

# Accounting theory analysis

Science



**ASSIGN  
BUSTER**

Accounting Theory Construction The function to study accounting theories is to classify them according to the assumptions they rely on, how they were formulated, and their approaches to explaining and predicting actual events. There are some classification which are pragmatic, syntactic, semantic, normative, positive, and naturalistic approaches. Pragmatic approaches are based on observing the behavior of accountants or those who use the information generated by accountant. Syntactic approaches rely on logical argument, based on a set of premises. Semantic approaches concern how theories correspond to real-world events.

Normative theories rely on both semantic and syntactic approaches. Positive approaches test hypotheses against actual event . Positive approaches test hypotheses against actual and the last is Naturalistic approaches consider individual cases and do not try to generalise. PRAGMATIC THEORIES Descriptive Pragmatic Approach Descriptive pragmatic approach based on continual observation of the behavior of accountants, a theory can be developed from observations of how accountants act in certain situations. The theory can be tested by observing whether accountant do act in the way the theory suggest.

This approach is probably the oldest and most universally used method of accounting theory construction. Criticisms of descriptive pragmatic approach: \* does not consider the quality of an accountant's action \* does not provide for accounting practices to be challenged \* focuses on accountants' behaviour not on measuring the attributes of the firm Psychological Pragmatic Approach Different with Descriptive pragmatic

approach, this approach require theorist to observe users responses to the accountants output ( ex: financial report).

There are also some problem with this psychological approach that are : \* some users may react in an illogical manner \* some users might have a preconditioned response \* some users may not react when they should

SYNTATIC AND SEMANTIC THEORIES Semantic inputs of the system are the transactions and exchanges recorded in the vouchers, journals, and ledgers of the business. These are then manipulated on basis of the premises and assumptions of historical cost accounting. Some accounting theorists are critical, they argue that the theory has semantic content only on the basis of its inputs.

There is no independent empirical operation to verify the calculated outputs for examples, ' profit' or ' total asset'. Historical cost accounting has also been criticised on the basis of its syntactic element, for example with respect to the practice of summing several different money amounts assigned to specific assets In defence of the historical cost system, accountants argue that there is no requirement that accounting outputs should have any semantic content or be subject to falsification rules.

NORMATIVE THEORIES The 1950s and 1960s saw what has been described as the ' golden age' of normative accounting research. Accounting researches become more concerned with policy recommendation and with what should be done, rather than with analysing and explaining the currently accepted practice. Normative theories concentrated either on deriving the ' true income' for an accounting period. True income : true income theorists

concentrated on deriving a single measure for assets and a unique profit figure.

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. 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. POSITIVE THEORIES 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. The main difference between normative and positive theories is that normative theories are prescriptive, whereas positive theories are descriptive, explanatory or predictive. DIFFERENT PERSPECTIVES Focused on what may be considered to be a highly structured approach to theory formulation – the scientific approach. This approach has an inherent assumption that the world to be researched is an objective reality capable of examination in terms of large scale or average statistics.

This type of research is carried out by incremental hypotheses which are then combined to provide greater understanding, or better predictions of accounting. The implied assumption is that a good theory holds under circumstances that are constant across firms, industries and time. The criticism of the scientific method are the large-scale statistical research

<https://assignbuster.com/accounting-theory-analysis/>

tends to lump everything together and it is conducted in environments that are often remote from the world of or the concerns of accountants.

#### SCIENTIFIC APPROACH APPLIED TO ACCOUNTING

A great deal of misunderstanding exists about the attempt to apply a scientific approach to accounting. The attempt is to make scientists out of accounting practitioners. 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 situation based on this evidence. Another common misunderstanding about the application of the scientific view in accounting is that ‘ absolute truth’ is desired, which of course is not possible.

ISSUES FOR AUDITING THEORY CONSTRUCTION Auditing is a verification process that is applied to the accounting inputs and processes. Auditor provide an opinion on whether the financial statements are in accordance with the applicable reporting framework, and also provide on whether the statements present fairly, in all material respects, or give a true and fair view. The normative era of accounting theory and research also coincided with a normative approach to auditing theory. The positive ere of accounting has led to a positive approach to auditing theory