

Why theres no universally accepted theory of accounting philosophy essay



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There are several reasons there is no one universally accepted theory of accounting. The reasons are of two sorts. The first is philosophical. The second is practical. This essay discusses each of these. It then provides examples from accounting theory.

Philosophical reasons

The statement “ There is no universally accepted accounting theory” is true by definition. Scientific understanding of the term theory denies that any theory can be universally accepted.

According to Popper (e. g., 2002a, 2002b), theories are conjectures that are put to the test. If they are refuted by the test, they are either rejected or refined. If they are not refuted, they remain theories (not “ facts”). They are then put to further tests, and are further refined. In order for this to proceed, there must exist rival theories. In this way, theories compete in a process of Darwinian selection. The theories never get to the “ truth”, but they get progressively closer.

This is the first reason there is no universally accepted theory of accounting. If there were a universally accepted theory of accounting, it wouldn't be a theory. It would be something else.

Notice that, according to Popper, no theory ever arrives at certain knowledge. The best any theory can do is curtail ignorance. Moreover, if scientists were to discover a “ true theory”, there would be no way they could know it was true, so there would still be competing theories.

This last point needs elaboration. Gödel's incompleteness theorems (see, e. g., Hofstadter, 1979) demonstrate that, in any system of logic rich enough to contain formal arithmetic there exists an infinite number of statements that are true but that are impossible, in principle, for the system to know to be true. This means, in practical terms, that in any complex system-for example, an economic system-there exist solutions to problems that are "known" by the system, but are not known by any individual within it. This is appreciated by leading economists (e. g., Hayek, 1979). Further, given that there exist usually infinitely more wrong solutions to problems than correct solutions to problems, any attempt to solve such problems by diktat is infinitely more likely to lead to failure than to success. As regards economics, this led Hayek (1944) to his espousal of the free market. As regards theory in science, it means that any attempt to impose a single theory on anything is likely to lead to a seriously wrong theory. This is another reason for believing there can be no universally accepted theory of accounting. Any universally accepted theory could only be universally accepted if it were imposed by diktat, and, if it were imposed by diktat, it would of necessity most likely be wrong. Therefore it would give rise to a rival theory.

Related to this, Feyerabend (1996) argues that there is no such thing as a single scientific method, and that any attempt to impose one is counter-productive. Feyerabend's philosophy of science is summarised as "anything goes". This, provides another reason for there being no single theory of accounting. If there can be no universally accepted method, there can be no universally accepted theory.

There are two popular views of science that are in conflict with Popper's perspective: positivism and postmodernism. Positivism is the philosophy, associated with Ayer (1946) that says that the only meaningful statements are those that are true by logic and those that may be verified by observation. This is the verification principle. The first problem with the verification principle is that it is neither a truth of logic nor an empirically verifiable fact, therefore by its own terms it is meaningless. The second problem is that it implies science proceeds inductively. But inductive logic (drawing general conclusions from specific instances) is flawed: a million observations of white swans, for example, does not demonstrate that all swans are white (indeed, they aren't: some swans are black).

Postmodernism is the philosophy that "reality" is socially constructed. So what is "real" to one person may be "unreal" to another. At a trivial level, this is true, for different people see the same things in different ways. It is also true that, historically, science progressed in some instances by changes in world view, or paradigm (Kuhn, 1996). However, this is a question more of the sociology of science, not of ontology. And taken literally postmodernism is absurd. It leads to the conclusion that there is no such thing as reality.

The prevalence of competing philosophies of science-Popperism, positivism, and postmodernism-provides another reason for there being no universally accepted theory of accounting. There is no universally accepted view of what constitutes reality. Thus one should expect there to be different theories of accounting, each with its cadre of supporters.

Practical reasons

There are three purposes for any theory of accounting, and each makes different demands on the theory.

The first is that accounting should provide the best information about a company's position. Such a theory is prescriptive, in that it suggests how best accountants should ply their trade. Such a viewpoint is said to be normative. A normative theory is one that states what is best practice.

A theory of accounting may also seek to describe what accountants do. Any science must include accurate descriptions. It is logically possible for a researcher to adhere to a descriptive theory yet bemoan the fact that accountants don't follow what the researcher considers the "correct" (i. e., normative) practice.

There is another aspect to descriptive theories. Until the advent of cheap computers, there was no way that researchers could analyse vast collections of data. Moreover, very often the data were unavailable (Gaffikin), 2008). Computers have changed this. This is another reason for believing there is no universally accepted theory of accounting. A descriptive theory is only as good as the data fed into it. But it is impossible to analyse all the data, only different blocks of data. Different blocks may give rise to different descriptions.

