©KY PUBLICATIONS
REVIEW ARTICLE
Vol.3.Issue.4.2016
Oct-Dec.

ISSN:2349-4638

http://www.ijbmas.in
INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT AND ALLIED SCIENCES (IJBMAS)
A Peer Reviewed International Research Journal

A SYSTEMATIC REVIEW INTO THE HISTORY OF ACCOUNTING THOUGHT

LAMBE ISAAC
Department of Accounting,
Bingham University, Karu, Nasarawa State, Nigeria
E-Mail: talk2ice@yahoo.com

LAMBE ISAAC

ABSTRACT

The preceding line of reasoning regarding the role of theory and thoughts in science has been well received in the discipline of accounting. However, when it comes to its application, the idea has not been strictly followed in accounting, thus throwing up a host of problems. The main problem in the application of this scientific philosophy in accounting can be traced to the two distinct approaches to theory construction in accounting today: the traditional approaches and emerging approaches. The paradigm in the use of the traditional approaches perceives theory construction, accounting practice and theory verification as one activity which should not be separated. The new or emerging approaches on the other, hand insist that theories be empirically verified. Accounting came into being to meet the need of the environment. As much as it is a product of its environment, accounting is also the environment's change agent. In the same way that the human society has evolved rapidly over time, accounting environment has also responded in equal force. One way change shows it effect on accounting is in its definitions across time and through a detailed examination of accounting thought. This paper therefore seeks to provide a general overview and a systematic review into the history of accounting as a profession, by tracing the historical development and appraising the milestones of accounting thought as well as providing an insight into the dynamics of accounting environment and challenges in adapting to new social role. The paper concludes that like any other profession, the presence of standards and principles to regulate accounting practices are a fundamental requirement. It is instructive however, to note that it is the commitment, integrity and objectivity demonstrated by accountants in the conduct of their affairs that underscores the success of any accounting system and as such punctuates the disciplines leadership roles and not mere availability of accounting principles, concepts and standards.

Keywords: Accounting thought, History, Principles, Standards, Theory development.

INTRODUCTION

The history of accounting is thousands of years old and can be traced to ancient civilizations. The early development of accounting dates back to ancient Mesopotamia, and is closely related to developments in writing, counting and money and early auditing systems by the ancient Egyptians and Babylonians. By the time of the Emperor Augustus, the Roman government had access to detailed financial information. According to some Indian scriptures, the Indian Chanakya wrote a manuscript similar to a financial management book, during the period of the Mauryan Empire. His book "Arthashasthra" contains few detailed aspects of maintaining books of accounts for a Sovereign State. However, the Italian Luca Pacioli, who is recognized as the father of accounting and bookkeeping was the first person to publish a work on double-entry bookkeeping, and introduced the field in Europe. Accounting began to transition into an organized profession in the nineteenth century, with local professional bodies in England merging to form the Institute of Chartered Accountants in England and Wales in 1880.

Accounting records dating back more than 7,000 years have been found in Mesopotamia, and documents from ancient Mesopotamia show lists of expenditures, and goods received and traded. The development of accounting, along with that of money and numbers, may be related to the taxation and trading activities of temples. The early development of accounting was closely related to developments in writing, counting, and money. In particular, there is evidence that a key step in the development of counting - the transition from concrete to abstract counting - was related to the early development of accounting and money and took place in Mesopotamia. Other early accounting records were also found in the ruins of ancient Babylon, Assyria and Sumeria, which date back more than 7,000 years. The people of that time relied on primitive accounting methods to record the growth of crops and herds. Because there was a natural season to farming and herding, it was easy to count and determine if a surplus had been gained after the crops had been harvested or the young animals weaned.

