

The legitimacy predicament of current day accounting theory

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“Never mistake knowledge for wisdom. One helps you make a living; the other helps you make a life...”

(Sandra Carey)

THESIS SUMMARY

Title: The legitimacy predicament of current day accounting theory

Key terms: Accountancy, accounting ethics, accounting philosophy, accounting theory, confidentiality, decision support, decision-usefulness, fair value accounting, financial reporting, formalism, integrity, objectivity, performance management, professional competency, stewardship, utilitarianism, valuation, value measurement.

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Recent corporate reporting history is well-known for its corporate failures and questionable accountancy practices, many of which caused the profession to be frowned upon. However, the splodge on the accounting profession's reputation goes deeper than its corporate reporting failures. The scientific foundation thereof is also being questioned in academic circles. Even though accounting scholars have been trying to formulate foundational accounting theories, it has been the accounting regulators that have been more successful in promoting their versions of what accounting theory should be, which place a question mark on the legitimacy of current day accounting theory. This thesis aims to delve deeper into the foundational philosophies of accounting and its impact on the practice of accounting.

With the current accounting globalisation efforts, the profession's stewardship function is becoming less prominent in its promulgated standards, which in turn brings the focus on the many questionable ethical practices found in the profession. Even though the regulatory bodies require their members to commit themselves to professional codes of conduct, which entails competency, integrity, objectivity and confidentiality, the **1st article** in this thesis claims that ethical conduct is more than mere adherence to rules and regulations. It is also about the image of not only the profession, but also accounting research and education.

Accounting is broadly practised, researched and taught within its so-called conceptual framework, of which a key objective is to guide and inform

accounting *practice*. The conceptual framework became the basis upon which accounting *theory* is based. However, many accounting scholars are openly critical of presenting accounting theory as a set of practical guidelines. The **2nd article** in the thesis concludes that, from an academic perspective, accounting theory should be based on three quintessential guidelines. The first of which is its primary purpose of reporting on the historic economic events, secondly the provision of useable and comparable information about these events and finally, the facilitation of business decisions based on relevant and reliable information.

In the above mentioned business decisions, the *concept of value* is often taken for granted and many accounting techniques' effectiveness is judged on how well it approximates an item's value. The **3rd article** argues that the multiple purposes for which accounting information is used complicates the issue of value, as reported by accounting. Two key conflicting valuation perspectives are the so-called decision-usefulness and true income perspectives. The current drive towards fair value accounting, as opposed to historic cost accounting, cast doubts on the reliability and relevance of accounting information. Even though it may be argued that value-based techniques are more relevant because it is a better reflection of the current business conditions, the mere subjective nature thereof and the accountant's objective valuation skills make the true relevance of this information questionable. Furthermore, mixed model valuations found in financial statements makes cross-company information unreliable.

Accountancy research of the past four decades focussed on the concept of *user decision-usefulness*. The user is also pre-eminent in the globalisation of accounting standards of the FASB and the IASB, where users are specified as the equity investors, lenders and capital providers. The **4th article** acknowledges that although these user categories are important consumers of the financial data, there are other users which are also impacted by the financial information and the company's operational performances. There are also concerns over accounting's key assumptions, such as its quantification and predictive abilities, which are fundamental to the decision-usefulness objective. Furthermore, there are questions around how the regulators decided what information is suppose to be useful and what type of utility is being sought.

In summary, the focus on the vocational aspects of accountancy stands in contrast to claims of accounting as an academic discipline in the social sciences. The reality is that the practices of the profession will probably always play a central role in what is taught at university level, and the regulators, as the final authority on accounting standards, will probably remain dictatorial in promulgating their versions of accounting theory. Yet, accounting and its wide spread impact on society, makes it a key discipline within the economical and management sciences. It is therefore essential for the resurrection of accounting as a social scientific discipline that there is a return to foundational accounting research that will prepare (and enable) prospective practitioners and academics to question the status quo and push back on accounting practices that are threatening to extinguish the flame of accounting scholarship.

PROEFSKRIF-OPSOMMING

Titel: Die geldigheidsprobleem van huidige rekeningkundige teorie

Sleuteltermes: Rekenmeesterskap, rekeningkunde etiek, rekeningkunde filosofie, rekeningkunde teorie, vertroulikheid, besluitnemings-ondersteuning, besluitnemingsdoelmatigheid, billike waarde rekeningkunde, finansiële verslagdoening, formalisme, integriteit, objektiwiteit, prestasie bestuur, professionele bekwaamheid, rentmeesterskap, utilitarisme, waardasie, waarde bepaling.

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Die onlangse korporatiewe geskiedenis is welbekend vir sy korporatiewe mislukkings en twyfelagtige rekeningkundige praktyke, waarvan heel party veroorsaak het dat daar op die professie neergesien word. Nogtans gaan die klad op die rekeningkunde professie se naam dieper as bloot hierdie korporatiewe mislukkings en word die wetenskaplike fondasie daarvan in akademiese kringe bevraagteken. Al het rekeningkundige geleerdes gepoog om fundamentele rekeningkundige teorieë te ontwikkel, is dit eerder die rekeningkundige reguleerders wat daarin geslaag het om hulle weergawes van wat sodanige teorieë behoort te behels, te bevorder, wat dan weer 'n vraagteken plaas op die geldigheid van hierdie rekeningkundige teorieë. Hierdie proefskrif poog om dieper ondersoek in te stel na die fundamentele filosofieë en die impak op die rekeningkundige praktyke.

Met die huidige rekeningkundige globaliseringspogings, beklee die professie se rentmeesterskapfunksie 'n minder prominente plek in die gepromulgeerde rekeningkundige standaarde, wat dan verder die fokus op die twyfelagtige etiese praktyke wat wél voorkom, plaas. Selfs al vereis die regulerende liggame dat hul lede hulself tot professionele gedragskodes, wat bevoegdheid, integriteit, objektiwiteit en vertroulikheid insluit, verbind, beweer die **1^{ste} artikel** in hierdie proefskrif dat etiese gedrag meer is as bloot die nakoming van reëls en regulasies. Dit gaan dan ook oor meer as die beeld van, nie net die beroep nie, maar ook rekeningkundige navorsing en opvoeding.

Rekeningkunde word in die algemeen beoefen, nagevors en gedoseer onder 'n sogenaamde konseptuele raamwerk, waarvan 'n belangrike doel is om

rekeningkundige *praktyk* te lei en in te lig. Die konseptuele raamwerk het dan ook die basis geword waarop rekeningkundige teorie gebaseer is. Baie rekeningkundige geleerdes is openlik krities oor die voorstelling van rekeningkundige teorie as 'n stel praktiese riglyne. Die **2^{de} artikel** in die proefskrif maak die gevolgtrekking dat, vanuit 'n akademiese perspektief, rekeningkundige teorie op drie duidelike riglyne gebaseer moet word, waarvan die eerste die primêre doel van verslaggewing oor die histories-ekonomiese gebeure is, die tweede die verskaffing van bruikbare en vergelykbare inligting oor hierdie gebeure is en dan uiteindelik ook die fasilitering van besigheidsbesluite wat gebaseer is op relevante en betroubare inligting.

In die bogenoemde besigheidsbesluite word die *konsep van waarde* dikwels as vanselfsprekend aanvaar, en word die doeltreffendheid van baie rekeningkundige tegnieke beoordeel op grond van die effektiwiteit ten opsigte van die benadering van 'n item se waarde. Die **3^{de} artikel** argumenteer dat die meervoudige doeleindes waarvoor rekeningkundige inligting gebruik word, die kwessie van waarde, soos gerapporteer deur rekeningkunde, bemoeilik. Twee sleutel waardasie-perspektiewe wat bots, is die sogenaamde besluitnemingsnut en die werklike inkomste perspektiewe. Die huidige strewe na billike-waarde rekeningkunde, in teenstelling met die historiese-koste rekeningkunde, plaas onsekerheid oor die betroubaarheid en toepaslikheid van rekeningkundige inligting. Selfs al kan dit aangevoer word dat die waarde-gebaseerde tegnieke meer relevant is, omdat dit 'n beter weerspieëling van die huidige besigheidstoestande is, kan die subjektiewe aard daarvan en die rekenmeester se objektiewe waardasie-vaardighede, die toepaslikheid van hierdie inligting onder verdenking plaas. Verder, 'n gemengde model van waardasies wat voorkom in finansiële state, maak maatskappy-inligting onbetroubaar.

Rekeningkundige navorsing oor die afgelope vier dekades het sterk gefokus op die konsep van *gebruikerbesluitnemingsnut*. Die gebruiker word dan ook by uitstek in die globalisering van die rekeningkundige standaarde van die FASB en die IASB, gespesifiseer as die aandele-beleggers, finansierders en kapitaalvoorsieners. Die **4^{de} artikel** erken dat, alhoewel hierdie gebruikerskategorieë belangrike verbruikers van die finansiële data is, daar ander gebruikers is wat ook beïnvloed word deur die finansiële inligting en die maatskappy se operasionele optredes. Daar is ook kommer oor rekeningkunde se

sleutelaannames, soos die kwantifisering en voorspellende vermoëns, wat fundamenteel is tot die finale besluit. Verder is daar onsekerheid rondom die wyse waarop die reguleerders besluit het watter inligting is veronderstel om gebruik te word, en watter tipe nut gesoek moet word.

Ter afsluiting, die fokus op die professionele aspekte van die rekenmeester staan in teenstelling met die eise van rekeningkunde as 'n akademiese dissipline in die sosiale wetenskappe. Die werklikheid is dat die praktyke van die professie waarskynlik altyd 'n sentrale rol sal speel in wat gedoseer word op universiteitsvlak, en die reguleerders, as die finale gesag t.o.v. die rekeningkundige standarde, sal waarskynlik diktatoriaal bly in die afkondiging van hulle weergawes van rekeningkundige teorie. Tog, rekeningkunde en die wydverspreide impak daarvan op die samelewing, maak dit 'n belangrike dissipline binne die ekonomiese- en bestuurswetenskappe. Dit is dus noodsaaklik vir die herstel van rekeningkunde as 'n sosiaal wetenskaplike dissipline, dat daar 'n terugkeer is na basiese rekeningkundige navorsing, wat voornemende praktisyns en akademici sal voorberei om die status quo te bevraagteken, en rekeningkundige praktyke, wat skadelik kan wees om die vlam van rekeningkundige geleerdheid te blus, teen te staan.

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LIST OF ABBREVIATIONS

AAA	American Accounting Association
AICPA	American Institute of Certified Public Accountants
ASOBAT	A Statement of Basic Accounting Theory
CICA	Canadian Institute of Chartered Accountants
CIMA	Chartered Institute of Management Accountants
EMH	Efficient Market Hypothesis
FASB	Financial Accounting Standards Board
FVA	Fair Value Accounting
GAAP	Generally Accepted Accounting Principles/Practices
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAA	Institute of Chartered Accountants of Australia
ICAEW	Institute of Chartered Accountants of England and Wales
IFRS	International Financial Reporting Standards
IMA	Institute of Management Accountants
SAICA	South African Institute of Chartered Accountants
SFAS	Statement of Financial Accounting Standards

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REMARKS

The reader is reminded of the following:

- This thesis is presented in the article format in accordance with the policies of the North-West University's faculty of Economic and Management Sciences' WorkWell Research Unit and consists of four research articles.
- In the instance of an article format PhD thesis, the faculty of Economic and Management Sciences' Regulation E.9.3 requires that the thesis consists of at least three (3) published (or publishable) articles, but with the minimum requirement of proof that at least one (1) article has been **submitted** to a Department of Education approved peer-reviewed journal.
- Each of the individual articles comply with the writing style requirements (i.e. the specific abstract, spelling, grammar and referencing requirements) of the specific journal in which the applicable article was published, or to which the specific article was submitted.
- The author requirements and related documentation specific to each journal, are included as part of the annexure at the end of the thesis.

CHAPTER 1

1. INTRODUCTION

1.1. BACKGROUND

The modern business environment presents unique challenges for today's companies. There are high levels of uncertainty, complexity and competition, many disruptive technologies, as well as a premium on speed, choice and innovation. There are also pressures to control delivery costs, to ensure resources are utilised in a responsible and effective manner, while still meeting the stakeholders' needs and requirements (IFAC, 2005; Cokins, 2001; Pietersen, 2001). As if this was not enough, there are also pressures from regulators and other stakeholders to comply with various reporting regulations, for example:

- The implementation of International Financial Reporting Standards (or IFRS) (Catacora & Hannon, 2005; Decker, Herz & Keegan, 2002);
- The convergence efforts between IFRS and US GAAP (IASB, 2006; Decker *et al.*, 2002); and
- Corporate Social Responsibility reporting pressures (GRI, 2007; Bröcker & Brown, 2002).

All these demands on the accounting information may confuse the issue at hand, which in turn may result in decision-makers questioning the reliability and relevance of the accounting information (Johnson, 2005). The recent rive of international corporate failures and fraud has exposed company directors, accounting regulations, the auditors and even the accounting profession to severe criticism (Parker, 2007). Since accounting strives to translate an entity's practices and performances into financial terms, it can be argued that present-day accounting theory must incorporate present-day accountancy issues into its foundational assumptions. However, allowing accounting practices to dictate accounting theory and education, not only brings the relevancy of accounting theory into question, but also casts a dark shadow of doubt on accounting as an academic discipline (Van der Schyf, 2008; Demski, 2007; Fellingham, 2007).

1.2. SCOPE OF ACCOUNTING

Accounting information can be seen as the financial translation of the results of the organisation's performance (Sundem, 2007). Even though accounting is a diverse discipline with many areas of specialisation (Glautier & Underdown, 2001), it encompasses two general branches namely financial accounting and management accounting (Horngren, Datar, Foster, Rajan & Ittner, 2009; Drury, 2008). Each of these branches reflects the requirements of two distinctly different user groups, i.e. the external users, who are considered the domain of financial accounting, and the internal users, who are considered the domain of management accounting (Horngren *et al.*, 2009; Correia, Langfield-Smith, Thorne & Hilton, 2008; Drury, 2008). The external users of financial accounting information include, according to Horngren *et al.* (2009) the shareholders, suppliers, banks and government regulatory agencies, whereas the internal users of management accounting are typically the managers within the organisation.

Furthermore, the application of management accounting (and management accounting techniques) is relatively flexible and non-standardised in the sense that the individual organisation can apply any technique it requires to support its internal decision making. In contrast, Drury (2008) states that financial accounting is subject to rules in which specific application techniques are required. These rules (or perhaps better defined as accounting principles and postulates) are encompassed in multiple accounting standards (or statements), such as those of the IASB's IFRS Statements or the FASB's US GAAP. A key focus of these principles is to address the financial information disclosure requirements of the external users thereof. The focus of this study as such is on the *financial accounting* branch of accounting and especially on the foundational aspects impacting on its current application in the modern business environment. Even though there might be some overlap between these two general branches, the management accounting theories, the internal user requirements and objectives are not the specific focus of this study. For purposes of this study therefore, the terms 'accounting' and 'accountancy' are used in the context of financial accounting.

1.3. PERSPECTIVES ON ACCOUNTING

In order to set the stage for the reflection on accounting in the context of this study, the following accounting perspectives are put forward. Firstly, historically accountancy fulfilled a stewardship function in the management of societies' resources. However, with the more recent objectives as put forward by key accounting standard setting authorities, this stewardship function is being downplayed (Williams, 2009). Nevertheless, in order to regain and maintain public trust in the profession, professional accounting institutes require adherence to codes of ethical conduct from their members. From an ethical perspective the question arises as to what *fundamental* ethical accounting conduct, requires.

