

Summarizing in accounting

Finance



Finance and Accounts Summary Essay 7th June, UNDERSTANDING THE CHANGES IN ACCOUNTING THOUGHT The research analysis is done on the parameters of Kuhn, T. S titled ‘ The structure of scientific revolutions’ , Financial accounting and reporting is on the verge of significant changes. It was due to the lack of accounting information that resulted in financial irregularities.

The old paradigm was called as the industrial paradigm which was based on FASB’s and existed during the industrial economy; the new paradigm is called the industrial information paradigm which existed during the age of information technology. The old financial principles focused on historical cost measures whereas, the new financial principles emphasizes on fair value. The decision making cycle in industrial age was long and time consuming it followed seven steps of hierarchy, starting with user of accounting information, pervasive constraints, user specific qualities, primary decision specific qualities, ingredient of primary quality, secondary and interactive quality and threshold for recognition. Whereas, the information accounting has three steps pervasive constraints, objective and threshold for recognition.

Revolution has caused many aspect of the society to change; the change in economy impacts the demand for information. FABS and IASB have combined their basic principle knowledge to redefine the current conceptual framework. The method used to determine fair value is far different calculating the values used in cost allocation. It is believed by successful industrialist that it is important to make changes in the skill sets of organizations in order to have estimates associated with valuation.

The focus of the paper is to highlight the causes of changes in the financial <https://assignbuster.com/summarizing-in-accounting/>

accounting principles; the paper has made the theory of Kuhn as their basis because according to his theory it is believed that a revolutionary change results in reconstruction of basic fundamentals.

The old paradigm has been in practice over a longer period of time that is why the industry is facing difficulties in shifting to new paradigm; the accounting behavior has added human behavior that interact with accounting paradigm. It is difficult to make such changes but at the same time they have to be made to cope up with the changing environment.

ACCOUNTING STANDARD ATTRIBUTES AND ACCOUNTING QUALITY

The research paper is written by Mark Kohl-beck and Terry Warfield. In the paper they have discussed about the improvement in the US accounting quality, in order to study the same they have undertaken 19 general-purpose accounting principles which have been most popularly used in the last 30 year. The analysis of the paper is show the impact of accounting standards on the accounting quality.

Another analysis was conducting in the study showing the response of new standards on the earning management; and it would clearly defined in the paper that they show a negative effect, with the increase use of these principles the earnings had a negative impact.

The 19 regulations under discussion have been implemented over a time period of 20 years, the table is a summary of the regulations and the time when they were introduced, its description, are these principles asset/liability based are there any implementations guidance, if there are any exceptions / alternatives and how will if it effect on the company disclosure policy.

The earning management matrix is an indication of earning smoothing's, the variance measure is used to indicate the changes in accounting quality

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associated with accounting standards. The first indicator measured the relations of firm size, growth, equity, sale turnover, cash flows, leverage, debt issues and Big N Auditor, whereas, the second form of earning and cash flow.

The results showed differently with respect to different principles and show the indication and effect of these regulations in different years. There was a negative correlation between accruals and cash flows.

Overall the result showed that 19 accounting principle implemented over 30 years have increased the accounting quality and principle-based setting. The study was an indication that the companies are generally supportive of FASB's recent standards which focus more on assets, liabilities and expanded focus.

Bibliography

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