Between the 4th millennium BC and the 3rd millennium BC, the ruling leaders and priests in ancient Iran had people oversee financial matters. In Godin Tepe and Tepe Yahya, cylindrical tokens that were used for bookkeeping on clay scripts were found in buildings that had large rooms for storage of crops. In Godin Tepe's findings, the scripts only contained tables with figures, while in Tepe Yahya's findings; the scripts also contained graphical representations. The invention of a form of bookkeeping using clay tokens represented a huge cognitive leap for mankind. During the 1st millennium BC, the expansion of commerce and business expanded the role of the accountant. The Phoenicians invented a phonetic alphabet, probably for bookkeeping purposes, and there is evidence that an individual in ancient Egypt held the title 'comptroller of the scribes'. There is also evidence for an early form of accounting in the Old Testament; for example the Book of Exodus describes Moses engaging Ithamar to account for the materials that had been contributed towards the building of the tabernacle. By about the 4th century BC, the ancient Egyptians and Babylonians had auditing systems for checking movement in and out of storehouses, including oral 'audit reports', resulting in the term 'auditor' (from audire, to hear in Latin). By the 2nd century BC, the importance of taxation had created a need for the recording of payments, and the Rosetta stone also includes a description of a tax revolt.

Historical Development of Accounting Thought

Accounting came into being to meet the need of the environment. As much as it is a product of its environment, accounting is also the environment's change agent. In the same way that the human society has evolved rapidly over time, accounting environment has also responded in equal force. One way change shows it effect on accounting is in its definitions across time. Witness below some examples of the changing definitions of accounting over time:

1. The central purpose of accounting is to make possible the periodic matching of costs (efforts) and revenues (accomplishments) – Littleton, 1953.
2. Accounting is the art of recording, classifying and summarizing in a significant manner - Committee on Terminology of the AICPA, 1961.
3. Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by the users of the information - American Accounting Association (AAA) 1996.

The significance of change in the definitions of accounting across time is that it is not only a dynamic discipline; it closely monitors change in its environment and responds accordingly. In this respect, it is definitely out of place to narrowly perceive accounting today as a mechanism for measuring only profit. In the context of the foregoing, it is correct to conclude that the development of accounting thought is evolutionary in nature and this growth pattern is a direct response to social and economic change. Adopting a helicopter survey approach, the evolutionary growth pattern of accounting thought can be charted using the following historical milestones.

Historical Milestones of Accounting Thought

As stated above, the evolutionary growth pattern of accounting thought can be charted using a number of historical milestones, some of which includes the following:

1. Stewardship Accounting: The Renaissance Age

The early history of modern accounting can be traced to the Renaissance Age when it served as a tool for safeguarding the wealth of owners of capital from theft and embezzlement by the stewards or agents who were constrained to periodically account for the way and manner they managed their trusts using stewardship accounting or bookkeeping methodology. Indeed, it was the merchants of the Italian city states that utilized this type of accounting during the Renaissance Age. At this time, the bookkeeping method used was popularly referred to as the Italian method. The author of the Italian method was Luca Paciolo a monk and mathematician who set out the framework in his book published in 1494. The Italian method, the progenitor of modern accounting, later became known as "double-entry bookkeeping". The truth of the matter is that even though that method did not become popular in Western Europe until the early part of the 19th century, the stewardship accounting was a significant catalyst in the commercial expansion of Western Europe in what became known as commercial capitalism following the Renaissance period. All in all, the principal focus of stewardship accounting was to foster accountability and transparency in the way trustees deployed the assets placed in their trust by the owners of capital.

2. Financial Accounting: The Industrial Revolution Age

Financial accounting the way we know it today has a recent history dating from the period of the Industrial Revolution. The Industrial Revolution was so called because the period witnessed unprecedented expansion in industrialization in Western Europe. The rapid expansion called for huge capital formation and this gave birth to the concept of the Joint Stock Company. The concept was an open invitation to the public to participate in joint ownership of firms. The response to the invitation was massive until the early part of the 18th century. Specifically, the historic South Sea Bubble of 1720 seriously jolted and rattled the investors' confidence in the new concept. Fears and jitters were created in the investing public who were beginning to perceive the concept as a "419" (i.e., scam). Series of subsequent legislations e.g. Joint Stock Companies Act 1844 and Limited Liability Act, 1855 were enacted aimed to restore public confidence. An important offspring of these legislations was the birth of financial accounting which was conceived to provide to the shareholder on a systematic basis annual financial reports e.g. balance sheet and profit and loss account. Evidently, financial accounting is about disclosure of information to the shareholders and other stakeholders outside the company.