Secondly, an objective of accounting's conceptual framework is to guide and inform accounting practice (Schroeder, Clark & Cathey, 2006; Wolk, Francis & Tearney, 1992). Even though such frameworks have been used as a guide to set coherent accounting standards for more than 30 years, they have not been as successful as many might have hoped (Demski, 2007; Fellingham, 2007; Sundem, 2007). Much of current accounting education and training is focused on meeting the accounting regulators' requirements, which in turn is driven by market requirements (Fellingham, 2007). Furthermore, the lack of accounting theory in accounting education and training could indicate that the taught curricula need to be adapted (Cluskey, Ehlen & Rivers, 2007; Demski, 2007; Fellingham, 2007). However, by merely presenting accounting theory as anything other than a conceptual framework, based on accounting practices, is to deny accounting its place in the social sciences and thus in the hallowed halls of academia. Accounting theory is confronted with the phenomenon of relative values in all its efforts to evaluate the cost and revenue components of financial statements (Mattessich, 2003). As the role of the finance function shifts more towards decision-orientated functions, so the demands on the operational and financial information also shift to support such decision-making. This shift in the purpose of accounting information gives rise to the question as to what is the primary *foundational objective* of accounting is?

Thirdly, when considering financial information and investment opportunities, the underlying economic value is often ignored (Buffet & Clark, 2001; Bhidé, 1999), which gives rise to the question of what value is? Livingstone (2008) as well as Hole and Hawker (2004) define value as the amount of money something is worth, with the CIMA Dictionary of Finance and Accounting (2003) taking the concept a little further by considering value to be the total amount of money for which something can be exchanged in a market. The Webster's Dictionary and Thesaurus (2006) takes it further still and defines value as the relative worth, merit, or importance of something. The world's capital markets are major consumers of financial information and any diligent businessman needs to be aware of the issues that may impact on a company's performance or its attractiveness as a business opportunity. The financial statements form the basis for a wide range of business analysis tasks, which in turn is a key means to communicate financial information to stakeholders (Palepu, Healy & Bernard, 2007). The effectiveness of many accounting techniques may be judged based on how well they approximate the value of the items that comprise this financial information. The question remains however, as to *what true value means*, let alone how to measure it at a given point in time. Such a value may be quantified as the future cash flows, the market value, the fair value or even a negotiated value. What all these considerations have in common is the assumption that there **is** a value, and that the accounting efforts are attempting to measure it. It is these measurement efforts that bring qualitative value related issues to the fore... issues that will influence quantitative value measurement.

Finally, the concept of decision-usefulness has been a criterion for setting corporate accounting policy and for defining accounting research for over four decades (Williams, 2009). The users of financial statements have been accorded so much importance by accounting standard-setters that many accounting theory text books assert the pre-eminence of their requirements and objectives as a guide to the construction of external financial statements (Young, 2006). Both the US GAAP's and IFRS's conceptual frameworks for accounting maintains that a principal function of the financial statements is to provide information that is useful to investors and creditors in making their economic decisions (IASB, 2008; Young, 2006). However, when considering the recent corporate failures and the current state of the global economy, one

can not but wonder how useful and trustworthy such financial information actually is. The correlation of financial statement users, decision-usefulness and standard-setting are quite controversial (Young, 2006). In fact, Spiller (1964) earlier argued that an emphasis upon such a pragmatic aspect of accounting requires answering i) to *whom* it is to be useful for, and ii) for *what purpose* it is to be useful for. This is where the danger lies according to Young (2006) because it becomes easy to get trapped into defining accounting postulates and principles in favour of certain defined user groups. Furthermore, as a general focus serving to guide and define accounting's function, the concept of decision-usefulness has not provided any better understanding than the earlier so-called normative accounting theories. Is it therefore not prudent to rethink the *usefulness* of the regulators' concept of decision-usefulness?

1.4. ACCOUNTING AS AN ACADEMIC DISCIPLINE

According to the Longman Business English Dictionary (2001) *accountancy* is the profession of accountants in keeping the financial records of organisations and in giving advice to clients on tax and other related financial matters, while *accounting* is the work done in keeping the financial records and recording the transactions. Perhaps more simplistic, the CIMA Dictionary of Finance and Accounting (2003) defines the concept of accountancy as the practice of accounting, while accounting is said to be the generic term for the activities carried out by accountants. This sentiment is echoed by Perry and Nölke (2006), Riahi-Belkkaoui (2000) as well as Wolk *et al.* (1992) when they state that accountants are involved in the process of financial information measurement. The Webster's Dictionary and Thesaurus (2006) refines accountancy further by defining it as the *art* or *practice* of an accountant. Considering all the above definitions, accountancy can be seen as the functional tasks of a practicing accountant, which in turn raises the question about the scientific nature of the accounting discipline. Just consider the way in which accounting is currently taught at academic institutions, i.e. the focus on the technical accounting skills.

The term *academic* can be defined as that related to areas of study that are **not** primarily applied or vocational (Livingstone, 2008; Webster's Dictionary and Thesaurus, 2006; Hole & Hawker, 2004). Considering the technical focus of accounting education and the prescriptive role of non-university institutions in the universities' syllabus content (Van der Schyf, 2008; Demski, 2007), it is no wonder that the presence of accounting education at universities is looked upon with contempt (Demski, 2007; Fellingham, 2007). Based on the preceding, it seems as if the discipline of accounting leans more towards the *arts* than the *sciences*. However, is this really the case? According to the International Federation of Accountants (IFAC), the accounting profession is recognised as contributing to every sector and aspect of the global economy (IFAC, 2005). Furthermore, the debate about accounting theory in the greater context of the social sciences has been the topic of several earlier research papers, such as Engelmann (1954) in his article "*In search of an accounting philosophy*" and Husband (1954) in his article "*Rationalization in the accounting measurement of income*". In more recent accounting theory textbooks (Schroeder *et al.*, 2005; Riahi-Belkaoui, 2000; Wolk *et al.*, 1992), as well as academic publications such as Demski (2007) in his article "*Is accounting an academic discipline?*" and Cluskey *et al.* (2007) in their article "*Accounting theory, missing in action*", the scientific aspects of accounting are being debated.

Considering the recent global developments in accounting, there seems to be a legitimacy crisis facing not only the accounting information, but accounting itself. More than 70 years ago, Graham and Meredith (1937) stated that financial statements and its interpretation are essential for all businessmen that come into contact with a corporation and its securities. Today, this is still true, but seen in the light of the recent global corporate failures, one starts to wonder whether the true purpose of accounting has not become muddled in the overload of requirements, rules and regulations. Even though accounting scholars have long been trying to make accounting more scientific, this goal may be unachievable without overcoming the parochialism that still dominates accounting (Mattessich, 2003). The focus on accounting rules and the (over-) emphasis on profit, may contribute to a low grasp of the discipline's place in the social sciences, and in human society in general. When

considering some of the epistemological issues related to the legitimacy of accounting theory in the context of academia and practice, it becomes important to reflect on certain foundational aspects of accounting theory and how it relates to accounting practice. These foundational aspects include ethical issues related to accounting, the philosophical foundation of accounting, the concept of value in an accounting context and the decision-usefulness objective of accounting.

1.5. RESEARCH PROBLEM, HYPOTHESIS AND OBJECTIVES

1.5.1. Research problem

If philosophy can be understood as the body of principles or general conceptions underlying a given discipline of learning, or a system of guidance in practical affairs (Livingstone, 2008; Hole & Hawker, 2004) or even the rational investigation of the truths and principles of knowledge and conduct (Blackbury, 1994), then a philosophical approach to address accounting's legitimacy as a social scientific discipline, may very well be overdue. More than 50 years ago, Engelmann (1954) discussed the development of an expanding interest in questions beyond the range of methods and procedures that dominated accounting at that time. The question arises as to whether we should not also (again) look into the foundational aspects of accounting (Demski, 2007; Fellingham, 2007) in the current day and age. This study's primary aim is therefore to critically reflect on certain key assumptions, concepts and objectives of current-day accounting theories, perceptions and practices. Based on the preceding, the **primary problem** under consideration can be formulated as follows:

- Is modern day accounting theory a legitimate and valid academic discipline within the social sciences?

1.5.2. Research hypothesis

Accounting as an academic discipline is in a fairly unique position in that the specific requirements of practice have a major impact on accounting

education. Consideration of the divergent nature and broad scope of accountancy as well as the artisan approach to accounting education and training, lead to the following null hypothesis as the point of departure in this study:

H₀: Accounting is not a legitimate social science, and as such it will fail to provide valid support to the practical requirements of the business environment.

1.5.3. Research objectives

In the consideration of the above hypothesis, there are fundamental meta-theoretical assumptions in accounting, and its place in the socio-economical environment, which form the basis of this study. Some of the assumptions upon which current day accounting seems to be based, include the following:

- Accounting is considered a business performance measurement technique aiming to reflect some kind of reality;
- Accounting data is considered as representing actual quantities of resources and monetary items that exist somewhere in the reality of the business entity;
- A fundamental objective of accounting is to achieve optimum utility for the users of the accounting information; and
- Based on the rational behaviour of markets and individuals, financial models populated with accounting information have predictive abilities.

However, when considering the mismatch between these ‘accounting assumptions’ and the ‘accounting reality’, there seems to be something amiss in accounting epistemology. In addressing the primary research question and hypothesis as defined above, it becomes possible to identify several key research objectives. These objectives are defined in the following four research questions:

- P₁. What are some of the key ethical considerations in accounting and to what extent does it impact accountancy?
- P₂. Is it possible to define a legitimate accountancy philosophy that also embraces key ethical principles, such as accountability, integrity and reliability?
- P₃: Should we not reflect on the value concept, both from a qualitative and quantitative perspective, as a foundation for a modern-day accounting framework?
- P₄: Is decision-usefulness as straightforward and unquestionable a way to classify the intellectual and policy-making aspects of accounting as it initially seemed to be?

Each of these objectives form the basis of chapters 2, 3, 4 and 5 (articles 1, 2, 3 and 4 respectively) comprising the bulk of the thesis.

1.6. RESEARCH METHODOLOGY

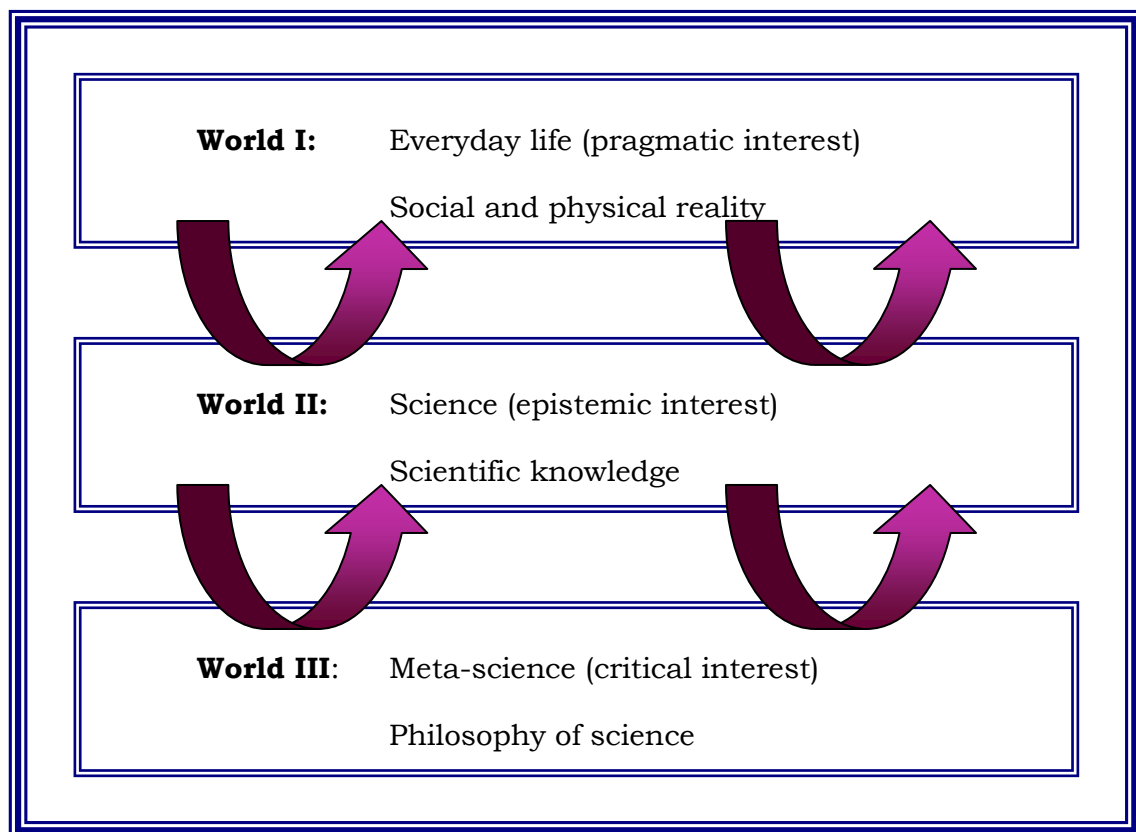
1.6.1. A philosophical approach to accounting research

When embarking on a research project, a researcher should reflect on the philosophies and theories of their chosen investigation, and justify why they position their research in the way they do. As a departure point, it is therefore necessary to distinguish between epistemology and methodology as two key concepts in the philosophy of science. The term epistemology comes from the Greek term *epistēmē*, meaning knowledge (Henning, Van Rensburg & Smit, 2009; Trochim & Donnelly, 2007) or theory of knowledge (Terre Blanche, Durrheim & Painter, 2008), with epistemology then being taken as how you came to know (Henning *et al.*, 2009; Trochim & Donnelly, 2007). Methodology is also about “how we came to know” but is more practical in nature with Brynard and Hanekom (2008) and Audi (2005) defining the term as the application of the methods and techniques in the pursuit of knowledge. Both these terms are therefore closely interrelated with i) epistemology meaning the

philosophy of how knowledge is attained, and ii) methodology meaning the *practice* of coming to know.

The term *philosophy* is defined as the study of the principles underlying conduct, thought and the nature of the universe, the general principles of a field of knowledge or a particular system of ethics (Webster's Dictionary and Thesaurus, 2006), or as the study of the fundamental nature of knowledge, reality and existence (Livingstone, 2008; Hole & Hawker, 2004). The *philosophy of science* is then defined as the investigation of questions that arise from reflection upon science and scientific practice (Audi, 2005; Blackburn, 1994). To better understand the methodological differences between research approaches in the social sciences research approaches, the "Three Worlds Framework", was developed (see figure 1 below).

Figure 1 - Three Worlds Framework



(Adapted from: Mouton, 2009; Van der Schyf, 2008).

This framework distinguishes between different research approaches in the following contexts:

- **World I:** Pragmatic interest, which refers to the lay knowledge used to cope with everyday tasks (Mouton, 2009; Van der Schyf, 2008).
- **World II:** Epistemic interest in which World I phenomena are turned into objects of enquiry (Mouton, 2009).
- **World III:** Critical interest where researchers reflect on the reasons and justifications for certain actions (Mouton, 2009).

