

## An Evaluation of the Effects of Accounting History on Financial Accounting

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**ABSTRACT:** This paper has investigated the significance of studying the history of financial accounting in comprehending financial accounting in practice and the roles of practitioners. Besides, it has measured the inferences of both mainstream and critical approaches to the history of financial accounting. The outcomes of the paper regarding the mainstream approach have illustrated that the accounting practitioners attain an enhanced outlook relating to the capital-market economy. Moreover, they acquire a broader standpoint and advance their perception of the double-entry bookkeeping system. The results of this study about the critical approach have demonstrated that the critical accounting practitioners disagree with the FASB's framework and rebuke its growth. Furthermore, they demand the governments modify the pricing and taxation laws to defend the proletariat.

**Keywords** Accounting history, critical accounting, CSR, financial accounting, mainstream accounting

### I. Introduction and Background

History is an important part of any academic program now. Many scholars have stressed the magnitude of considering history as a vital part of any academic research. Furthermore, an essential component of any field of knowledge is its history these days, and accounting is not an exception for this rule. Additionally, many researchers have underlined the magnitude of history in the domain of accounting and its effects on financial accounting. The financial accountants must acquire some awareness about the historical aspects of financial accounting to fully satisfy the requirements of today's world.

This paper investigates the significance of accounting history and its influence on several aspects of accounting. Besides, it illustrates how studying the history of financial accounting may help to better understand financial accounting in practice. It provides a basic history of financial accounting and reveals how obtaining knowledge about financial accounting history helps the practitioners to realize their role also. Besides, it demonstrates the benefits of financial accounting history in the accounting profession by considering the implications of both mainstream and critical approaches to the history of financial accounting.

The accounting history investigates the inheritance of accounting and its donation to accounting theories, concepts, and standards. Parker (1992)<sup>[1]</sup> described accounting history as the study of the evolution of accounting thought, practices, and institutions in response to changes in the environment and the needs of society, and of the effect of this evolution on the environment. There have been five separate eras recognized about the evolution of accounting and accounting theory: Pre-1494: the development period; 1495-1800: the pre-theory period; 1801-1955: the general descriptive theory period; 1956-70: the general prescriptive theory period; and post-1970: the specific descriptive theory period.

During the development period, the double-entry bookkeeping system has grown in Italy. The double-entry bookkeeping has dispersed in the European countries during a pre-theory period later. However, few try to explain the fundamental thoughts of the double-entry system during this period. Throughout the general descriptive theory period, academic accountants were highly involved with the production of clarifications for the created accounting practices. The most constant phase of censure and recommendations for other accounting systems happened in the general prescriptive theory period although there has been some displeasure with historical cost accounting system in the preceding stage too. The specific descriptive theory period has emphasized on empiricism. While there are still some critics who are re-stressing the necessity of generating substitutes for historical cost accounting at this stage (Henderson, Peirson, 1992)<sup>[2]</sup>.

## II. Mainstream Approach of Accounting History

The study of Chua (2019) <sup>[3]</sup> acknowledged that mainstream accounting is based on a series of philosophical beliefs regarding knowledge, the empirical world, and the relationship between theory and practice. The mainstream accounting researchers' persistence on public, intersubjective tests and reliable empirical evidence has brought great advantages into the contemporary world. Nevertheless, it has limited the type of examined problems and the use of research methods. The accounting history is an important part of any accounting research at present since the researchers must rely on past events to reach a clear direction for their research. Also, the results of any research will be more sensible after scrutinizing the earlier events. The accounting researchers easily progress their investigations by acquiring the facts concerning the historical perspectives of the subject. They easily detect the existing gaps in the domain of accounting and perform some studies to address the problems by gaining some acquaintance relating to the accounting history also (Bricker, 1991) <sup>[4]</sup>.

Oldroyd (1999) <sup>[5]</sup> mentioned that traditional accounting historians believe accounting convergence and GAAP projects are accounting advancement and their study helps the practitioners to obtain a better view concerning the capital-market economy and to identify the reasons for a current stock market collapse. The accountants find out how the structure and contents of financial statements have been established and explore how generally accepted accounting principles (GAAP) and other accounting and financial reporting standards have been developed over the years and what were the logics behind these rules and what will be their future effects on the various corporations. Furthermore, they learn how to make their reports more coherent for the readers even for those who do not have any accounting background by comparing the diverse reports produced by the earlier accounting firms.