The company Act of 1967 was enacted in the UK (United Kingdom) as a response to the observed reluctance of company management to disclose any further information beyond the required minimum. Needles to state at this juncture that similar development in the need for more disclosure were also playing out in the USA since 1930s following the historic stock market crash of 1932. Agencies in the forefront of mobilizing and advocating for more disclosure of financial information in the USA included the SEC (Securities and Exchange Commission), Stock Exchanges and the accounting profession via the Financial Accounting Standards Board. In other jurisdictions, there have been similar clamours for change in financial disclosure to the market. For example, the EU (European Union) has been angling for the standardization of accounting practices to attain uniformity of practices and disclosure as a vehicle for facilitating trade between the member nations. In recent times, there has been a strong move toward international financial reporting. The establishment of the IASB (International Accounting Standards Board) in 2001 was aimed at pushing forward this advocacy and a lot of progress has been recorded in that direction. For example, well over 120 countries today require the use of the IFRSs (International Financial Reporting Standards) by their domestic quoted companies. Overall, financial accounting has been given sufficient legal backing in various jurisdictions so as to create safe and conducive environment for the flow of capital for investment. In this regard, one can salute the socio-economic role of financial accounting.

3. Management Accounting: Industrial Capitalism Era

If financial accounting is said to have a recent history, it is more so for management accounting which development occurred only in the industrial capitalism era. Specifically, management accounting came about following the need for sound industrial management to support the Industrial Revolution. Accounting started responding to the industrial demand at the time via isolated efforts at developing costing techniques in the early 20th century. In other words, management accounting came on board as a response by accounting to provide more specialized information. Focus was therefore shifted from the provision of historical data (i.e. financial accounting) to forward looking data for the purpose of management planning, control and day to day decision-making. This development, in no small measure, represented a big surge forward. It again demonstrated the capacity of accounting infrastructure to faithfully rise to the challenges of the moment in meeting the environment's socio-economic need. Needless to say here that management accounting has contributed in no small way in advancing the course of modern capitalism as it is instrumental in expanding production scales as well as increasing the general standard of living.

4. Social Responsibility and Environmental impact Accounting

Social responsibility and environmental impact accounting is a relatively new development in accounting thought. It owes its origin to social movement or revolution that has been sweeping across the globe in recent times. This area of accounting seeks to expand the scope of accounting from the traditional narrow concerns about profit and loss account to the social impact of business decisions. People being now more conscious of the undeniable byproduct of business activities, especially environmental hazards, are demanding for public disclosure on them. Management in recent times is being held accountable for good corporate governance which includes, in the main, what they have done about the countless number of social menaces created by them (i.e. externalities). This is to say that the criteria for judging corporate performance or good governance have increased from the traditional template. For accounting reports to be complete now, they must include information on social and economic costs incurred matched against social and economic benefits created. In this way, accountability is rendered on contributions a firm is making in solving the problems of the society. Accounting now must help government agencies charged with the responsibility of attending to the serious social problems such as urban congestion, poverty, pollution/degradation, crimes, health, quality of life, and so on.

The Dynamics of Accounting Environment and Challenges in adapting to New Social Role

The point has earlier been forcefully registered that accounting is a child of its environment. The dynamic nature of the accounting environment has continued to expand the scope of the social role of the accountant as he is being invited to supply all sorts of information different from income. For example, accounting infrastructure in recent times has been challenged to open up to admit on board concerns beyond the mundane profit and loss account. Specifically, accounting is now being looked up to for help in areas of human resource development, urban congestion, poverty alleviation, environmental pollution/ degradation, crime control, national health policy, sustenance of quality of life and a host of other serious concerns. This means that the environment of accounting is constantly in a state of flux throwing up new challenges to the accountant to address if he still means to remain relevant. The accountant therefore, must continue to seek to adapt and rise to the challenges in the following key areas:

A) Decision making focus

The accountant's traditional education was narrow focused basically on accounting methods without sufficient training in the skill on coping with the problem of change. And yet, his current world is characterized by rapid change. To cope with rapid change requires being grounded in decision making, which as a mater of fact, has different dimensions that are economic, behavioural, sociological and quantitative in nature. Considering that the interest in accounting in recent times has shifted towards decision making, accounting has no choice but become inter-disciplinary in content to be able to adequately rise to the challenges of the new social role bestowed upon it.