The critical interest approach (meta-science) has developed into various meta-disciplines such as philosophy and methodology of science, research ethics, sociology and history of science (Mouton, 2009). Furthermore, it is generally accepted in philosophy of science that no scientific findings can conclusively be proven on the basis of empirical research data and that in different stages of the scientific process, certain meta-theoretical assumptions may be made in justifying specific theories (Mouton & Marais, 2009). Such assumptions are the underlying theories, models and paradigms that form the context of the study (Mouton & Marais, 2009), and is the branch of philosophy that seeks to explain the nature of reality (Webster's Dictionary and Thesaurus, 2006). Holmes (1975) states that departmentalising philosophy and science does not mean that philosophers are unconcerned about other disciplines' subject matter, but are rather concerned about the subject matter on a different level. A philosophical analysis of the meta-science of accounting (World III) as per the objectives of this study, may therefore serve to reduce narrowness of view within the epistemic interests (World II) and the pragmatic interests (World I) of the accounting discipline. This thesis' *critical interest* research approach to addressing the stated research question is discussed in more detail below.

1.6.2. Paradigm perspective of the research

The concept of ontological philosophy refers to the study of the nature of being, reality or existence as such, which can, according to Lewis (2001) and Hazelrigg (1986,) be divided into two approaches namely constructivism and objectivism. *Constructivism* is a philosophy of learning founded on the argument that, by reflecting on personal experiences, we construct our own perceptions of the world we live in, and accepts that social phenomena can be

accomplished by social actions (Ladyman, 2002; Lewis, 2001; Hazelrigg, 1986). *Objectivism* on the other hand, holds that reality exists independent of consciousness (Henning *et al.*, 2006; Lewis, 2001; Hazelrigg, 1986). The underlying ontological view of this study will lean more towards the constructivist perspective and assumes that there are misconceptions and gaps (*lacunae*) to be found between the *reality* of accounting practices in the modern business environment, what is *perceived* to be the role and function of accounting, as well as the *dogma* of accounting theory as taught by many accounting academics and promulgated by accounting regulators.

Although the current frameworks and assumptions in accounting lack clearness in respect of the underpinning philosophies, they seem to be based on positivism (with some aspects of interpretivism). Mouton and Marais (2009) views a paradigm as a primary model for the normal practice of science. In justifying a specific research approach, it is important to explain the paradigm framework in which the research will be carried out. Mlitwa and Van Belle (2010) and Henning *et al.* (2009) identifies three frameworks of theoretical paradigms namely the positivist, interpretivist and critical frameworks.

- **Positivist framework:** The philosophical approach of positivism is a movement inspired by empiricism and verification, which, according to Mlitwa and Van Belle (2010), assumes that quantitative methods are the best manner of measuring the properties of phenomena. As such it also rejects many assertions of religion and morality (Audi, 2005; Blackburn, 1994) and holds that the goal of knowledge is to simply describe, explain and predict the phenomena being experienced (Trochim & Donnelly, 2007). According to the Webster's Dictionary and Thesaurus (2006), Audi (2005) and Blackburn (1994), positivism holds that empirical observation and investigation are the only source of substantial knowledge, which in essence means that the researcher only has to use deductive reasoning to postulate theories.
- **Interpretivist framework:** This approach presents a shift away from positivism. It is inspired by a series of quantitative concepts and approaches (Carson, Gilmore, Perry & Gronhaug, 2009) and aims to understand and interpret the meaning of research findings (Mlitwa &

Van Belle, 2010; Henning *et al.*, 2009; Levy, 2006). Whereas the positivist believes that the goal of science is to uncover the truth (Henning *et al.*, 2009), interpretivism allows the focus of research to be on understanding what is happening in a given context (Carson *et al.*, 2009; Levy, 2006). In the context of studies seeking to understand the behaviour of various players within a complex environment (such as accounting), interpretivism may therefore be an appropriate theoretical framework to effectively investigate the complex nature of its reality.

- **Critical framework:** The critical framework is in essence a process of deconstruction of the world (Henning *et al.*, 2009, Probert, 1999) and is an alternative to positivism, traditional realism and relativism (Carlsson, 2006). Research using critical theory aims to promote critical consciousness and to break down the structures and arrangements that re-produce oppressive ideologies and the social inequalities that are produced and maintained by these structures (Henning *et al.*, 2009). Carlsson (2006) is in agreement when stating that the critical framework holds that we will only be able to understand and change the social world if we identify the structures that generate the events and discourses of the social world. Researchers are no longer satisfied with predicting or even understanding the researched, but also want to address social issues. Therefore, critical thinking can occur whenever one judges, decides, or solves a problem, or when one must figure out what to believe or what to do, and do so in a reasonable and reflective way.

Both positivistic and interpretive research approaches can be considered as appropriate to research in accounting. However, Probert (1999) is also of the opinion that the critical framework may effectively be utilized in the research and practice of *intertwining* disciplines. The accounting discipline, with its integrated nature in the economical sciences should therefore also benefit from research in the critical framework. According to Henning *et al.* (2009) researchers in a qualitative research paradigm (such as philosophy), would most likely employ research approaches such as the following:

- **Phenomenology**, which is rooted in philosophy, and asks questions in relation to the structures and essence of experiences within a particular phenomenon.
- **Ethno-methodology**, which is rooted in sociology and enquires into how people make sense of their every day activities so as to behave in socially acceptable ways.
- **Symbolic interactionism**, which is rooted in social psychology and enquires into common sets of symbols and understanding that have emerged to give meaning to people's interactions.
- **Hermeneutics**, which draws on theology, philosophy and literary criticism and investigates questions into the conditions under which a human act took place.

Even though it might seem as if the differences between different schools of thought and theoretical approaches are often so radical that the research domains of the different schools show little overlap, Mouton and Marais (2009) argues that there still exists enough overlap between different theoretical orientations, models and methodologies when considering research in the social sciences. What is important is to realise that social scientists often hold explicit beliefs about what is real and what is not. According to Mouton and Marais (2009) beliefs of this nature are referred to as the domain assumptions.

1.6.3. Research approach and design

The research method used in this study will comprise of a combination of literature review and philosophical analysis. The literature study will form the foundation to understand current developments in accounting theory, the accounting frameworks and the implications thereof on financial reporting, decision support and performance management.

Since this research endeavours to philosophically reflect and evaluate on the legitimacy of current-day accounting, the theoretical framework within which this study is positioned is primarily the critical framework, with some aspects of interpretivism. Furthermore, since the study draws on various accounting

phenomena, including accounting objectives, as well as ethical, valuation and other aspects related to its integrated nature within the social sciences, the research approach is primarily centred on hermeneutics and phenomenology. The justification of this choice of research paradigm and approach is that the focus hereof is philosophical in nature in challenging the accounting assumptions and perceptions. This is done in an attempt to re-focus the paradigm perspective of what gets promulgated as accounting theory, and therefore also the paradigm in which accounting education and research takes place, in order to better reflect the true purpose of accounting and its function in the social sciences. Furthermore, in the context of this thesis, the critical analysis and reflection will attempt to evaluate accounting's pre-suppositions and assumptions, independent from the conventional accounting research experiences. Therefore, there is less concern with the factual or experimental levels, but rather with the foundational level of questions about the logical explanation and the pre-suppositions of accounting. Even though there is an absence of empirical quantitative research into accounting theories, the reflection is based on historical facts and phenomena in the field of accounting and business, logical reasoning and practical experiences.

1.7. CHAPTER LAYOUT

The research will be concluded in an article-based thesis and will be divided into the following six chapters.

Chapter 1 – Introduction.

The key objective of this chapter is to serve as an introduction to the study and to illustrate the actuality and relevance of the topic. Furthermore, the objectives, the problem statement and research questions, the overall research hypothesis, as well as the research method are set out.

Chapter 2 – A pragmatic consideration of ethics in the accounting profession.

The second chapter (1st article) aims to set a high-level mindset for the remainder of the thesis by i) briefly considering utilitarianism and formalism as two key extremes of basic ethical theory before ii) reflecting on key

professional *financial accounting* and *management accounting* institutes' perceptions of what constitutes ethical accounting conduct.

Chapter 3 – The pursuit of a foundational accounting philosophy.

The third chapter (2nd article) will focus on the foundations of accounting theory and accountancy, and its place in the social sciences. Specific emphasis will be placed on accounting's objectives, assumptions and principles, as well as the dilemmas facing it in the formulation of a foundational philosophy.

Chapter 4 – Reflections on the value concept in accounting.

The fourth chapter (3rd article) will focus on the concept of value and how it influences the dimension of decision support, especially the quantitative and qualitative implications on value measurement in the contexts of financial management and the interpretation of financial statements.

Chapter 5 – Ontology and epistemology: A transcendental reflection on decision-usefulness as an accounting objective.

The fifth chapter (4th article) will focus on decision-usefulness as a key objective of financial reporting as set out by the FASB and IASB as key global accounting regulators, focussing especially on the ontology of the decision-usefulness objective and key epistemological issues thereof.

Chapter 6 - Conclusions and summary.

The last chapter will comprise a synthesis of the relevant themes arising from the discussions and arguments developed in the various chapters. It will summarise the overall project and draw conclusions as to how accounting theory support (or should support) issues around financial reporting and decision-making.

1.8. DEFINITIONS

For purposes of this study, the following are assumed to be the correct definition of certain concepts and phrases:

Academic: Areas of study that is not primarily vocational, or theoretical as opposed to practical (Livingstone, 2008:4; Webster's Dictionary and Thesaurus, 2006:4; Hole & Hawker, 2004:3).

Accountancy: The practice or profession of an accountant (Webster's Dictionary and Thesaurus, 2006:5; CIMA Dictionary of Finance and Accounting, 2003:4; Longman Business English Dictionary, 2001:5), which includes related financial services and advice the accountant might provide (Hole & Hawker, 2004:3).

Accounting: The generic term for the activities carried out by accountants (Webster's Dictionary and Thesaurus, 2006:5) or the work done in keeping an organisation's financial records (CIMA Dictionary of Finance and Accounting, 2003:5; Longman Business English Dictionary, 2001:5). According to Robb and Wallis (1985:2) the terms *accounting* and *accountancy* are often used synonymously.

Art(s): Subjects other than sciences (Livingstone, 2008:35), the expression of creative skill in a visual form (Hole & Hawker, 2004: 26), or human creativity or skill, acquired by study and practice (Webster's Dictionary and Thesaurus, 2006:21).

Dogma: A belief taught or held as being the truth (Livingstone, 2008:201; Webster's Dictionary and Thesaurus, 2006:113; Hole & Hawker, 2004:164).

Epistemology (-ical): The theory of knowledge (Terre Blanche *et al.*, 2008:6; Webster's Dictionary and Thesaurus, 2006:129), or the search for knowledge with the objective of arriving at the results that is as close to the truth as possible (Mouton, 2009:138; Brynard & Hanekom, 2008:3; Audi, 2005:271).

Ethics: The philosophical study of morality (Audi, 2005:285), or a system of conduct and behaviour, or moral principles (Livingstone, 2008:230; Webster's Dictionary and Thesaurus, 2006:131; Hole & Hawker, 2004:189).

Financial accounting: The practice of preparing and reporting accounting information for parties external to the organisation (Horngren *et al.*, 2009:5; Correia *et al.*, 2008:1184; Drury, 2008:7).

Hermeneutics (-al): The science of interpretation (Mouton & Marais, 2009:21; Webster's Dictionary and Thesaurus, 2006:176).

Lacunae: An empty space or a missing part, self-centered in opinion, or astounding ignorance (Webster's Dictionary and Thesaurus, 2006:210; Hole & Hawker, 2004:311; Ehrlich, Flexner, Carruth & Hawkins, 1980:370).

Lexicology: The branch of linguistics which treats of the proper signification and use of words (Webster's Dictionary and Thesaurus, 2006:215), which includes the nature, meaning and history of words (McArthur, 1992:602).

Management accounting: The branch of accounting with an internal focus (Horngren *et al.*, 2009:5; Drury, 2008:7), or the accounting processes and techniques that focus on the effective use of organisational resources, to support management in its task of enhancing both customer and shareholder value (Correia *et al.*, 2008:1186).

Methodology (-ical): The application of methods and techniques in pursuit of valid knowledge (Mouton, 2009:173; Brynard & Hanekom, 2008:4; Audi, 2005:700), or how researchers go about practically studying whatever they believe can be known (Terre Blanche *et al.*, 2008:6).

Moral: Relating to character or conduct, conformed to or directed towards that which is right and virtuous (Livingstone, 2008:431; Webster's Dictionary and Thesaurus, 2006:241; Hole & Hawker, 2004:359).

Normative: To establish a standard or model (Webster's Dictionary and Thesaurus, 2006:250; McArthur, 1992:704; Ehrlich *et al.*, 1980:455), or holding moral terms, such as *right* and evaluative terms, such as *good* (Audi, 2005:213).

Ontology (-ical): The study of reality and the improvement of the understanding of phenomena in the social world by the generation of knowledge regarding the nature of being (Brynard & Hanekom, 2008:4; Webster's Dictionary and Thesaurus, 2006:256; Hole & Hawker, 2004:385), or the nature of reality that is to be studied and what can be known about it (Terre Blanche *et al.*, 2008:6).

Paradigm: A typical model or example (Webster's Dictionary and Thesaurus, 2006:266; Hole & Hawker, 2004:399).

Parochialism: Excessive narrowness of interests or view (Webster's Dictionary and Thesaurus, 2006:267; Hole & Hawker, 2004:401).

Phenomena: Dealing with observed data (Webster's Dictionary and Thesaurus, 2006:277) or something that is shown or revealed, or manifests in experience (Blackbury, 1994:285).

Philosophy: The study of the principles underlying conduct or a field of knowledge (Livingstone, 2008:488; Hole & Hawker, 2004:413).

Positivism: A philosophical system inspired by empiricism and verification (Audi, 2005:514), which assumes that the highest form of knowledge is the description of sensory phenomena (Blackbury, 1994:294), or a theory that positive knowledge is based on the properties and relations of natural phenomena as verified by empirical sciences (Webster's Dictionary and Thesaurus, 2006:289).

Practice: The actual doing or exercise of a profession (Webster's Dictionary and Thesaurus, 2006:290; Livingstone, 2008:508; Hole & Hawker, 2004:431).

Pragmatic: The testing of the validity of all concepts by its practical results, a practical approach to problems (Livingstone, 2008:509; Webster's Dictionary and Thesaurus, 2006:290; Hole & Hawker, 2004:431).

Principles: A scientific law applying across a wide field (Livingstone, 2008:516), or a fundamental truth on which others are founded (Webster's Dictionary and Thesaurus, 2006:295; Hole & Hawker, 2004:418).

Reflective: To consider upon something meditatively or thoughtfully (Webster's Dictionary and Thesaurus, 2006:315; Hole & Hawker, 2004:464).

Science: Knowledge ascertained by observation and experimentation, tested, systematized and brought under general principles (Livingstone, 2008:588; Webster's Dictionary and Thesaurus, 2006:336; Hole & Hawker, 2004:496).

Sociological: Dealing with social questions or problems, especially focusing on cultural and environmental factors rather than on psychological or personal characteristics (Brynard & Hanekom, 2008:4; Hole & Hawker, 2004:528).

Steward (-ship): A person who manages the domestic affairs of a family or institution (Livingstone, 2008:647; Hole & Hawker, 2004:546), or who manages another's property or financial affairs, or administering anything as the agent of another (Webster's Dictionary and Thesaurus, 2006:370).