The accountants analyze the reasons for which the accounting standards have been developed by FASB and attain a better comprehension of the accounting conventions. Further, they come across the areas which have not been entirely covered by FASB and start to search for new solutions to resolve the existent shortcomings. Moreover, based on the preceding information they decide on the best available option for any specific problem. Furthermore, they may discover alternative solutions for the existing issues if the accounting bodies have not provided a pertinent solution. The accuracy of their reports increases as they get to know with the numerous aspects of accounting also (Riahi-Belkaoui, 2004) <sup>[6]</sup>. A recent study by Gleeson-White (2013) <sup>[7]</sup> showed that the accounting practitioners obtain a wider perspective and improve their awareness regarding the double-entry bookkeeping system through analysis of the prior texts. Besides, the practitioners learn in connection with the double-entry bookkeeping's expansion and identify the defects of double-entry. So, they implement dependable procedures in their organizations to overcome the deficiencies of the double-entry system to improve their businesses' performance.

The practitioners acquire a more sophisticated view of how the recording has been done and gain a more advanced impression about different transactions. Additionally, they come to know why some factors have been eliminated and practice a more realistic approach concerning those factors. Wilson (2015) <sup>[8]</sup> discussed that the current downfall of accounting owing to the Enron scandal is because of lack of attention to the history of accounting. Likewise, they mentioned that the actual disputes about corporate scandals can be answered with scrutiny of accounting history. Moreover, they found that corporate social reporting (CSR) cannot be understood except through extensive examination of accounting history writings. Furthermore, they declared that the only effective way to put CSR into practice is the analysis of previous accounting systems, and any attempt to employ CSR without considering its history is futile. Further, they supported the notion that accounting history should be regarded as a major component of any accounting program.

The practitioners better recognize the changes in pricing policies and get an obvious picture respecting to the various plans in separate regions of the world. Besides, they attain a clear picture and advance their awareness about the pricing regulations by comparing them together. Moreover, they compare diverse pricing strategies based on their former outcomes and select the most relevant strategy. Furthermore, the applicability of each pricing approach in a particular industry is noticed, and they decide on the appropriate technique to deal with any specific industry. They familiarize themselves with the outdated pricing tactics and find out why preceding practices have become useless and how to expand the lifespan of certain methods too (Watts and Zimmerman, 2004) <sup>[9]</sup>.

Edward (1989) discovered that tax consultants acquire a wider perception of the tax legislation in other parts of the world and gain enough knowledge about the advantages and disadvantage of different taxation regimes. Moreover, they come across the answers for many present-day taxation problems in the historical accounting literature. Additionally, they identify the procedures that have been used to tackle the prior difficulties and earn the required wisdom to handle unusual disagreements. Further, the tax advisors in the managerial level obtain an enhanced view about their firms' strengths, weaknesses, and how to improve the organization's direction by comparing their corporations with the previous companies.

### III. Critical Approach of Accounting History

According to Deegan (2009)<sup>[10]</sup>, the critical perspective refers to an approach towards accounting in which it believes those in power has used accounting as a tool to maintain their position and to repress the voice of low-income earners. The critical accounting theorists perform critical analysis to emphasize the strategic role of accounting in the community, and they question the objectivity and neutrality of accounting concepts. The accounting authoritative power to address the recent accounting problems and issues has been weakened. The accounting historians have maintained a conservative standpoint, and they have failed to satisfy their moral and social responsibilities towards society. The accountants should change their attitude towards accounting and find practical ways to use accounting as a tool to improve the human's life (Sy and Tinker, 2005)<sup>[11]</sup>.

Macintosh (2009)<sup>[12]</sup> mentioned that accounting convergence and GAAP projects have been developed to abuse the proletariat. The capitalist system promotes GAAP projects to increase the wealth of the ruling parties. Additionally, the accounting convergence has been supported to strengthen the domination of bourgeois. The accounting practitioners come to know about the truth behind the GAAP projects and realize how the convergence concepts have taken advantage of laboring class residents. So, they expose the reality behind the projects and attempt to find appropriate ways to oblige the accounting bodies to implement alternative principles to support the blue-collar workers. For example, they may organize some demonstrations to demand the standard-setting bodies to modify their rules for the sake of ordinary labors.

Bryer (1999)<sup>[13]</sup> mentioned that the principal objective of accounting is to satisfy the interests of investors. This abusive intent has led to creative accounting in some situations. Moreover, the FASB's framework has been subjectively designed to permit the generation of surplus-value. The frame has been defended by the ruling class as it signifies that capital is the origin of profit. Furthermore, the power elite uses the frame to increase its influence in the state. The accounting critics oppose the FASB's framework and criticize its expansion as they see the frame as a mean of exploitation by white-collar workers. Moreover, they initiate a new frame to help the underclass nationals to have a better life.