B) Invasion by experts from cognate professions

Accounting market is being invaded today by experts from cognate disciplines, e.g. IT (Information Technology), operations management, and so on. These people bring with them new specialized skills and knowledge in different areas as they threaten to offer better solutions in areas erstwhile dominated by the accountant thus putting the status and role of the accountant at risk of social relevance. To rise to this challenge, the accountant must expand his skills in these threatening areas.

C) Accounting not being an exact science

Accounting can't make pretensions to be an exact science which rests on universal truths and irrefutable laws. It is indeed only a social science and its concepts and principles are not grounded in universal laws of nature. As a social science, accounting makes an ample room for value judgments implying that its measures are far from being exact thus creating room for possible controversies regarding the alternative ways of measuring economic events.

D) Limited usefulness of financial information for decision making

The usefulness of information fed the market by financial accounting is limited due to the fact that different accountants can pretty well employ a given set of financial data to prepare different sets of financial reports each of which satisfies the requirement of GAAPs. For accounting to deepen its respectability in the new social order, it must seek to narrow the scope of allowable alternative methods for treating an economic fact.

Development of General Accounting Theory

Accounting Theory Development can be defined as a piecemeal process of trial and error in response to changing social and economic forces. Therefore, it is clear that a general frame of reference is needed, however not one that would upset the 'accounting system'. Accounting theory cannot be narrowed to a certain approach, which is the definitive article. In fact, accountancy is one of the few disciplines in which the theory is changed to be coherent with practice. General accounting theories should as their main objective, guide accountants in providing a summary of the financial activities for the year that is complete as regards information that would influence the users. Due to constraints such as timeliness and cost, the theory must aid by providing 'general' guidelines on the presentation of the financial data. There have been many approaches to accountancy theory development over the years whether it is the classical methods of reasoning such as the deductive, inductive, ethical, sociological and economic approaches; or the more modern positive and normative accounting theories. To say that one of these is the best would be over simplifying the discussion, as there are a variety of prevalent accounting disciplines that have to be taken into account. These include the environment, the regulatory climate, the users of financial statements and their needs.

In addition, the two main classical methods of theory construction are the deductive and inductive approaches. The deductive approach developed a theory, and then followed with the principles and the techniques used in implementing this theory. The theory was then verified by looking at 'reality'. If the theory didn't fit with 'reality' then the objectives were looked at again. The inductive approach looked at accounting in practice as the particular and formed a general theory to suit this practice by analysing recurring relationships. In later years they were supplemented by new, albeit similar modern theories - Positive Theory, Normative Theory, the Inductive and Deductive approaches. The Positive Theory of accounting looks at how things are currently practised, while Normative Theory Construction develops a theory on how principles should be. Subsequently they are following the traditional guidance of the inductive and deductive approaches respectively. There are inherent flaws in both theories that make them impractical in their prescribed form. To select a theory based on current practices, even from the best approaches, is to neglect to recognise that a better theory may be out there that cannot be inferred from practice. Positive accounting theory is descriptive rather than being prescriptive, failing to anticipate future events that may not be covered by current accounting theory. Analysts recognise that there is a lack of anticipation in current accounting standards for future circumstances and practices to be dealt with. It can clearly be seen that the Accounting Standards Board takes largely a positive theory approach as when a conflict arises it clarifies the situation with a new accounting standard.

The danger of the normative approach is that there is no definite knowledge of how new and unrelated theories are going to affect practice in the future. It cannot be empirically verified, so it could either lead to a greater amount of 'red tape' for the accountant in the future or worse still it could 'upset the system' by losing sight of the main objectives. However, normative theory is important for the regulation of the industry and the development of new practices. Financial information is only relevant and reliable if it shows a complete, correct and unbiased interpretation of accounts that can be relied on by the users. A general theory is useful if it gives a backbone for accountants to rely on while giving users some support in the interpretation of accounting methods. However, the normative approach should not be used to advocate too stringent a theory. For example, the accounts of the local football club should not have to be presented with the same complexity as a multi-national company. Two main classes of users - those of limited authority, ability or resources to obtain information and also the immediate users, that is investors, creditors, stakeholders are generally recognized the world over. There is obviously a conflict of interest here as it is unlikely that any general theory can successfully fulfill the needs of all users.