Theory: The exposition of the abstract principles of a science or art (Webster's Dictionary and Thesaurus, 2006:393; Hole & Hawker, 2004:578), or a set of ideas to explain something (Livingstone, 2008:688).

Transcendental (analysis): The investigation by reasoning of what is vague and illusive in philosophy (Audi, 2005:926), or that which is concerned with what is independent of experience (Webster's Dictionary and Thesaurus, 2006:401), or that which is abstract, obscure or visionary (Ehrlich *et al.*, 1980:730).

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CHAPTER 2 (ARTICLE 1)

Title: A pragmatic consideration of ethics in the accounting profession.

The reader is requested to take note of the following:

- This article has been submitted for publication to the following IBSS indexed, peer-reviewed and Department of Education accredited academic journal as follows:
 - **Buy, P.W., Visser, S.S. & Oberholzer, M.** A pragmatic consideration of ethics in the accounting profession. *African Journal of Business Ethics (AJoBE)*, unpublished. (ISSN 1817-7417).
- The article was researched and written by the first author as the candidate. The 2nd and 3rd authors fulfilled a 'reviewer' function thereto as the study's promoter and assistant promoter. Estimated weightings of contribution are as follows:
 - Buy, P.W. (80%)
 - Visser, S.S. (10%)
 - Oberholzer, M. (10%)
- Confirmation of receipt of the article from AJoBE has been received and is presented as part of **Annexure A** on page 146. The article was written in line with the journal's submission guidelines, which are included as part of **Annexure A** on page 147.

Abstract

When considering some of the key reasons for the desperate state of the current global economic environment, it is difficult to deny accounting's role therein. Even though accounting institutes' require adherence to codes of conduct, the question remains as to what happened to the stewardship function of the accounting profession.

This article reflects on the question as to what constitutes ethical accountancy. The key principles within many institutes' codes of conduct, such as competency, integrity, objectivity and confidentiality, are considered against the background of utilitarianism and formalism as foundational ethical theories. The article concludes that even though these principles aim to provide a framework for ethical accounting conduct, individual subjectivity on the part of the accountant will play a role in how these ethical *principles* become ethical *practices*.

Key terms

Accountancy, accounting ethics, accounting theory, accounting philosophy, confidentiality, formalism, integrity, objectivity, professional competency, stewardship, utilitarianism.

2. A PRAGMATIC CONSIDERATION OF ETHICS IN THE ACCOUNTING PROFESSION

2.1. BACKGROUND

In Roman mythology, Janus, the god of gates and doorways, is often depicted as having two faces, one forward facing and the other rearward facing (Eadie, 2007:636; Teske, 2005:290). This depiction can be applied to the ethical issues facing accountancy, for example the simultaneous consideration of either future and historic events, or the many opposing stakeholders in an organisation. With this analogy in mind, the problem which many accountants are faced with can perhaps be better understood. There are many subjective grey areas such as cost allocations, asset valuations and information interpretation. The accountant is often in the unique position of being able to influence decision-making by presenting information in such a way that it is able to support different alternatives or viewpoints.

Seen in the light of technical focus of accounting education, training and practice, ethics is often not an area that stands out as part of the core technical skill-set of an accountant. Yet, considering the world's current financial woes and its link to the sub-prime crisis (Richards, 2008), recent corporate failures such as Enron in USA and Parmalat in Italy (Buys, 2008:499), or even Fidentia in South Africa (Van Romburg, 2008:1), and accountancy's role therein, one can not but wonder what happened to the noble stewardship role of the accounting profession. It seems as if Dante's deadly sin of avarice is running amok in modern society, and accounting is providing the vehicle to perpetrate this sin. Avarice, which turns people away from God by creating a preoccupation with the acquisition of material possessions, is commonly defined as the excessive love of money (Webster's Dictionary and Thesaurus, 2006:26; Hole & Hawker, 2004:32) and is manifested in miserliness and unethical business practices. Many accountants may not consciously link their actions to ethical norms and in the case of a dispute they will probably attempt to resolve such disputes by some form of legal action. Ethics however, is considered a person's moral duty to society and a broader concept than only that which is required by law

(Gellerman, 2003:51; Rossouw, 2002:412). Notwithstanding differing interpretations of ethics, they are all based on the same principle that each person in the group or society carries some responsibility for the well-being of others in the group.

Even though ethics is often considered as having evolved out of the philosophy of human behaviour, Nash (2003:22) said that business professionals and philosophers have different approaches to ethical issues. Given the realities of the modern business environment and its constant claim on the available resources, intangible and paradoxical ethical philosophies may often not be considered as part of the decision-making framework as Vranceanu (2005:100) also illustrates when pointing out that company earnings, under pressure from shareholders, are often manipulated by 'creative accounting' practices.

2.2. PROBLEM STATEMENT AND METHOD

Following from the above, this paper aims to reflect on a crucial concept in the practice of accountancy, namely ethical accounting behaviour. Set against the backdrop of the tumultuous state of the current global financial world and the many efforts to make some sense and clarity of it, the primary question under consideration in this article can be formulated as follows:

- What are some of the key ethical considerations in accounting and to what extent does it impact accountancy?

This article is based on a literature study research method and utilizes a three step ontological and pragmatic approach in reflecting on ethical conduct in accountancy. To set the background for the discussion, the article starts off by high-lighting utilitarianism and formalism as two key opposing extremes of ethical theory. Secondly it considers fundamental accountancy conduct aspects in ensuring ethical behaviour, and finally it reflects on the effectiveness of these fundamental principles in ensuring ethical conduct in accountancy.

2.3. ETHICAL THEORY

Business ethics, according to the IDSA (2009:51), refers to the ethical values that determine the interaction between a company and its stakeholders. Sellers and Arrigo (2009:451-461) as well as Shao, Aquino and Freeman (2008:530) identified the following two discernable and basic ethical approaches in the literature, namely i) consequentialism, which includes ethical egoism, contractualism and utilitarianism and ii) formalism. For the purposes of this article, the concepts of *utilitarianism* and *formalism* are briefly considered.

2.3.1. Utilitarianism

Utilitarianism is, according to Sellers and Arrigo (2009:452), a unique form of consequentialism in the sense of it being altruistic and fostering the principle of utility. Livingstone (2008:730) defines the term utility as the state of being *useful*, to which Hole and Hawker (2004: 614) also adds the state of being *profitable*. Leading on from utility, utilitarianism is therefore the belief that the overall the guiding principle of behaviour should aim to achieve the greatest happiness for the majority (Sellers & Arrigo, 2009:452; Hole & Hawker, 2004:614). Even though Tidmarsh (2009:1144/5) considers utilitarianism (alongside ethical egoism) as a controversial ethical theory, he is in general agreement by stating that utilitarianism is a consequentialist theory, which argues that people should act in such a manner that the utility for everybody concerned are maximized.

Based hereupon, it seems as if the concept of utilitarianism can therefore be defined as the ethical theory that finds the basis of moral distinctions in the *utility of actions*, which must result in the ability to find happiness for the majority. In an accounting context specifically however, there are certain drawbacks of this approach, including the possibility of the exploitation of minority stakeholders' interests in favor of those of the majority stakeholders.

2.3.2. Formalism

In contrast to utilitarianism stands *formalism*, which is defined as an excessive concern with rules and outward form (Hole & Hawker, 2004:221), or a strict observance of form or conventional usage (Webster's Dictionary and Thesaurus, 2006:149). The concept of formalism can therefore be seen as the strict observance of form, or the adherence to rules and laws. Jialiang (2008:56) however, provides a slightly different perspective by stating that the actual operation of such rules and laws are often based on the *logic of pragmatism* under the *guise of formalism*. Considering the foregoing, rules and laws would therefore only be considered ethical if all stakeholders, without qualification, would act in a similar fashion (or be treated similarly).

Formalism's advantage is the collective logic on which it bases the guidelines for acceptable behaviour. Unfortunately, rules can often become very cumbersome and complex. A further disadvantage is its *dogmatic perspective* in which over reliance may be placed in a specific rule, or when hiding behind a specific rule when such a rule is not really necessary.

2.4. ETHICAL CONDUCT AND THE ACCOUNTANT

The *Code of Governance Principles for South Africa 2009* (known as King III) lists integrity, respect, truthfulness, responsibility, accountability, fairness, transparency and loyalty as examples of ethical values (IDSA, 2009:52). According to E&Y (2009:ii) King III attempts to move towards a more principally-based approach in corporate governance. Ethical behaviour, in the context of corporate social responsibility, becomes the responsibility of The Board of Directors. The Board should therefore ensure that management cultivates a culture of ethical conduct through i) the creation of an ethics risk profile and the establishment of a code of conduct, ii) through the integration of ethics into all company practices, procedures, policies and conduct and iii) through the assessment, monitoring, reporting and disclosure of the company's ethics performance (E&Y, 2009:1; IDSA: 2009:20-21).

More specific to the accounting function, accountancy's stewardship role makes it crucial to maintain high standards of ethical conduct. A code of

ethical conduct is so important that it is often set as a prerequisite for professional accountancy recognition. There are two basic professional streams in accounting, namely financial accounting (which can be seen as considering historic events) and management accounting (which can be seen as considering future events). In this article's consideration of accounting conduct based on ethical principles, the financial accounting discipline was represented by:

- The AICPA's (American Institute of Certified Public Accountants) *Code of Professional Conduct*;
- the ICAEW's (Institute of Chartered Accountants in England and Wales) *Code of Ethics*; and
- the SAICA's (South African Institute of Chartered Accountants), *Code of Professional Conduct*.

From the perspective of management accounting, the discipline was represented by:

- The US-based IMA's (Institute of Management Accountants) *Statement on Ethical Professional Practice*; and
- the UK-based CIMA's (Chartered Institute of Management Accountants) *Code of Ethics for Professional Accountants*.

When considering the above institute's codes of conduct, it is possible to identify four fundamental principles as typical in promoting the objectives of an accounting profession based on ethical behaviour. These are professional competency, integrity, objectivity and confidentiality. More consideration is now given to each concept.

2.4.1. Professional competency

In order to get some clarity on this concept, one needs to consider the literal meaning of the phrase *professional competency*. According to Livingstone (2008:519) and Hole and Hawker (2004:440) the term *professional* refers to i)

being competent or skillful and ii) belonging to a profession, with the Webster's Dictionary and Thesaurus (2006:296) taking it somewhat further by stating that the term professional means to conform to the technical or ethical standards of a profession. As the supplemental term to this concept, *competent* (including *competence*) is defined by Livingstone (2008:131) and Hole and Hawker (2004: 108) as having the necessary skill or knowledge, while the Webster's Dictionary and Thesaurus (2006:77) refers to *competency* as sufficiency or capability.

In respect of the accounting institutes' perceptions, the CIMA (2009:7), the ICAEW (2009:165/6), the AICPA (2008:ET Section 56, Article V) and the SAICA (2006:5) states that the principle of professional competence and due care imposes on the accountants the requirement to maintain their professional knowledge and skills at acceptable levels and to act in accordance with the applicable technical skills and professional standards. The IMA (2005:1) is in agreement with this statement, but also add the requirement on management accountants to provide decision support information that are accurate, clear, concise and timely, as well as to communicate any limitations or constraints that might hinder the accountant in successfully completing an assignment.

In the broader context of accountancy the concept of professional competency is therefore taken as referring to the accountant's ability to obtain and maintain acceptable levels of accountancy related capabilities. This can be achieved by:

- Continuously developing their personal competencies and knowledge;
- executing their responsibilities in line with relevant laws and regulations; and
- only to issue reports and recommendations once they have personally completed the assignment.

2.4.2. Integrity

According to Livingstone (2008:355) the term *integrity* means honesty, and provides synonyms thereof as rectitude, virtue, probity, principle, morality, honour and decency. Hole and Hawker (2004:292) provides a more specific definition by stating that integrity is a quality of being honest and fair.

In a more specific accounting context, integrity is an element of character fundamental to professional recognition (AICPA, 2008. ET Section 54, Article III). The principle of integrity also imposes an obligation on the accountant to be straightforward and honest in all professional relationships (CIMA, 2009:6; ICAEW, 2009:165; SAICA, 2006:5; IMA, 2005:1/2), which then also implies fair dealings and truthfulness and even abstaining from accepting engagements that might be seen as discrediting the profession.

Considering the above, the concept of integrity in an accountancy context may be defined as honesty and sincerity in the daily application and practicing of accounting skills. The characteristics of integrity become a reality in the concepts of full disclosure of relevant financial information. An accountant with integrity will therefore for example:

- Not be dishonest and get involved in the falsification of information;
- avoid situations of possible conflict and inform all stakeholders should a conflict situation become reality;
- not undertake appointments that may make it difficult to maintain integrity in an ethical manner;
- not accept gifts or favors that may create the impression of influencing their responsibilities; and
- refrain from subverting the attainment of the organisation's legitimate and ethical objectives.

2.4.3. Objectivity

Both Livingstone (2008:450) and Hole and Hawker (2004:379) defines the term *objectivity* as i) not being influenced by personal feelings or opinions, or ii) even as having an actual existence outside the mind. The Webster's Dictionary and Thesaurus (2006:253) confirms the foregoing by defining objectivity as something, or someone, which is detached or impartial.

The principle of objectivity in the accounting institutes' perspectives, imposes the obligation not to compromise professional judgement because of bias, conflict of interest or the undue influence of others (CIMA, 2009:7; IACEW, 2009:160; SAICA, 2006:5). The IMA (2005:2) considers objectivity as part of their overall credibility principle, which requires, inter alia, the fair and objective communication of all information that could be reasonably expected to influence the intended user's understanding of the reports, analyses or recommendations. The AICPA (2008:ET Section 55, Article IV) further states that independence precludes relationships that may even only *appear* to impair a member's objectivity in rendering attestation services.

The concept of objectivity can be defined as an accountant that is standing apart and being unbiased when it comes to business facts and the situation at hand, whether it is from a personal perspective, or from being influenced by others. When facing ethical questions, it is necessary for the accountant to consider other stakeholders' feelings and motives. The accountant therefore has the responsibility to:

- Communicate all information honestly and objectively; and
- disclose all relevant information of which can be expected to influence the end-user's understanding thereof.

Even though a management accountant is typically employed by a company, and not independent in the sense of an external accountant and auditor, the management accountant should also be able to distance himself/herself from a conflict situation in order to objectively consider all the relevant aspects.

2.4.4. Confidentiality

The term *confidential* means that something has to be kept secret, or as being classified and off-the-record (Livingstone, 2008:137; Hole & Hawker, 2004:172). The Webster's Dictionary and Thesaurus (2006:79) states that when something is confidential, it has been entrusted with secrecy.

The principle of confidentiality imposes an obligation on accountants to refrain from disclosing any confidential information obtained as a result of professional relationships, or to use such information for personal or other third party's benefit (CIMA, 2009:8; ICAEW, 2009: 166/7; SAICA, 2006:5), with the IMA (2005:1) adding the requirement of informing all relevant parties regarding the appropriate use of confidential information.

Confidentiality in an accounting context therefore means that the accountant will not use information obtained during the fulfillment of any professional duties for personal gain and should therefore not:

- Disclose confidential information obtained during the course of professional duties, except when required by law;
- fail to inform subordinates of the confidential nature of the information and ensure confidentiality is maintained; and
- use, or pretend to use, any confidential information to gain some unfair or unethical benefit.