The double-entry bookkeeping system has changed the way business was operating formerly. Besides, it has played a central role in legalizing capitalism. It has been endorsed by the capitalist market to execute new categories of control also. Furthermore, it has facilitated the exploitative practices of a free enterprise system, and it has been used to constantly calculate the rate of return on capital which is in favor of upper-class citizens (Merino, 1998)<sup>[14]</sup>. The critical practitioners recognize the underlying assumptions of the double-entry system and condemn them. Additionally, they develop new accounting systems to stop the unfair exercises of a private enterprise system and to diminish the created social inequality due to the private owners' self-interest to make the world a better place to live for people.

Cooper and Puxty (1996)<sup>[15]</sup> argued that cost accounting has been generated to enable the managers to enslave their employees. The rise in demand for improved productivity has endangered the personnel by enforcing them to participate in dangerous activities, and cost accounting has given the managers the required instruments to compel their workforce to step in risky practices to achieve the predetermined targets. The critical accountants dispute the emergence of cost accounting and challenge its rationality. Moreover, they follow the notion that enhanced productivity should not be the main concern of the business, and the wage earners' safety should not get jeopardized to acquire financial profits for the company.

CSR is controlled by the governments and reporting bodies which do not wish to change the things and it does not have any radical substance. The critical accounting theorists consider CSR as an instrument to legalize the contemporary operations of certain corporations. Besides, they claim that CSR hurts the civilians by permitting the private enterprise system to capture the radical components and weaken them (Belal, 2008)<sup>[16]</sup>. The critical researchers inform the media in connection with CSR failures and uncover the inadequacies of actual disclosures to the community. They strongly criticize the authorities and reporting firms and request the companies to deliver a greater extent of social and environmental disclosure also.

Price (1992)<sup>[17]</sup> mentioned that the pricing and taxation laws aim to exploit the small organizations for the benefit of the richest. The taxation systems have been designed in a particular way to make the most out of the small enterprises and lower-class inhabitants and to enrich those groups that are already well-off. The practitioners learn respecting the methods and techniques that have been used by the managers to show their decisions and actions as legitimate and for the benefit of people. Therefore, they reveal these tricks to the public and inform them about the real purpose of the pricing and taxation regulations and request the regimes to alter the laws to protect the working-class families.

### IV. Conclusion

Guthrie and Parker (2006)<sup>[18]</sup> recommended placing a greater extent of emphasis on the learning of accounting history because of the effect of knowledge regarding the financial accounting history in the performance level of accounting practitioners. Hence, the practitioners are requested to consider learning concerning the history of accounting as an indispensable part of their job. Moreover, they must increase their comprehension of different

approaches to the history of financial accounting and grasp the differences between mainstream and critical approaches. It is suggested that the governments compel the institutions of higher education and the professional accounting bodies to consider accounting history subjects as the core subjects of the accounting program. The universities and the professional accounting bodies have to offer more accounting history topics, and they must frequently evaluate and update the contents of the historical subjects (Zeff, 1989) <sup>[19]</sup>.

This paper has reviewed the importance of studying the history of financial accounting in understanding financial accounting in practice and the practitioners' role. Moreover, it has considered the implications of both mainstream and critical approaches to the history of financial accounting. The outcomes of the paper about the mainstream approach have indicated that the accounting practitioners obtain a better view of the capital-market economy and identify the reasons for the current stock market collapse. Furthermore, they analyze the reasons for which the accounting standards have been developed by FASB. Further, they obtain a wider perspective and improve their awareness concerning the double-entry bookkeeping system. Moreover, they enhance their understanding of CSR and their knowledge of corporate scandals. They better recognize the changes in pricing policies also. Additionally, the tax consultants come across the answers for many present-day taxation problems.

The results concerning the critical approach have shown that the critical accounting practitioners come to know about the truth behind the GAAP projects and realize how the convergence concepts have taken advantage of laboring class residents. Also, they oppose the FASB's framework and criticize its expansion. Furthermore, they recognize the underlying assumptions of the double-entry system and condemn them. Besides, they dispute the emergence of cost accounting and challenge its rationality. Additionally, they strongly criticize the authorities and reporting firms regarding CSR. They request the governments to alter the pricing and taxation laws to protect the working-class families also.

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