Consequently, there are more users-orientated methods of reasoning. The Equity Theory is a lesser-recognized theory but important none the less. It gives a more specific view of how accounts should be presented by looking at whether they give a fair, just and truthful interpretation of the accounts for the user. The welfare, sociological, and economic approaches look at how the company impinges on the environment and if the presentation is drafted to suit society as a whole. Theories do have a limit in their ability to regulate the accounting system. Behavioural accounting on the other hand, involves the methods of thinking of accountants, suggesting that a theory should not be too detailed as to leave no room for judgments to be exercised. However it should not be too broad either so as to be ineffective in providing guidance to preparers of financial statements. Furthermore, International Standards are hard to come by because of different legal and economic needs. However it calls for general theories as 'bridges' in interpreting this information for comparative reasons. There is no one theory that can satisfy all needs, but guidance should be provided whether it is to help non-accounting users interpret company accounts or to help accountants prepare accounts for Multi-National Companies, whilst not breaking any international legislation. It also recognises the psychological nature of accountants, where the statistics point out that their moral reasoning is sometimes pretty weak compared with other professionals. Guidance should be provided so that accountants do not let their personal interests interfere with their professionalism.

Approaches to Accounting Thoughts and Theory Development

The point has earlier been made that there is nothing like a single comprehensive theory of accounting. What obtains in accounting thought is a multiplicity of theories that result from different paradigms and approaches. It is possible to rationalize these various approaches and their prisms into two broad families: Traditional and emerging approaches. Both the emerging or new and traditional approaches may be perceived as being rooted in different accounting paradigms competing in a period of crises for the domination of accounting thought, thus the nature of the two families of approaches - the traditional and the emerging approached - are closely examined below.

1. The traditional approaches

What is called the traditional approaches are indeed motley of research methods including normative, descriptive, ethical, social welfare, economic methods, and many more. For the sake of rationality, these various approaches can be better categorized into two: Non-theoretical and theoretical approaches.

A) Non-theoretical approaches

The non-theoretical approaches on their own consist of two approaches: pragmatic and authoritarian approaches.

i. Pragmatic approach

This approach proceeds from the premise that accounting is an empirical science and utility should be the only criterion or basis for choosing any principles. In this perspective, a theory developed using the pragmatic paradigm is one that must fully reflect real life practices. That is to say it must seek to solve practical problems. The logic here is that any accounting technique or policy is good only if it has utility for the decision contexts of the accounting information users. It must be observed here that it is essentially the attempt by this paradigm to connect theory to practice that is its waterloo in the sense of not being able to offer satisfying conclusions.

ii. Authoritarian approach

Popular among professional bodies, this approach to theory development consists of issuing pronouncements for the regulation of practice. Because this approach like the pragmatic one seeks to provide practical solutions, the two are always identified together in the extent that they believe in utility as being the best criterion for developing accounting principles or theory. As far as they are concerned, a theory lacking in practical content is simply a bad one. Most early attempts at accounting theory development employed these approaches, e.g; double-entry book-keeping theory proposed by Fra Luca Paciolo, published in Venice, Italy in 1494 and the theory of accounts approach otherwise known as the accounting equation. Evidently, the theory of accounts approach like the other two non-theoretical approaches has failed to go far due to the absence of robust theoretical grounding.

B) Theoretical approaches

There are six principal approaches that make up the family of theoretical approaches, which includes the following:

1. Deductive approach
2. Inductive approach
3. Ethical approach
4. Social welfare approach
5. Economic approach, and
6. Eclective approach

The nature of these approaches is described here below:

i. The Deductive approach

The approach typically moves from general propositions to particular conclusions. In the context of accounting thought, it begins with generating basic accounting propositions or premises and proceeds to derive by logical means accounting principles that serve as guides or bases for the development of accounting techniques or policies. There are four basic steps involved in the use of this approach:

1. Specify basic accounting premises/propositions for example, objectives of financial reporting.
2. Select the postulates/assumptions of accounting.
3. Derive principles of accounting.
4. Develop techniques of accounting.

Hence, the movement from the general consists of the specification of basic accounting propositions and to particular consists of first deriving the principles and second using the principles as a basis for developing accounting techniques. The structure of a theory developed under this approach consists of the following sequence:

Techniques – principles – postulates – objectives.