In the case of ethical conflict the accountant should follow the employer's and/or client's procedures to resolve the conflict. If this should prove to be insufficient, the institutes' guidelines suggest seeking counseling and advice on a confidential basis with an independent advisor or the applicable professional accountancy body to obtain an understanding of the possible courses of action. However, this may be seen as exceptions to the confidentiality rule. The accountant should therefore use proper judgment even when approaching an independent person.

2.5. DISCUSSION

When considering the question of what entails ethical behaviour in accountancy, a key aspect that comes to mind is the concept of professional behaviour, which in essence is the manner in which an accountant, as a person dedicated to the profession, would act. In the above sections, four principles have been identified as those that key accounting institutes consider as fundamental to their *ethical codes of conduct*. Yet, seen in the light of the recent global corporate failures and scandals, one can not but wonder whether these *so-called* codes of ethical conduct, are sufficient to prevent such scandals. Hence, a reflection on these principles might be in order:

- **Professional competence:** All five the accounting institutes considered in this article, require their members to pass very stringent and multiple professional exams covering core accountancy related subjects (NASBA, 2010; ICAEW, 2010a; SAICA, 2009; IMA, 2009a; CIMA, 2009). Furthermore, these institutes also require their members to comply with periodic continuous professional educational requirements in some form or another (AICPA, 2009; ICAEW, 2010b; SAICA, 2008; IMA, 2009b; CIMA, 2010). It is likely that most other accounting institutes in the world would have similar examination and continuous professional educational requirements in order to obtain and maintain membership. It is therefore unlikely that *incompetence* on the part of the accounting professional is a key contributing factor to the current woeful global economic environment.
- **Integrity:** Of the four fundamental principles identified in this article, integrity is perhaps the only principle that reflects directly on the nature of the human being, which in this article's context is that of the accounting professional. It speaks of the *essence* of the person and it maybe quite likely that integrity (or rather a lack thereof) is a major contributing factor in perpetrating fraudulent activities that might result in the scale of corporate failures referred to earlier. The constantly increasing secularisation of society may be a key factor in limiting the influences of family, church and religion, and even education, in shaping *moral* individuals (Andrews, 2003:69-70). This

modern secular society's focus on immediate self-gratification should be of concern to all of mankind. Earlier it has been high-lighted that utilitarianism aims to seek the greatest happiness for the majority, yet human kind's natural inbred avarice merely leads to ophelimity and self gratification.

- **Objectivity:** The ability of an individual to be truly objective under all circumstances may be a further point of concern. According to Andrews (2003:73-75) human character becomes decisive in instances where there are no absolute choices. Objectivity was seen as the ability of being unbiased and not being influenced by personal feelings, which might be easier to comply with in a formalistic environment clearly governed by rules and regulations. Yet, when the stakes are high and an overload of accounting rules might make it difficult to distinguish between what is right and wrong, the accountant's objectivity might come under pressure from two sides. Firstly, from within, personal circumstances (at home or at work) might blur the distinction between right (*objectivity*) and wrong (*subjectivity*). Secondly, from without superiors might exert pressure on junior staff members which might also blur the line between *objectivity* and *subjectivity*. In both these instances, the accountant's ability to re-pulse pressures on the objectivity principle comes down to the individual's integrity.
- **Confidentiality:** When considering the Webster's Dictionary and Thesaurus' (2006:79) definition of confidentiality, this final fundamental principle can be linked to *secrecy*. At first glance this might seem to be a good thing and may not be seen as being a contributing factor to the current sorry state of affairs as far as the financial world is concerned. However, *transparency*, which stands in direct contrast to secrecy, is according to the IDSA (2009:52) an example of an ethical value. In the context of accounting based on ethical principles, secrecy should therefore not be seen in the same light as confidentiality. Furthermore, confidentiality also implies not using confidential information for personal gain. The question is however, whether this is actually achievable? As a skilled professional in the service of a business organisation, the accountant will inevitably

at some stage gain access to *sensitive or inside* information that might, for example, be used for beneficial investment opportunities. In such circumstances it will take a person with strong character to withstand the temptation to breach the confidentiality principle. An accountant might justify unethical actions as ‘nobody will get hurt’ or ‘this is only a small financial gain’. Yet, greed is greed and unethical behaviour remains unethical and there are no *grades* of greed or unethical behaviour. Again, the ability to maintain this fundamental principle comes down to the individual’s integrity.

Bringing all the above together, it is unlikely that professional incompetence should be a major area of concern in large scale ethical (and corporate) failures. The principles of objectivity and confidentiality however, were seen as potential contributing factors to failures in the fundamental principle of integrity. When considering the above four principles as foundational to accounting institutes’ codes of conduct, one can also wonder whether these are sufficient in promoting ethical accounting conduct? Further principles, such as reliability and responsibility, can also be seen as enhancing ethical principles in accounting conduct. However, even failures in reliability and responsibility, on the part of the accountant, may be seen as shortcomings in an accountant’s integrity. Considering all the above, it may be argued that failures in human *integrity* are very often to blame in corporate and financial scandals.

According to the IDSA (2009:52) ethical values translates into behavioural directives (or standards and guidelines) as well as behavioural commitments (or principles). Ethical accounting conduct, which includes the professional accounting institutes’ codes of conduct, can therefore be seen as embracing both extremes in ethical theory as discussed earlier. On the one hand there is the formalistic aspect (or the behavioural directives) that is embodied in the *specific rules* of the conduct codes. The accountant should be cognisant of the requirements of these codes and adhere to them as if such codes have ‘legal’ stature. On the other hand there is the utilitarianism aspect (or the behavioural commitments) that is embodied in the *spirit* of the conduct codes. When referring to the spirit of the conduct codes, the accountant should not

be so narrow-minded in always following *the-letter-of-the-law*, especially in attempts to conceal, or finding loop-holes to justify, unethical behaviour.

2.6. CONCLUSION AND RECOMMENDATIONS

Even though the perceptions of top management's ethical approach are important in setting an example for what is acceptable behaviour (E&Y, 2009:9), and even if the organisational leadership should be based on an ethical foundation (E&Y, 2009:1; IDSA, 2009:19), the question remains as to whether adding more rules, regulations and governance codes to existing codes will bring additional sureties in enhancing ethical behaviour? The answer to this question is in all probability that it will not. One could become fatalistic and merely throw ones arms in the air and state that all is lost. There are just too many greedy people in the world with no ethical morals and the desire for self-enrichment is just too great. Yet, the bigger failure would be not to try and curb the tide of growing greed and unethical behaviour, especially in accountancy. The accounting institutes' code of professional conduct, such as those discussed earlier, is a good starting point, but it should not merely remain there.

Professional behaviour requires that the accountant refrain from any action that may put the profession in a bad light (CIMA, 2009:9; ICAEW, 2009:170; SAICA, 2006:6). However, professional behaviour is more than just the image of the accounting profession. It is also about the image of the accountant in respect of his employer and/or client. Based on the above discussion, principles such as fairness, responsibility and transparency (IDSA, 2009:9) as well as balance and consideration towards others, are crucial to ethical accounting behaviour. Even though an accounting institute's ethical code of conduct aims to meet these principles, one should always remember that no code will address all possible ethical conflicts an accountant might encounter. The ultimate aim of an institute's code of conduct is to provide a framework into ethical behaviour and it is important for an accountant to operate within this framework. Even though the accountant's interpretation of this framework is often formed through personal experience and training, there are certain *principles* to which an accountant with integrity should strive for:

- Avoid small ethical failures. Although it may initially seem unimportant, there is a possibility of exploitation later on by unscrupulous individuals.
- Focus on the long term reputation. Accountants should try and ignore short term pressures and focus on his/her long term reputation.
- Be prepared to face personal consequences. An accountant with integrity may face two choices; let go of ethically-based values and possibly obtain certain benefits, or maintain such values and possibly be ignored when promotional opportunities arise.
- Finally, should the ethical problems not be satisfactorily resolved, accountants have no other option but to resign their position.

It was argued that failures in the integrity is in all likelihood a key contributor to scandals involving accounting. The principle of integrity therefore imposes an obligation on the accountant to be honest, truthfull and fair in practising his/her vocation. By keeping these principles of integrity close to his/her heart, the accountant with integrity may just be able to resist temptations of greed and all that goes with it.

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CHAPTER 3 (ARTICLE 2)

Title: In pursuit of a foundational accountancy philosophy

The reader is requested to take note of the following:

- This article was published in the following peer-reviewed and Department of Education accredited academic journal as follows:
 - **Buys, P.W.** 2008. In pursuit of a foundational accountancy philosophy. *Koers: Bulletin for Christian Scholarship*, 73(3):489-508. (ISSN 0023-270X).
- Authorization from the Bureau of Scholarly Journals (as the publisher of *Koers: Bulletin for Christian Scholarship*) to include the article in this thesis has been obtained and is presented as part of **Annexure B** on page 152. The article has been written in line with the journal's submission guidelines for articles which are included as part of **Annexure B** on page 153.

Abstract

Recent accounting history is characterised by many developments, including several high-profile corporate failures, such as Enron, Parmalat and even Saambou, as well as major developments in financial reporting standards, such as the broad-based acceptance of International Financial Reporting Standards and the convergence efforts between the UK-based International Accounting Standards Board and the US-based Financial Accounting Standards Board. As a result, long-accepted accounting assumptions are being challenged in favour of 'new' principles and practices. Furthermore, in academic circles the scientific foundation of accounting is being questioned. At many universities, limited education is taking place in the underlying theory and philosophy of accounting, in favour of teaching prospective accountants how to pass difficult professional exams.

Seen against this backdrop, a reconsideration of the objectives and purpose of accountancy may be overdue. This paper attempts to illuminate the intrinsic assumptions and objectives of accountancy, seen in the light of modern-day accounting issues and developments.

Key terms

Accountancy, accounting theory, accounting philosophy, financial reporting.

Opsomming

Onlangse rekeningkunde geskiedenis word gekenmerk deur baie ontwikkelinge, insluitend verskeie hoë profiel korporatiewe falings, soos Enron, Parmalat en selfs Saambou, asook belangrike ontwikkelinge in finansiële verslagdoening, soos die wydverspreide aanvaarding van Internasionale Finansiële Verslagdoenings Standaarde en die samesmeltingspogings tussen die VK-gebaseerde Internasionale Rekeningkundige Standaarde Raad en die VSA-gebaseerde Finansiële Rekeningkundige Standaarde Raad. As gevolg hiervan, word lank reeds aanvaarde rekeningkundige aannames bevraagteken ten gunste van 'nuwe' beginsels en praktyke. Verder word die wetenskaplike grondslae van rekeningkunde in akademiese sirkels bevraagteken. By baie universiteite vind beperkte opvoeding in die grondliggende teorie en filosofie van rekeningkunde plaas, ten gunste van pogings om voornemende rekenmeesters te leer hoe om moeilike professionele eksamens te slaag.

Gesien teen hierdie agtergrond, mag die heroorweging van die doelwitte en doelstellings van rekeningkunde alreeds nodig wees. Hierdie artikel poog om lig te werp op die intrinsieke aannames en doelwitte van rekenmeesterskap, gesien in die lig van moderne rekeningkundige probleme en ontwikkelinge.

Sleutelterme

Rekenmeesterskap, rekeningkundige teorie, rekeningkundige filosofie, finansiële verslagdoening.

3. IN PURSUIT OF A FOUNDATIONAL ACCOUNTANCY PHILOSOPHY

3.1. BACKGROUND

“...my great ambition is to count all this... and possibly sort it into piles.”

(Gardner, 1989:73)

Some may consider the dragon’s ambition (in the classical Beowulf poem) as a key objective of accountancy, and as a way of avoiding any philosophical dilemmas facing a person engaged in financial reporting. Using the term philosophy in connection with accounting may be met with some scepticism. However, when considering the many articles in accountancy publications, such as in Cluskey, Ehlen and Rivers (2007), Sundem (2007), Mattessich (2003), and Husband (1954), there seems to be at least a search for an accounting philosophy. *Philosophy* can be defined as the study of the most general and abstract features of the world and the categories with which we think (Oxford Dictionary of Philosophy, 1994:286), or as the study of the principles underlying, or fundamental nature of, a field of knowledge (Webster’s Dictionary and Thesaurus, 2006:277, Oxford English Dictionary, 2004:413). This means that applying a philosophical approach to accountancy should be just as possible as to any other area of practical learning. However, in the past there have been those who denied the usefulness of accounting philosophy, arguing that historical traditions and practices provide the required support (Husband, 1954:4).

Accounting seems to be tied up within thousands of rules, regulations, interpretations and opinions, all based on the requirements of practice. Historically, accounting standards have also been seen as such a specialist area, that many large accounting firms had their own in-house functions focussing primarily on the interpretation of these standards (Zeff, 1986:133-138). Two of the primary global accounting standard-setting authorities, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), have different approaches to define accepted accounting practices. The FASB’s approach consists of four levels:

- Level A, which includes FASB Statements and Interpretations, SEC Rules and Interpretive Releases, Accounting Principles Board Opinions and Bulletins.
- Level B, which includes FASB Technical Bulletins and AICPA Industry Audit Guidelines.
- Level C, which includes AcSEC Practice Bulletins.
- Level D, which includes AICPA Accounting Interpretations, FASB Implementation Guides and other prevalent accounting practices (Epstein, Nach & Bragg, 2005:8; Schroeder, Clark & Cathey, 2005:17).

The IASB's approach consists of a two-volume, 2522-page text, containing eight International Financial Reporting Standards (IFRSs) and 16 International Accounting Standards (IASs) (IFRS, 2006).

Graham and Meredith (1937:vii) stated 70 years ago that financial statements and their interpretations are essential for every businessman that comes into contact with a company and its securities. This is still true, but seen in the light of the recent high-profile corporate failures, one starts to wonder whether the true purpose and objective of accountancy have not become muddled in the overload of rules and regulations.

3.2. PROBLEM STATEMENT

Seen within the context of the recent accountancy controversies on income measurement, accounting information disclosure and corporate social responsibility issues, it is not far-fetched to state that a philosophical reconsideration of the basic purposes of accountancy may be overdue. Considering the foundational objectives of accountancy, the problem statement can therefore be defined as follows:

- Is it possible to define a legitimate accountancy philosophy that also embraces key ethical principles, such as accountability, integrity and reliability?

3.3. METHOD

It would be difficult to present a stronger challenge, or better argument, for the urgent need of an underlying accountancy philosophy than that which characterizes the profession's current status. In addressing this need, consideration has to be given to modern-day philosophical issues facing accountancy, and modern-day practical issues facing accountancy.

This article attempts to evaluate accounting's pre-suppositions. In order to do so, the research method comprised a transcendental discussion and analysis aiming to individuate the deeper foundations of accountancy's system of thought. This is supported by a review of the historic and current developments in accountancy and accounting theory.

3.4. PHILOSOPHICAL ISSUES FACING ACCOUNTANCY

In order to develop a legitimate, foundational accountancy philosophy, one needs to consider the i) objectives of accountancy, ii) foundational perspectives on accountancy, as well as iii) ethical issues in accountancy.

