phenomena.

**Methodologies for the formulation of an accounting theory**
Methodology is required for the formulation of an accounting theory. The divergence of opinions, approaches, and values between accounting practice and accounting research has led to use of two methodologies—one is **descriptive** the other **normative**.

**Approaches to the formulation of an accounting theory**
The traditional approaches are:

1. **non theoretical, practical, or pragmatic (informal)**
The non-theoretical approaches are a **pragmatic** (or practical) approaches and **authoritarian** approach.

   ⇒ the **pragmatic** approach consists of the construction of a theory characterized by its conformity to real-world practices that is useful in terms of suggesting practical solutions.

   ⇒ the **authoritarian** approach to the formulation of an accounting theory which is employed primarily by professional organizations consists of issuing pronouncements for the regulation of accounting practices.
2. theoretical
   a) deductive approaches
      discussed in last chapter

   b) inductive approach
      discussed in last chapter

   c) ethical approach
      discussed in last chapter

   d) sociological approach
      the sociological approach to the formulation of an accounting
      theory emphasize the social effects of accounting techniques
      according this approach , a given accounting principle or
      technique is evaluated for acceptance on the basis of its reporting
      effects on all groups in society . also implicit in this approach is
      the expectation that accounting data will be useful in making
      social welfare judgment .

   e) economic approach
      the economic approach to the formulation of an accounting theory
      emphasizes controlling the behavior of macroeconomic indicators
      that result from the adoption of various accounting techniques .
      according to the approach , the choice of different accounting
      techniques depends on their impact on the national economic
      good .

   f) eclectic approach
      in general , the formulation of an accounting theory and
      development of accounting principles have followed an eclectic
      approach , or a combination of approaches , rather than only one
      of the approaches presented here .the eclectic approach is
      mainly result of numerous attempts by individuals and
      professional and governmental organizations to participate in
      the establishment of concepts and principles in accounting .