What this sequence and relationships imply is that every other thing depends on the soundness of the objectives. The resulting deductive theory would need to be tested along the following four lines:

- Compare the conclusions (that is principles) among themselves for internal consistency or coherence;
- Investigate whether the theory enjoys the attributes of an empirical or scientific theory or whether it is a mere tautology;
- Compare the theory with other theories to determine whether it is capable of advancing the frontier of knowledge in the area, and
- Empirically apply the techniques derived from the theory to practical situations to see how the theory measures up to the demand of practice (i.e. its acceptability).

The last step is very crucial indeed. If the predictions of the theory are acceptable, the theory is said to be verified or corroborated for the time being. If it is not corroborated, it remains falsified or rejected. Accounting deductive theorists who pursue this line of theory construction are in search of some conceptual rigour.

ii. The Inductive approach

It consists of moving from the particular to the general. It seeks to draw theoretical and abstract conclusions from rationalizations of accounting practice. It takes off by first studying to understand the existing system or practice in order to record recurring relationships (i.e. likes and similarities). Applied to accounting, it consists of the following four steps:

- Observe financial information of firms (i.e. recording, summarizing, reporting and use);
- Analyze and record areas of differences and similarities;
- Make generalizations and formulate principles of accounting from these observations and
- Test the generalizations.

The robustness of the theory depends only on empirical testing and not with internal consistency to see how many instances where the propositions apply (that is, recurring relationships). As posited earlier, deductive and inductive approaches are mutually reinforcing and not mutually exclusive. For example, the general propositions of deductive process are formulated via inductive logic while the principles and techniques are derived by deductive logic. The two are also interposed. This explains the fertile ground for collaborative work by both the deductive and inductive theorists.

iii. The Ethical approach

This approach focuses on the concept of fairness which has now been accepted as a desirable objective in the construction of an accounting theory. Fairness here may be construed to mean justice, equity and truth. "Justice" here means fair treatment of all interested parties; "truth" means true and accurate accounting statements without misrepresentation. So, the concept refers to the need of a firm's financial reports to meet the following four basic criteria:

- Conformity with GAAP,
- Disclosure
- Consistency, and
- Comparability.

It is because of the importance of the concept of fair representation that the auditor in his opinion statement must make reference to the extent these four criteria have been met.

iv. The Social welfare approach

The social welfare or sociological approach to the formulation of an accounting theory has contributed to the evolution of a new research area in accounting known as socio-economic accounting or social responsibility and environment impact accounting. Its main objective is to encourage the business entities that function in a free market system to account for the impact of their private production activities on the social environment through measurement, internalization and disclosure in their financial statements.

v. The Economic approach

`The concern of this approach which is best described as macro-economic approach is that the choice of an accounting technique/policy should reflect the reality of the economy as a whole. That is, macro-economic indicators should guide the firm in the selection of accounting methods, for example; in times of spiral inflation, use LIFO as opposed to FIFO. Thus, the two areas of concern of this approach are:

- Economic reality and
- Economic consequences.

vi. The Elective approach

All in all, formulation of an accounting theory and the development of accounting principles have followed an eclectic approach or a combination of approaches rather than only one of the approaches discussed in the preceding. This has come about as a result of numerous stakeholders participating in the establishment of concepts and principles of accounting. They include individuals, professional bodies and government regulatory agencies. Thus, the traditional approach has evolved into an eclectic approach and is beginning to be replaced by newer approaches being canvassed in the literature as in the subject of the next section.

2. The emerging approaches

The emerging or new approaches differ from the traditional approaches in three main respects, which include:

- They represent innovative and more empirically oriented methods of resolving accounting issues.
- They insist on verification or confirmation as a precondition for theory acceptance.
- Because of the radical posture, they fail to enjoy general acceptance.

It is instructive to state however that, the key issues encompassed in the emerging approaches includes, but not limited to the following:

- Regulatory approach
- Events approach
- Human information processing approach
- Predictive ability methodology
- Positive methodology.