3.4.1. Objectives of accountancy

Financial reporting aims to provide information about an entity's financial performance (Sundem, 2007:287; Damant, 2006:30; IFRS, 2006:26), of which the entity's accounting system provides a recorded history. The accountants (or historians) need to decide what business information (or historic events) to include and to exclude (Sundem, 2007:287; Perry & Nölke, 2006:559-560). The role of the accounting standard setters is therefore to decide which details of this history are important enough to warrant disclosure and what the extent of such disclosure should be. However, there are other stakeholders that should also partake in the formation of these rules, including industry, the accounting profession, labour unions and academia (Epstein *et al.*, 2005:5-7; Busse von Colbe, 1996:414).

A consequence of the growing diversity of companies and the close-knit relationships of many sectors within the greater economy is that accountancy is exposed to great responsibility and risk, reaching beyond the immediate task of the profession. This places significant pressure on the standard-setting authorities, which impacts on more than just the accounting methods utilised. It may also open up the option of *choice* of accounting method used, which in turn may influence decision-making. As a business language to communicate financial performance, accounting has many interested stakeholders that have different informational requirements. To further complicate matters, many of these stakeholders have some influence on how and what accounting information should be disclosed. Seen in this context, it is not surprising that so many complex accounting rules and ethical dilemmas are in the order of the day.

3.4.2. Foundational perspectives on accountancy

As an academic discipline, accountancy is in a difficult position in that the requirements of practice have a major impact on accounting education. However, there are fundamental assumptions in accounting, and its place in the greater socio-economical environment, that have to be considered. The history of accountancy is characterised by various two-sided perspectives namely art versus science, and true income versus decision-usefulness.

3.4.2.1. The “art versus science” perspective

When considering accountancy as a business discipline, there are two heterogeneous approaches, namely the *scientific*-based and *art*-based approaches (Fellingham, 2007:160; Riahi-Belkaoui, 2000:34; Wolk, Francis & Tearney, 1992:36). *Art* may be defined as a human creativity or skill, acquired through study and practice (Webster’s Dictionary and Thesaurus, 2006:21; Oxford English Dictionary, 2004:26), while the *philosophy of art* also dealt, among others, with the nature of human creativity (Cambridge Dictionary of Philosophy, 2005:12). *Science* could be defined as the knowledge ascertained through observation and experimentation, critically tested, systematised and brought under general principles (Webster’s Dictionary and Thesaurus, 2006:336; Oxford English Dictionary, 2004:496), while the *philosophy of*

science, according to the Cambridge Dictionary of Philosophy (2005:700) and the Oxford Dictionary of Philosophy (1994:343), is the investigation of questions that arise from reflection upon the science and scientific practice. Those who promote the art aspects of accountancy, suggest that specialist functional skills are required to be a good accountant, and that it should be taught in a legalistic approach (Riahi-Belkaoui, 2000:34). In contrast, the advocates of a scientific approach, such as Demski (2007:153-156) and Fellingham (2007:159-163), suggest that students be provided a conceptual insight into accounting in order to provoke critical thought towards its dynamics.

Although many accounting scholars have tried to make the discipline more scientific, Mattessich (2003:126) says this would not be achievable with the parochialism that characterises 20th century accounting. Focussing on its functional aspects, accounting can be defined as the generic term for the activities carried out by accountants (CIMA Dictionary of Finance and Accounting, 2003:5), as a broad term that encompasses the preparation, analysis and audit of financial information (O'Regan, 2004:5), or as the art or practice of an accountant (Webster's Dictionary and Thesaurus, 2006:5).

As a discipline, accounting is concerned with the business events of business entities, which in turn has consequences on the stakeholders' social relationships. Accounting is very much concerned with the human element and produces business information, aimed at helping people to engage in social activities with social implications. Therefore, when considering whether accounting is an art or a science, the answer is clearly not a straightforward 'yes' or 'no'. In reality, many of its functional aspects can be considered an art form, and should be taught in an *artisan* approach. Likewise, there are foundational aspects that justify its science classification, and should be taught in a *scientific* approach. However, because of the integrated nature of accounting in society, and its impact thereon, one cannot deny accounting its rightful place in the social sciences.

3.4.2.2. *The “true income versus decision-usefulness” perspective*

Perhaps contributing further to the legitimacy and ethical concerns facing accountants, are the multiple purposes for which accounting information is

prepared and used. During the 1970s, accounting scholars entered into a debate that conceptualised accounting theory as a struggle between the proponents of *true income* and the advocates of *decision useful* information (Cluskey *et al.*, 2007:26). The question under discussion was whether accounting should provide for financial information that reflects the true income, albeit with limited usefulness, or financial information that supports decision-making, albeit not necessarily being objective or verifiable. It is possible to define the following two alternative views on accounting information:

- **Value school of thought:** This approach is based on the measurement of wealth and its effectiveness is judged based on how well it approximates the value of the wealth items (Sundem, 2007:288; Schroeder *et al.*, 2005:42). The question remains as to what true value means, let alone how to measure it. However, the assumption is that there is a value, and the accounting efforts are attempting to measure it.
- **Information content school of thought:** This approach focuses on measuring and disclosing business events and its effectiveness is judged based on how well such disclosure and communication are concluded (Sundem, 2007:288; Schroeder *et al.*, 2005:42). Even though the disclosure of business information attempts to reduce uncertainty regarding the entity, the multidimensional nature of business entities makes the concept of effective information communication difficult to evaluate.

Therefore, the many stakeholders in, and users of, accounting information, as well as the differences between using such accounting information either as purely a historical measurement tool, or as a pro-active management support tool, are all major influencing factors on how the individual accountant would approach accountancy.

3.4.3. Ethical issues in accountancy

As mentioned, accounting aims to translate and report business performance, in support of business decisions, into monetary terms. As such, accounting is a crucial component of *doing business*. The ethical issues of the business environment is therefore very much part of accountancy's ethical dilemmas. It could be a fair assumption to state that someone well versed in the philosophy of ethics may best serve ethical business issues. However, philosophers and business professionals approach ethical issues in very different ways (Nash, 2003:22):

- Academics tend to reflect on the intangible, savour the paradoxical and embrace the peculiar; while
- the reality of the business environment is constantly measuring claims on available resources against the marketplace.

According to Lotriet (2007:424), there is no foundational ethic in the modern-day technology-driven network economy. Therefore, if the financial statements are to be of any value to the stakeholders, they must have confidence in the fairness of the disclosed information. These stakeholders will have more confidence in such information if they know that the preparers thereof are required to meet certain ethical and competency standards. It is therefore not surprising to find that many professional accountancy institutes require their members to adhere to a code of ethics (IMA, 2008; CICA, 2007; ICAEW, 2006; SAICA, 2006; AICPA, 2003). Why then is it that many apparently good accountants are snared in ethical problems?

A commonly held rationalisation is a belief that if an activity is within *reasonable* ethical or legal limits, it is not *really* immoral (Gellerman, 2003:51). However, acting ethically only when it is advantageous is not *really* being ethical at all. Furthermore, good corporate governance does not only necessitate abiding by the laws and respecting human rights. Rossouw (2002:412) states that it also entails the strengthening and development of the societies in which a business operates. According to Andrews (2003:73-75) and Gellerman (2003:49), in business situations where there are no absolute choices, the character of the individual becomes decisive. Although such

character may be shaped by the individual's upbringing, i.e. family, church and education, the increased secularisation of society may limit such influences in ensuring a moral society (Andrews, 2003:69-70).

Accounting standards and ethical guidelines alone will not ensure ethical behaviour on the part of the individual accountant. The challenge facing ethics in accountancy should therefore be considered from three perspectives. Firstly, the development of *moral accountants* who have a respect for core human values, the ability to recognise ethical issues and the self-confidence to seek out different viewpoints before deciding what is appropriate in a situation. Secondly, the creation of an *environment* in which accounting standards and values are central to the business strategy, and finally, the formulation, implementation and monitoring of *guidelines and policies* that promote ethical accountancy behaviour.

3.5. PRACTICAL ISSUES FACING ACCOUNTANCY

A second important aspect to consider is the influence of the practical accounting environment, such as issues around measurement and valuation. However, it is important to base such consideration on i) accountancy development and ii) the accounting conceptual framework.

3.5.1. Accountancy development

An Italian monk, Luca Pacioli, is often seen as the father of accounting (Cluskey *et al.*, 2007:25). In 1494, he published a mathematical compendium, *Summa de Arithmetica Geometria Proportioni et Proportionalita*¹, which included a 27-page treatise on bookkeeping, *Particularis de Computis et Scripturis*² (Sangster, Stoner & McCarthy, 2008:111; Schroeder *et al.*, 2005:3; Riahi-Belkaoui, 2000:3). Essentially explaining the practice of accountancy at the time, Pacioli also explained why the double-entry bookkeeping approach made sense (Cluskey *et al.*, 2007:25; Schroeder *et al.*, 2005:3). It is thought that during this age, accounting skills were the domain of merchants, who were

¹ Collected Knowledge of Arithmetic, Geometry, Proportion and Proportionality

² Details of Reckonings and Their Recordings

typically educated in the vernacular schools where *abbaco*, or the skill to solve practical and business-related problems, was taught (Sangster *et al.*, 2008:117).

In the more recent history of accounting, the discipline has grown from its role as a practical business skill into a sophisticated business tool. Mattessich (2003:126) states that many professionals are unaware of how many modern accounting ideas were conceived during the 19th and early 20th centuries. A major accounting concern of this era was the development of a theory that could address the corporate abuses of the time. This gave rise to the concepts of *capital maintenance* and *income determination* (Schroeder *et al.*, 2005:4-5). During the 1950s and 1960s, accounting was approached as a *measurement activity*, aiming to provide a truthful description of economic events. The 1960s and 1970s was an era when accounting theorists started to develop innovative *analytical approaches* (Feltham, 2007:2-7). As far as modern-day accounting theory is concerned, Schroeder *et al.* (2005:113) and Wolk *et al.* (1992:32-33) distinguish between *normative* accounting theory that explains what should be, and *positive* accounting theory that explains what is.

Accountancy can therefore be seen as a practical skill to be used in a business environment. As such, the application of such skills becomes dependent on the accountant's values, and his perceptions of accounting theory. Several accounting theorists, such as Cluskey *et al.* (2007), Schroeder *et al.* (2005) and Riahi-Belkaoui (2000) have defined accounting theory as the *framework* of accounting principles that guide and inform accounting practitioners and educators.

3.5.2. The accounting conceptual framework

The FASB and the IASB can be considered as representing two sides of the accounting standards spectrum, with the FASB largely following a *rules-based* approach and the IASB following a *principles-based* approach (Epstein *et al.*, 2005:12; Schroeder *et al.*, 2005:59). Even though the conceptual framework is intended to provide guidance when developing accounting policies, its goal as a roadmap for the development of accounting standards has remained elusive and endemic with internal inconsistencies (Demski, 2007:154; Sundem,

2007:286). Consideration is therefore given to i) the concept of GAAP, and ii) certain key assumptions underlying GAAP.

3.5.2.1. *The concept of GAAP*

The phrase GAAP is, according to Epstein *et al.* (2005:1), a significant concept and the technical term that encompasses the conventions, rules and procedures necessary to define acceptable accounting practice at a particular time. GAAP is often taken as the abbreviation of Generally Accepted Accounting *Principles* and is used in countries like Australia (ICAA, 2008), Canada (CICA, 2005), the U.K. (ICAEW, 2008) and the U.S.A. (FASB, 2006). However, in South Africa, GAAP is typically taken as Generally Accepted Accounting *Practices* (Everingham, Kleynhans & Posthumus, 2007:2; Sowden-Service, 2006:6).

Although the concept of GAAP seems to be based on either principles or practice, there is a difference in interpretation. *Principle* may be defined as a fundamental truth on which others are founded (Webster's Dictionary and Thesaurus, 2006:295) or a general law used as a basis for a theory (Oxford English Dictionary, 2004:438) whereas *practice* can be defined as the actual doing or exercise of a profession (Webster's Dictionary and Thesaurus, 2006:290; Oxford English Dictionary, 2004:431). Be that as it may, before a principle or practice becomes GAAP, it should have substantial authoritative support. It may therefore seem as if a practice-based GAAP definition is more reflective of reality. However, Demski (2007:153-156) and Fellingham (2007:160-162) feel that a principles-based GAAP approach in accounting theory education is important in order to ensure the academic status of the accountancy discipline.

3.5.2.2. *GAAP assumptions under consideration*

Out of necessity, accountancy is practiced in a framework of basic assumptions. An *assumption* is the act of taking a statement for granted or taken as the basis of argument (Webster's Dictionary and Thesaurus, 2006:23), or a thing assumed to be true (Oxford English Dictionary, 2004:29). To clarify the context of an assumption, the Oxford Dictionary of Philosophy (1994:27) states that a proposition is treated as an assumption when it is

added to a stock of premises of an argument, upon which a conclusion is then conditional. Therefore, in the face of business uncertainty, assumptions are used to facilitate financial measurement and reporting. However, in the reality of the modern-day business environment, the relevance of certain accounting assumptions may be questioned.

- **Separate-entity:** This assumption can be considered of primary rank in the accounting framework. It defines its area of interest as the economic unit responsible for the economic activities (Wild, 2008:10; Epstein *et al.*, 2005:65; Wolk *et al.*, 1992:131). However, another way of defining the accounting entity may be in terms of the various stakeholders' interests, i.e. a *user-focused* as opposed to a *unit-focused* approach. By focusing on the stakeholder instead of the shareholder, it becomes possible to address stakeholder-interests other than the financial bottom-line.
- **Going concern:** This assumption justifies the valuation of assets on a non-liquidation basis (Wild, 2008:9; Sowden-Service, 2006:18-19; Epstein *et al.*, 2005:377). This postulate may also serve as a way to encourage stakeholders to be future orientated. However, considering the recent accounting scandals (such as Enron in the USA, Parmalat in Italy and Saambou in South Africa) and the implications thereof, this assumption may be presumptuous. In fact, there are accounting theorists who prefer to exclude the going-concern assumption from accounting theory by viewing the entity as if in a continuous state of orderly liquidation (Riahi-Belkaoui, 2000:165).
- **Unit of measure:** This assumption acknowledges the necessity of recording the transactions in a consistent manner by choosing the monetary unit as the common denominator (Wild, 2008:9; Riahi-Belkaoui, 2000:165; Wolk *et al.*, 1992:115). However, this implies two limiting factors of conventional accounting, namely its *ability* to express information only in terms of monetary units, and its *inability* to communicate non-monetary information. In addition, under the going concern assumption, this postulate also holds the common

denominator as a *stable* currency, which is a rare occurrence in the current day and age.

When considering how accounting is taught, and what is taught, it does indeed seem as if accounting theory is based on a set of generally accepted accounting *practices*. For accountancy to be based on these assumptions to protect the investment community for example, is one thing, but to offer as sound accounting theory what is basically no more than recommended practices, is to intellectually bankrupt the accounting discipline.

3.5.3. Accountancy's measurement issues

Some economic historians consider the double-entry bookkeeping system as vital to the development of capitalism. Riahi-Belkaoui (2000:12-13) summarised its impact on economic expansion as follows:

- It contributed to an economic life attitude where the goal of *subsistence* was replaced with the goal of *profit*;
- the spirit of acquiring possessions was aided by the refinement of the economic calculations;
- its systematic approach promotes order and provides for an accuracy check; and
- it permits a separation of ownership and management, and thus between business and personal assets.