In describing how accountants behave, researchers must gather evidence. But what evidence? And how should researchers gather it? Positivists tend to use quantitative data. These are data that are, supposedly objective, and may be expressed numerically and manipulated statistically. Company sales
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figures are an example. Postmodernists tend to use qualitative data. These are data that make no claim to objectivity and are difficult to express numerically. The findings of unstructured interviews-emotions, impressions, and so on-are examples of qualitative data. Because of this, even when presented with the same evidence, different researchers may reach different conclusions. This is another reason there is no universally accepted theory of accounting.

A theory of accounting can seek to explain. Such theories are scientific in the Popperian sense, for they may be refuted. It is logically possible for a researcher to believe that Theory 1 is the best explanatory theory, Theory 2 is the best descriptive theory, and Theory 3 is the best normative theory. Thus again there are many theories of accounting. Any researcher may subscribe to three different theories, and do so without being inconsistent.

In practice, the distinction between normative, descriptive, and explanatory theories is blurred. Any theory of one type may have features of the others.

Example theories

This section considers discusses two example theories.

Theory 1: Positive accounting theory

There are several problems with normative theory. One concerns what to enter. Consider assets. An accountant does not know how much a company's assets are worth. So the accountant uses one of several indicators (historical cost, for instance). The accountant must also estimate how much assets depreciate. Accountants use algorithms to calculate depreciation-typically,

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straight line depreciation such that assets become worthless after three years. Such algorithms are only broadly accurate.

Such considerations led Watts and Zimmerman (1978) to develop positive accountancy theory. The theory is in part descriptive, in that it states what real-world accountants do, and in part explanatory, in that it purports to explain why accountants behave in the way they do. The theory says, in effect, that company accounts do not accord with reality. Instead, they accord with what powerful interests (stakeholders, shareholders, managers) want others to see as reality.

The theory makes two assumptions:

Homo economicus. This states three things. First, people are entirely rational. Second, people act only out of self-interest. Third, people act only to maximise their wealth.

The efficient market hypothesis (EMH). This states that, left to its own devices (i. e., if unregulated), the market delivers an optimum price for any good or service. The EMH states that prices accord with all available information.

The reason positive accounting theory makes these assumptions is that, without them, it is difficult to make quantifiable predictions, but with them it is relatively easy. Thus, for example, with them one can predict companies in one particular environment will prefer a different form of accounting from companies in another type of environment. Thus, for example, Watts and Zimmerman (1978) predict that firms whose earnings are increased by

general price level adjusted accounting (GPLA) will oppose GPLA, but firms whose earnings are decreased by GPLA will favour it..

But the notion of H. economicus is problematic-some people are unintelligent, some are altruistic, and so on (Lunn, cited in Clark, 2008), The EMH is also contentious. Some economists accept it, others don't. The EMH is also vague. If the market is efficient, the EMH doesn't say how long it takes to reach a decision Also, if the EMH were true, arbitrage would be impossible. The best one can say about the assumptions is that they provide an approximation of reality. How good an approximation it is, nobody knows. This is another reason there is no universally accepted theory of accounting. Some people think the assumptions provide a good approximation; some people think they provide a bad one. Fama and French (2004) state that markets can be inefficient and investors can be ill-informed and irrational, Just as owners, governments, and workers have vested interests, so have Watts and Zimmerman. In their case, they are interested in promoting positive accounting theory. So, in this regard, the theory has a normative aspect. It concerns how accountancy researchers should practice their trade. If all researchers follow Watts and Zimmerman's diktats, Watts and Zimmerman will become rich. Naturally, all accountancy researchers want to be in Watts and Zimmerman's position, but the only way for them to do so is to develop a rival theory. This is another reason there is no universally accepted accountancy theory.

Theory 2. Critical accounting theory

Critical accounting theory isn't really a theory. It's more a style of criticism. It aims, not only to alter accounting practice, but to change society (Gaffikin, 2008). It is political. Thus, for example, Laughlin (cited in Davis, 2008) states:

A critical understanding of the role of accounting processes and practices and the accounting profession in the functioning of society and organisations with an intention to use that understanding to engage (where appropriate) in changing these processes, practices and the profession.

In this, critical accounting theory is postmodernist.

Postmodernists point to the numerous flaws in positive accountancy theory. They highlight the weaknesses in the concepts of H. economicus and the EMH. They point out that Watts and Zimmerman use rhetorical devices to put the views across. They argue that the methodology and measuring instruments of positivist theories are crude, and so on. Occasionally, they make (or repeat) good points (e. g., the EMH is incorrect) (e. g., Mouck, 1992).

As indicated, postmodernists deny the existence of objective reality. In doing so, they deny the possibility of determining the truth, or worth, of any statement. Thus they deny the truth, or worth, of postmodernism.

This is the problem with postmodernism. If reality is socially constructed, then there cannot be a universally accepted theory, for socially constructed reality differs according to who is doing the constructing. A " true" theory to one postmodernist is a " false" theory to all others.

That is why there is no universally accepted theory of accounting.

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