A key issue that also forms an integral part of the emerging approach is the various forms of standard setting. Every form of standard setting has its merits and demerits in the sense that there is no clear cut conceptual and practical winner. The three forms of standard setting are:

- The free-market approach,
- Private sector regulation approach.
- Public sector regulation approach.

Interface of Research, Theory and Policy Development in Accounting Thought

The interface of research, theory and policy development seeks to demonstrate the intricate relationship that should subsist between and among accounting research, theory development and policy making in any forward-looking jurisdiction. In its simple form the following flow chart depicts the relationship:

Figure1: Interface Among Research, Theory and Policy- making

As shown in Figure 1, while theory construction process uses as inputs all sorts of philosophical concepts and ideas in developing principles in order to feed into the rule-making process, research output on its own feeds into theory development process. A fuller picture of the interrelationships between and among the various factors that play out in a typical financial accounting environment is further presented in Figure 2.

As shown in Figure 2, the practitioners on their own part at the firm level interpret and put the standards and other pronouncements of the policy making organs into practice. In other words, accounting theory is developed and refined by the process of accounting research. To avoid doubt, bodies that carry out the policy development function include the standard setting agencies, such as NASB (Nigerian Accounting Standards Board) in Nigeria, FASB (Financial Accounting Standards Board) in USA, IASB (International Accounting Standards Board) in the globe and SEC in various jurisdictions. This policy function is also referred to as standard setting or rule making and specifically refers to the process of arriving at pronouncements issued by the NASB, FASB, IASB or SEC. As shown in the figure, the inputs to the policy making function come basically from three main (though not necessary of equal relevance) sources.

Accounting policy making should be normative in orientation if its output must move the economy forward. It has to be so because the policy making is vested with the power to prescribe choices among alternative accounting methods and insist on particular disclosures. Also displayed in Figure 2 is the fact that rule making must take on board prevailing economic realities, lobbying by various political interests and a feed-on from accounting theory. It is instructive to note that the two models presented have been left only at a simplistic level without taking into account numerous feedback relationships among the agents in the policy making arena or between research and theory development activities. Even at this simplistic level, the message about necessary connections is unmistaken. Where there are, for instance, observed disconnections between the different organs in a given jurisdiction, that is an indication of a system malfunction.