Two of the primary financial statements are the Income Statement, which reflects the operational performance and results, and the Balance Sheet, which reflects the financial situation at a particular time (Wild, 2008:17-18; Epstein *et al.*, 2005:64). How the income (and expense) items are measured, and how the assets (and liabilities) are valued, are key factors in the perceived performance of the organisation. The aspects of i) income determination and ii) value determination are therefore now considered.

3.5.3.1. *Income determination*

Understanding the relationship between business management and accounting can lead to the recognition of accounting's ultimate goal, namely the provision of the basic answer about an organisation's financial performance. It fulfils this central purpose through the measurement of the organisation's efforts and performance (Epstein *et al.*, 2005:64; Wolk *et al.*, 1992:266-267), which is summarised in its profits (or lack thereof). However, what is the meaning of *profit*, or for that matter, of *income*?

Since investors risk their capital and apply their skills to find ways to render profitable products and services, they should be entitled to all income, except that which is required to meet the obligations of other stakeholders (Schroeder *et al.*, 2005:128-129; Jensen, 2002:236). This dualistic concept, *profit* and *product/service*, contributes to the difficulty in defining business income. *Profit* refers to the owner's interest in the entity's operations, whereas *product/service* refers to the market's interest in the entity's operations. The combination hereof forms the foundation of the free enterprise system. It could therefore be argued that the theory of business economics is not about money, but to satisfy the market needs – the profit motif is the entrepreneur's incentive to act (Shillam, 2008:23).

By combining the service delivery concept with the business objectives, it becomes possible to answer the question of what accounting is for, and a well-considered application of this concept may offer a valid foundation on which to base a constructive income philosophy, encompassing three components:

- *Income* is the total compensation received for the delivery of products and services;
- *full compensation* is only acknowledged when the income enables the organisation to continue its operations as before; and
- the excess of the proceeds over what is required for full compensation is the *available profit*.

3.5.3.2. *Value determination*

Accounting theory is confronted with the phenomenon of relative values (Mattessich, 2003:129-146). Even the obvious cost-value concept can become debatable. When capitalising the price of a purchased object, the simple historical fact is that an amount has been spent for the acquisition of the object. This does not mean that the acquired object is worth that amount. However, asset values are key quantitative anchors upon which capitalism is based, and the way it is valued can be considered a key parameter in socio-economic relations.

Whereas the traditional accounting approach uses the cost principle to value business assets, there is a move to introduce fair value accounting (Christensen & Frimor, 2007:35). Fair value accounting (or FVA) presents such a mind shift in accounting that Perry and Nölke (2006:561) called it the most significant change IFRS has brought to accounting, which presents itself in the FVA and Balance Sheet approaches.

- **Fair value accounting:** FVA can be defined as the amount for which an asset *could* be exchanged, or liability settled, between knowledgeable and willing parties (Reis & Stocken, 2007:557). Such a value can be estimated by the market or by auditor modeling (Perry & Nölke, 2006:562). This represents a major shift in financial reporting, because it removes the direct link between what was paid for an asset and the value being attributed to it.
- **Balance sheet approach:** The impact of FVA becomes even more important in the context of the balance sheet approach (or comprehensive income), under which financial performance is judged based on the asset values, as opposed to cash-flow (Van Cauwenberge & De Beelde, 2007:4; Perry & Nölke, 2006:563). A concern with this approach is that when combined with FVA, it may lead to increased profit volatility caused by a constant re-measurement of assets.

Even though FVA might reflect the current economic reality more accurately and may have better predictive value, there are subjective assessments in the preparation of FVA statements (Reis & Stocken, 2007:576). Furthermore, the

periodic relativity of values aggravates this valuation predicament (Christensen & Frimor, 2007:36-50; Reis & Stocken, 2007:576). The going-concern postulate underpins the historic cost values in the balance sheet, and abandoning this concept would imply that asset values be reported on a realisable value basis. Seen in this context, cost values may represent more-reliable data for balance sheet purposes. The realisable values under changing conditions may be irrelevant as long as they are not realised. Once the cost object is rendered to the market place, a new exchange of values takes place, which makes it necessary to evaluate the new values, in comparison to the absorbed values.

3.6. A FOUNDATIONAL ACCOUNTANCY PHILOSOPHY

It is not an exaggeration to consider accountancy as an integral element of the economy as a whole. This needs to be stressed because:

- It places a focus on accountancy's public service role and its responsibility to the community;
- it proves the narrow-mindedness of those who consider accountancy as only a technical or internal function; and
- it points out accountancy's influence on the organisation, the industry and the overall socio-economical environment.

Cluskey *et al.* (2007:27) found that although accounting theory is alive, the lack of consistency thereof is problematic. Furthermore, accounting theorists seem content to rationalise accounting practice as accounting theory. The real fulfilment of accounting theory would be in its ability to facilitate proper conclusions regarding the business entity's financial performance, regardless of whether functional divisions and procedural differentiations are made in practice. Since the primary aim of accounting is the provision of facts and figures about financial performance, a key objective of GAAP should be to make such information relevant, reliable and comparable.

Therefore, in answering the problem statement, the quintessential meaning of the foregoing may very well serve as a guide on which to formulate a legitimate

and underlying accounting philosophy that embraces ethical principles, as follows:

- Accountancy is involved in, and influences, all the economic aspects of the business entity. As such, it has an important social responsibility and it should be practiced in the spirit of accountability and integrity.
- Even though the business entity is an integrated part of society, it remains an economic entity in its own right, operating with the assumption that it will continue to do so indefinitely. Furthermore, the primary purpose and objective of the business entity's existence can be expressed through the products and services it aims to deliver to its intended target market.
- The entity's income and costs, as well as its assets and liabilities, are therefore to be measured according to each item's relative importance to the overall performance of the entity.
- However, such measurements should not lead to periodic and individual adjustments, based on perceived current fair values, except for the net income and related capital accounts. Doing so may limit the comparability not only between different periods and entities, but also between an entity's internal divisions.
- The net income (profit) amount is the excess of the received value in return for the delivery of the entity's products and services over the values absorbed by these products and services.

Based on this philosophical foundation, there are three essential objectives to which accounting theory should point. *Firstly*, it is crucial that the primary purpose to be achieved by the recording and collection of the accounting data be clearly understood – being the reporting of the economic events incurred during the organisation's business operations. *Secondly*, it should facilitate the provision of useful and comparable information concerning the entity's historical economic events as well as the methods used in the preparation thereof. *Finally*, it should also facilitate the understanding of the business

decisions made upon such information, as well as the method(s) used in reaching these decisions.

3.7. CONCLUDING COMMENTS

In conclusion, accountancy as a discipline has an important vocational focus. It is, however, grounded on sound scientific concepts, not only within the business sciences, but also in the social sciences. Because of its broad impact on business and society, it is imperative that accountants embrace ethical principles in practicing their vocation. Even though the GAAP framework aims to define accepted accounting practices, such practices are often open to interpretation and the motives of the accountant.

A topical discussion point in accountancy-related disciplines revolves around the measurement and valuation of items in the accounting reports. Even though we have a great fascination in the reality such accounting information intends to reflect, attempts to reflect the fluctuations in asset value can be seen as changing history and may serve to distort accounting's primary purpose. It can be argued that the performed transactions are the focus of accounting theory, and that relativity and unstableness are not elements of organisational performance. However, relativity and unstableness are crucial factors of organisational planning. Accordingly, the sub-disciplines of *managerial accounting* and *financial management* have as their main objective the determination of relative data by which the respective values are to be measured. Although greatly involved in, and built upon, the accountancy foundation, these are not problems of the basic accounting ideology.

The accounting teachers and professors therefore have a tremendous responsibility in that they play a crucial role in the formative years of accounting students. However, not only should they play a role in teaching accountancy techniques, but *how* such techniques are to be applied in a responsible manner. Furthermore, it is important that students of accountancy are not merely brainwashed into following rules and accounting conventions, but they should be able to question the discipline, and put it to the test. By teaching future accountants not to merely memorise and apply

rules and regulations, could accounting professors truly contribute to the future academic status of the discipline.

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CHAPTER 4 (ARTICLE 3)

Title: Reflections on the value concept in accounting

The reader is requested to take note of the following:

- This article was published in the following peer-reviewed and Department of Education accredited academic journal as follows:
 - **Buys, P.W.** 2009. Reflections on the value concept in accounting. *Koers: Bulletin for Christian Scholarship*, 74(3):495-517. (ISSN 0023-270X).
- Authorization from the Bureau of Scholarly Journals (as the publisher of *Koers: Bulletin for Christian Scholarship*) to include the article in this thesis has been obtained and is presented as part of **Annexure B** on page 152. The article has been written in line with the journal's submission guidelines for articles which are included as part of **Annexure B** on page 153.

Abstract

The recent meltdown in global finances and the reasons thereof may make people doubtful about the stewardship function of accounting. In the global financial markets, there is a great fascination with the reality accounting values intend to reflect. However, what many people considered valuable is now suddenly of no value. The question can therefore be asked as to what is meant by the value concept as a foundation to modern-day accountancy.

Value is a concept that is open to different interpretations, based on the needs, perspectives and personal values of the interpreter. This article aims to reflect on the value concept from an accounting perspective in analysing the fundamental qualitative perspectives and how these perspectives might affect the quantitative value measurements, as reported in the financial statements. From a quantitative perspective, accountancy aims to measure and report the monetary values of items. However, there is a move towards a mixed valuation model with many financial statements including both historical cost and value-based accounting information.

The article concludes that this questionable development opens up many additional and subjective interpretations of accounting value measurement and reporting. Both valuation measurement methods have merit seen in the overall purpose of accounting information. However, subjective value-based measurements may cast a shadow of doubt on the reliability and comparability requirements of accounting value information.

Key terms

Accountancy, accounting ethics, fair value accounting, stewardship, valuation, value measurement.

Opsomming

Die onlangse ineenstorting van wêreldfinansies en die redes daarvoor mag veroorsaak dat baie mense die rentmeesterskapsfunksie van rekeningkunde bevraagteken. In die globale finansiële markte is daar 'n groot bekoring ten opsigte van die realiteit wat rekeningkundige waardes poog om te reflekteer. Wat baie mense egter voorheen as waardevol beskou het, het nou skielik geen waarde meer nie. Die vraag kan tereg gevra word wat met die konsep van waarde as 'n grondslag tot moderne rekeningkunde bedoel word.

“Waarde” is 'n konsep wat vir verskillende interpretasies oop is, gebaseer op die behoeftes, perspektiewe en persoonlike waardes van die individu. Hierdie artikel poog om op die waardekonsep vanuit 'n rekenmeesterskaps-perspektief te reflekteer deur die kwalitatiewe aspekte te analiseer en die impak hiervan op die kwantitatiewe aspekte van waardebepaling en die verslagdoening daarvan, te evalueer. Vanuit 'n kwantitatiewe perspektief poog rekeningkunde om die monetêre waardes van items te meet en te rapporteer. Daar is egter 'n beweging na 'n gemengde waardasiemodel met baie finansiële state wat sowel historiese koste as waarde-gebaseerde rekeningkundige inligting bevat.

Daar is bevind dat hierdie twyfelagtige ontwikkeling die deur oopmaak vir heelwat addisionele en subjektiewe interpretasies van rekeningkundige waardebepaling en verslagdoening. Albei waardasiemetodes het meriete gesien in die lig van die oorkoepelende doel van rekeningkundige inligting. Nogtans mag subjektiewe billike-waarde-gebaseerde inligting 'n skadu van onsekerheid werp op die betroubaarheids- en vergelykbaarheidsdoelstellings van rekeningkundige waarde-inligting.

Sleutelterme

Rekenmeesterskap, rekeningkundige etiek, billike-waarde rekeningkunde rentmeesterskap, waardasie, waarde-bepaling.

4. REFLECTIONS ON THE VALUE CONCEPT IN ACCOUNTING

4.1. BACKGROUND

“My advice to you... is to seek out gold and sit on it.”

(Gardner, 1989:74)

Considering the world's current financial woes, many people might consider the dragon's advice to Grendel to acquire wealth (in the classical Beowulf poem), as all important. It may seem as if Dante's deadly sin of greed is ruling modern society, and that accounting is providing the means to commit this sin. The accounting profession's image has been tarnished by the creative ways in which financial values have been distorted and manipulated. Ryan (2008:1607) and Kao, Kao and Kao (2005:136) state that although fraudulent incidents are not accounting's fault, accounting is responsible for identifying, measuring and providing reasons for such occurrences. This may be a valid comment, but is it reasonable to expect the profession to accurately measure and reveal *all* financial values?

A key purpose of a company's financial statements is to translate its operational data into financial information and to communicate such information to its stakeholders (Sundem, 2007:287; Damant, 2006:30; IFRS 2006:26). This communication forms the basis for a wide range of internal and external business analysis tasks, from evaluating the company's relative financial performances and supporting its financial policies, to being a key means of communication to stakeholders. Furthermore, Mattessich (2003:129-146) states that accounting is confronted with the phenomenon of *relative* values. However, in the reality of the business world with its many rules and objectives, there is no clear-cut way of knowing whose (or what) financial values are reliable or what these values actually present.

Even though conventional accounting and financial reporting is based on historical cost accounting, there is a global move to introduce fair value accounting (Ronen, 2008:181; Christensen & Frimor, 2007:35). According to Reis and Stocken (2007:557), fair value accounting (FVA) aims to determine

the amount for which an item could currently be exchanged between knowledgeable and willing parties. Under the FVA approach, the fair value amount is *approximated* by the current market forces or by some kind of financial modeling (Perry & Nölke, 2006:562), which is then reported as the quantified value of the item. In contrast, under the historical cost approach, the *actual* historical amount is recorded (Buys, 2008:501; Scott, 2003:35), which means that the specific amount spent on the acquisition of the item is recorded and then reported as the quantified value of the item. The move from historical cost accounting to FVA therefore presents a major shift in accounting and financial reporting, because it removes the direct link between what *was paid* for an item and the value *being attributed* to it in the financial reports. Furthermore, while it is generally accepted that the creation of shareholder value is a key financial management objective (De Wet, 2004; Stiglitz, 2004), there are other stakeholders with their own financial and non-financial objectives (Stiglitz, 2004; Mitchell, Agle & Wood, 1997). Hence, depending on the user's perspectives and requirements, there are different schools of thought on the approximation of accounting values (Sundem, 2007:288).

Considering the modern-day complexity of accounting data, the following underlying question may arise: What does value within the context of accounting, actually mean? Baier (1967:1) states that even though the quantification of value plays a crucial role (in the application of accounting), from a qualitative perspective, value also has a spiritual connection and personal ideologies may have an impact on how such value will be quantified. This is confirmed by Klamer (2003:207) when stating that the distinction of value in terms of economic, societal and ethical values helps to address other problematic situations as well, such as when discussions gravitate towards financial values.

4.2. PROBLEM STATEMENT

As the role of the modern finance function shifts towards supporting business decisions, so the demands on accounting information also shift to support the finance function in its role. Against the backdrop of relative monetary values

and divergent perceptions on what value intends to reflect, the primary question under consideration can be defined as follows:

- Should we not reflect on the value concept, both from a qualitative and quantitative perspective, as a foundation for a modern-day accounting framework?

