

# Australian financial accounting



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Running Head: Positive Accounting Theories Positive Accounting Theories

Submitted by XXXXXXXX Number: XXXXX XXXXXX ofXXXXXX

Positive Accounting Theory has been followed for a number of years now and has become a branch of academic research in accounting. This method mainly aims at explaining the actual accounting practices. The next section will provide three hypotheses that can be based on the major components of Positive Accounting Theory. The three hypothesis chosen here are based on the three main components of Positive Accounting Theory and are as explained below:

- a) The first hypothesis is based on the bonus plans. Here the managers use the accounting policies to shift the reported earnings to the current period and to use this as a mode to maximize the personal compensations. This can be very beneficial in the case of the businesses where the managers and the owners of the business are one and the same.
- b) The second hypothesis mainly deals with the debt covenant. Here the main focus is that the more the firms compromise on the debt covenants the higher the chances for the managements to use the policies and to report the future earnings as a part of the current period, mainly because the probability of the possible defaults on debts will be reduced by the high net earnings.
- c) The final hypothesis is where the political costs of the firms are used to adjust the costs accordingly and this is most effective companies that deal with consumer attention and other related businesses.

Research Suggestions:

The above mentioned hypothesis can be tested by studying real life companies. For doing so, it would be most effective to contact companies

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from different fields and industries. It would also be advisable to not only conduct qualitative researches with the management of these companies but also include a thorough on the job training with the management. Doing this will help the researcher gain access to the financial information and will also permit a high chance for a more focused approach, with a good exposure to the working of the companies as well. The researcher can also use this exposure to meet and gain as much knowledge as possible from the top management which will help understand why certain strategies are adopted within the organization and the overall impact that these might have on the financials of the company as well. Hence this will prove to be the most effective and efficient method of dealing with the financial of the companies as well as to test the hypothesis of the positive accounting theory.