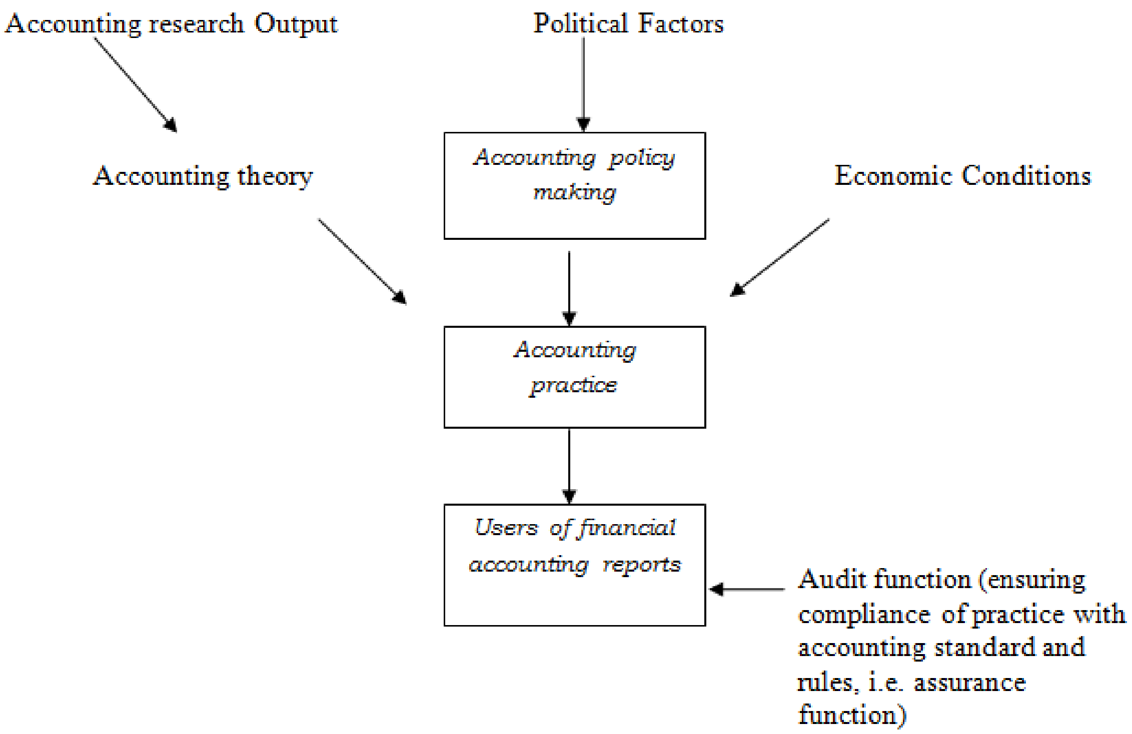

Figure 2: Interface of Relevant Variables in a Financial Accounting Environment

Audit function (ensuring compliance of practice with accounting standard and rules, i.e. assurance function)

Source: Adapted from Wolk, Francis and Tearney (1984)

Summary and Conclusion

This paper has attempted to provide a general overview of the history of accounting as a profession, which it traces to the history of civilization. It shows that a study of the history of accounting though is important in other to appreciate the past and present events, so as to be able to forecast or control future events. The paper therefore concludes that like any other profession, the presence of standards and principles to regulate accounting practices are a fundamental requirement. It is instructive however, to note that it is the commitment, integrity and objectivity demonstrated by accountants in the conduct of their affairs that underscores the success of any accounting system and places the discipline at the vanguard of leadership within any environment and not mere availability of accounting principles, concepts and standards.

References

[1] Adebayo, P. A., (2013). The Adoption of International Financial Reporting Standards in Nigeria. *Journal of Finance and Accounting Research*, Vol 5 (2), pp 9 – 19.

[2] Akpa, A. (2011). *Financial Accounting Theory*. Unpublished Doctoral Lecture Series No.1.

[3] Akpa, A. (2011). *Financial Statement Presentation and Analysis*. Unpublished Doctoral Lecture Series No 2.

[4] Belkaoui, A. (1985). *Accounting Theory: 2nd ed*. San Diego, CA, Harcourt, Jovanovich.

[5] Bloom, R. and Peter, T. Elgers (1981), *Accounting Theory and policy:* San Diego.

[6] Gautier, M. E. and Underdown, B. (1974). *Accounting Theory and Practice*. Pitman, London.

[7] Hendrickson, E. S. (1982). *Accounting Theory, 3rd ed*. Homewood, USA.

[8] Johnson, H.C. (1979). *Disclosure of Corporate Social Performance*. Praeger Publishers, New York, USA.

[9] Kabiru, I. D. (2009). *Advanced Accounting: Theory and Practise.* Adonis and Abbey Publishing Ltd, London – United Kingdom.

[10] Lambe, I. (2004). Appraising the Impact of Budgeting and Planning on the Performance of Financial Institutions in Nigeria. *Research Journal of Finance and Accounting*, 5 (16), 12 - 26.

[11] Lambe, I. K., (2014). *Management Information system: Bridging the digital divide*. Rossen Publication Limited, Agbani Road, Enugu – Nigeria.

[12] Lambe, I. K., (2015). An Assessment of the contributions of tax revenue to economic development in Nigeria. *International Journal of Business, Management and Allied Sciences*, 2 (2), 2015, pp 2101 - 2113.

[13] Lambe, I., Lawal, M. and Okoli, T., (2015). A Systematic Review of Budgeting and Budgetary Control in Government Owned Organizations. *Research Journal of Finance and Accounting*, Vol.6 (6), pp 1 – 10.

[14] Oldroyd, D. (2005). The role of accounting in public expenditure and monetary policy in the first century AD Roman Empire. *Accounting Historians Journal,* Volume 22, (2), pp.123.

[15] Richard, D. I. and Most, K. S. (1982). *Accounting Theory*. Grid Inc, Columbus, Ohio.

[16] Robson, K. (1992). Accounting Numbers as inscription': Action at a Distance and the Development of Accounting. *Accounting, Organizations and Society* Vol 17 (7), pp 685–708.

[17] Sterling, R. R. (1982). *Theory of the Measurement of Enterprise Income*. Scholars Book, Texas.