There is much debate in accounting circles (by academics, practitioners and standard-setters) about the advantages and disadvantages of alternative accounting valuation principles, and its role in supporting business decisions. In the debate around the value concept, Baier (1967:1) states that there is room for a philosophical overview of the entire conceptual area, while according to Klamer (2003:195) a pragmatic view on economic value measurement include not only the worth of the thing, but also moral, social and cultural values. In order to make a contribution to this epistemological debate, this article aims to re-focus the current discussion by bringing fundamental qualitative considerations into the debate and considering the role thereof in the formulation of a quantitative accounting framework.

4.3. METHOD AND OBJECTIVES

The core focus of this article, value, is a very encompassing concept. Although this article's consideration of the value concept is based in the discipline of accounting, the impact of philosophy on the economical sciences cannot be denied. However, it is not the primary purpose of this article to provide a thorough analysis of important philosophers and their contributions to the value concept. Its purpose can rather be found in the motivation that quantitative value measurement within the accounting framework is compatible with qualitative values. The research method used in this article comprised a combination of literature study and philosophical discussion. The aim of the literature study is to reflect on the qualitative value concept and its implications on quantitative value measurement. The primary objective is therefore to reflect on value from two perspectives:

- Firstly, the qualitative aspects of value, including stewardship and related ethical considerations; and

- secondly, the quantitative aspects of value, including the concept of value and value theory foundations, as well as the historical versus value-based approaches.

4.4. QUALITATIVE VALUE PERSPECTIVES

4.4.1. Introduction

The first objective of this article is to reflect on some key qualitative aspects of value, within the context of the economical sciences' stewardship function, and its impact on accountancy. Due to the pressures to deliver better (financial) performances, some individuals (accountants) may be open to a philosophy of *the end justifies the means* (Hunter, 2008:51; Gebler, 2006:30), which opens up a Pandora's Box with regard to accounting practices. It may be argued that accounting is accounting and ethics is ethics, and that one has nothing to do with the other. However, ethical accounting behaviour is a broader concept as purely that which is required by rules and regulations, and is often considered as the moral right or wrong (Horngren, Datar, Foster, Rajan & Ittner, 2009:42-44; Gebler, 2006:29). According to Wilber (2004), ethics is also an integral part of the philosophy of human behaviour. Business ethics therefore becomes the application of ethics in a business context so that its activities become acceptable to society (Botton, 2007:12; Mohon, 1999:1).

To set the context of accounting's qualitative value aspects in perspective, the roots of stewardship within the economical sciences will be considered first, before linking it to accounting and some related issues facing the accountant.

4.4.2. Stewardship

The concept of stewardship is now considered from two perspectives. Firstly, within the context of the economical sciences, the original English term *economy* is translated from the Greek word *oikonomia* (or *οικονομία*) (Pring, 1982:136; Swanson, 1959:111). There is, however, some debate about the root words of *oikonomia*. One school of thought suggests that it came from a

combination of *oikos* and *nomos*, or *house* and *law*, translating it into the *law of the house* (Warshall, 2009; Anon, 2008). Another school of thought suggests that it came from *oikos* and *némein*, or *house* and *manage*, translating it into *household management* (Mohr & Fourie, 2004:4). In Latin, the adjective *oeconomicus* is defined as relating to household management, while the subjective *oeconomus* is defined as the patron of the household property (Deferrari, 1960:722).

Secondly, the stewardship function also has its roots in the Greek *oikonomia*, with Pring (1982:136) translating *steward* from *οἰκονόμος*, while the Greek version of the New Testament (Bible N.T. Greek, 1984:308) translates *stewardship* from *οἰκονόμούν*. Furthermore, stewardship is also linked to a management function of a master's property (Bible N.T., 2005:104; Bible N.T. Greek, 1984:308), and as being a servant for the good of others (Bible N.T., 2005:265; Bible N.T. Greek, 1984:792).

The broader concept of *oikonomia* can thus be seen as having two perspectives, namely i) a management function of items of value, and ii) a stewardship function in relation to these things of value. In the biblical context, the stewardship function can also i) be seen as a position of responsibility in managing others' property, yet ii), humbling as standing in servitude of others.

4.4.3. Stewardship and accounting

The word *steward* is defined as one who manages the domestic concerns of a family or institute (Webster's Dictionary and Thesaurus, 2006:370), or a manager of money or goods, and to manage it according to the will of the rightful owner (Mohon, 1999:56). Furthermore, according to both Kao *et al.* (2005:140) and Mohon (1999:52), stewardship is the right and duty of individuals to assume responsibility for their resource usage. Taking the concept a little further, Kao *et al.* (2005:67) state that all people have stewardship accountability for their actions involving resource allocation and human interest, and taking it further still, Mohon (1999:2) states that stewardship is often linked to the accounting function.

Accounting has developed from a practical skill into a sophisticated business and management tool (Buys, 2008:497) and thus became an integral and crucial component of human society. Not only is accounting's aim the recording of transactions impacting on resources and the tool to communicate financial information; it also became an integral part of the overall wealth management and distribution system. Wealth can only be distributed if it has been accounted for properly prior to its actual distribution. This point is illustrated by Kao *et al.* (2005:140) when stating that economics is about the resources, but accounting is about how resources are *allocated* through usage and distribution.

This brings to the forefront accounting's important contribution to the stewardship function, which includes the recording, allocation and distribution of resources in a responsible and fair manner. However, Kao *et al.* (2005:140) are of the opinion that the mechanism of the modern market economy has altered the course of distribution by eroding the fundamental principles of economics, and that current accounting practices are part of this erosion process. Why then is it, that although many professional accounting governing bodies have codes of conduct (Buys, 2008:496), and in spite of the accounting standards of the International Accounting Standards Board (IASB) and the United States' (US) Financial Accounting Standards Board (FASB) (Epstein, Nach & Bragg, 2005:12; Schroeder, Clark & Cathey, 2005:59), the occurrence of major corporate accounting scandals is a common occurrence? It is therefore necessary to give some consideration to stewardship and the individual accountant.

4.4.4. Stewardship and the accountant

Hunter (2008:52) states that most financial analysts agree that no single variable affects the organisational climate more than the values, practices and ideas of its management team, while a strong ethical climate is, according to Verschoor (2009:13), very important to prevent fraudulent activities from occurring in the first place. Every accountant could therefore benefit from the *Daniel Effect*, which comes from the Old Testament account of a governing body trying to discredit Daniel, as found in Daniel 6:4 (Bible O.T., 2005:906):

“⁴Then the other supervisors and governors tried to find something wrong with the way Daniel administered the empire, but they couldn’t, because Daniel was reliable and did not do anything wrong or dishonest.”

Even though accountancy’s stewardship role makes the maintenance of high standards of moral conduct important, the reality of the business world makes it easier said than done. Some decisions, such as the manipulation of accounting values and operational data, are simply a matter of *right* versus *wrong*. The really tough issues are the *right* versus *right* dilemmas, such as truth versus loyalty, individual versus community, or short versus long term. In Roman mythology, Janus, the god of gates and doorways, is often depicted as having two faces, one forward facing and the other rearward facing. With this analogy in mind, the problem facing the accountant can be understood: There are many acceptable interpretations of raw accounting data and many legitimate stakeholder requirements pulling the accountant in different directions, for example certain shareholders wanting to maximise their dividend payouts, while others are looking for long-term growth, or even meeting taxation or social development and upliftment requirements.

When facing tough dilemmas as highlighted above, the fundamental principles of accounting institutes’ codes of conduct, such as professional competency, integrity, objectivity and confidentiality (IMA, 2008; CICA, 2007; ICAEW, 2006; AICPA, 2003), are crucial in guiding the accountant’s behaviour. However, one should always remember that no code of conduct will address all possible moral conflicts an accountant might encounter. It merely sets the framework for guiding his/her behaviour, while the accountant’s interpretation of this framework is often formed through personal training, experiences and value perceptions.

4.5. QUANTITATIVE ACCOUNTING VALUE FRAMEWORK

4.5.1. Introduction

The second objective of this article is to reflect on the key quantitative value aspects as related to accounting. A key purpose of financial reporting is to

make financial information usable for the stakeholders' decision-making purposes (Sundem, 2007:287; Damant, 2006:30). Therefore, the quantified accounting information disclosed in the financial statements should be *relevant*, *reliable* and *comparable* in order to support decision-making.

- **Relevant:** Something is relevant if it has bearing upon the matter in hand or if it is pertinent (Webster's Dictionary and Thesaurus, 2006:317; Livingstone, 2008:553). Relevant accounting information is therefore capable of influencing business decisions (Schroeder *et al.*, 2005:50; Riahi-Belkaoui, 2000:139; Libby, Libby & Short, 1996:252), while according to the IFRS's Conceptual Framework, it must assist in evaluating past, present and future business events (IFRS, 2006:40).
- **Reliable:** Something is considered reliable when it is trustworthy (Webster's Dictionary and Thesaurus, 2006:317; Livingstone, 2008:553). Reliable accounting information must therefore be accurate, unbiased and verifiable (Schroeder *et al.*, 2005:50; Scott, 2003:79; Riahi-Belkaoui, 2000:140), while according to the IFRS's Conceptual Framework, it must faithfully represent that which it purports to represent (IFRS, 2006:41).
- **Comparable:** Comparability refers to something that is usable for comparison or capable of being compared (Webster's Dictionary and Thesaurus, 2006:317; Livingstone, 2008:553). Comparable accounting information means that stakeholders can compare relevant information across businesses (Schroeder *et al.*, 2005:51; Riahi-Belkaoui, 2000:140; Libby *et al.*, 1996:252). The IFRS Conceptual Framework (IFRS, 2006:43) extends this by stating that stakeholders must also be able to compare the information through time in order to identify trends.

In reality, the above means that the accounting information should be believable and plausible in the specific circumstances, as well as having common features to permit the possibility of comparison. In order to better appreciate accounting values within the contexts of relevancy, reliability and comparability, some consideration is now given to the concept of value.

4.5.2. The value concept in an accounting context

Value has been part of human understanding from early times and is often used when referring to something tangible in terms of some monetary value (Mohr & Fourie, 2004:355; Ekelund & Hébert, 1990:26; Mundell, 1968:47). However, the term may also be used when referring to some intangible concept (Botton, 2007:169; Ekelund & Hébert, 1990:26; Mundell, 1968:12), for example when stating that the value of Luca Pacioli's treatise on bookkeeping, *Particularis de computis et scripturis* contribution to the development of modern accounting practices cannot be measured. In order to lay the foundation for considering an accounting value measurement framework, we firstly need to give some consideration to the development of the concept of value.

4.5.2.1. The definition of value

Values are, according to Usher (1917:713), attributed to things by some reasonable logical method in order to describe judgments of desiredness, or judgments of scarcity, or some relation between desiredness and scarcity. More recent sources define value as a worth that renders something useful or estimable (Webster's Dictionary and Thesaurus, 2006:418), the amount of money something is worth (Livingstone, 2008:732) or as the amount of money for which something can be exchanged in a market (CIMA Dictionary of Finance and Accounting, 2003:282). From a more philosophical perspective, Audi (2005:948) categorised it into several forms, such as intrinsic value, instrumental value, inherent value and relational value, while the Brief Accounting Dictionary (2000:122) defines it as a belief or principle that somebody uses to make judgments. Finally, Blackburny (1994:390) states that to acknowledge value is to acknowledge some feature of things to take into account in decision-making. Considering the above, value judgments may therefore be defined, analysed and described from many perspectives: in terms of its *purpose*, in terms of the *process* by which it is determined, or in terms of an *assumed absolute measure* of value.

4.5.2.2. *Perspectives on value*

As a starting point, it might make sense to consider one of the great philosophers, Aristotle's (384-322 BC) perspective on value theory, which was based upon *wants* and its *satisfaction* (Comim, 2004:478), and the distinction between *value in use* and *value in exchange* (Schumpeter, 1954:60). Although 13th century scholastic economical analysis has been expelled from the corpus of modern economic knowledge, it has contributed significantly to the evolution of value theory. For example, Albertus Magnus (1206-1280) planted the idea that value exchange must comply with the market estimate at the time of the sale (Stark, 2005:65; Formaini, 2002:3; Ekelund & Hébert, 1990:28), Thomas Aquinas (1225-1274) introduced the phenomenon that price varies with need (Langholm, 2006a:396; Formaini, 2002:3; Ekelund & Hébert, 1990:29-30), Henry of Friemar (1245-1340) proposed that value is determined by the common need of something scarce (Langholm, 2006b:281; Ekelund & Hébert, 1990:30-31), Jean Buridan (1295-1358) advanced the notion of *need* into the generalisation of *every desire* (Langholm, 2006b:279; Formaini, 2002:3; Ekelund & Hébert, 1990:32), while Gerald Odonis (1290-1349) recognised different skills and the relative cost of acquiring such skills (Formaini, 2002:3; Ekelund & Hébert, 1990:32-33). Other key theories on value include the cost-of-production theory and the theory of the parity of labour, capital and land (Grossmann, 2007:10-11, Usher, 1917:714), which accepted the contribution of the various resources in the creation of commodity value. Such values might typically be considered as the *natural price* because it is determined by the long-run cost of production (Ekelund & Hébert, 1990:108-109). In contrast the *market prices* are determined by the interaction of supply and demand (Ekelund & Hébert, 1990: 108 – 109).

4.5.2.3. *Evolutions in value*

According Grossmann (2007), Usher (1917) and Young (1911), a commodity's dual value, i.e. its *exchange* and *use* values, is still recognised in value theory. These two meanings, according to Ekelund and Hébert (1990:106), relates to the commodity's utility (its value in use), or its purchasing power (its value in exchange). The utility of money also comes from two sources; i) an exchange value that is derived from the value of the goods it can buy and ii) a

(subjective) use value of its own because it can be held for future use (Ekelund & Hébert, 1990: 562). Taking it a little further, the concept of *use value* may even be considered more than physical utility, but a psychological utility (Grossmann, 2007:24), a reflection of individual attitude (Gordon, 2005:402) or even cultural attitude (Klamer, 2003:200). Either way, value in use is therefore seen as utility, which is a quality of being useful (Webster's Dictionary and Thesaurus, 2006:859) or a numeric indicator representing consumer satisfaction (Pindyck & Rubinfeld, 2005:75). By inference this could be interpreted that the higher a commodity's utility, the higher its (use) value should be. However, eschewing any pretensions of direct measurability, Comin (2004:492), Ekelund and Hébert (1990: 358) and Richter (1971:29) are of the opinion that *behaviour* might very well reveal actual utility. Ekelund and Hébert (1990: 131) also state that utilitarianism is overly narrow in its approach to human behaviour, with little room for behavioural motives. Mainstream of contemporary economic theory frequently defers ontological questions, and merely assumes that preference structures conforming to certain rules can be usefully proxied by associating goods, services, or uses thereof with quantities (Taylor, 2004:107), and defines utility as such a quantification (Stigler, 1972:571; Stigler, 1950:373). In contrast, the so-called Austrian School generally attributes value to the subjective satisfaction of needs (Klein, 2008:165; Miller, 2008:43), and do not depend upon a presumption of quantification (Ekelund & Hébert, 1990:565-567) and could perhaps even reject the possibility of quantification.

When considering the above, it is clear that value is a complex concept, which attracted much debate over the years. In the determination of the value, the following concepts do seem to be crucial:

- There is a potential difference in the value of a thing (whether it is a commodity or money), when the objective is to either use or exchange the thing.
- There must be a certain desire for a particular item that needs fulfilling. However this desire is often very subjective and based not only on economics, but also of social and moral desires.

- The more urgent the desire for fulfillment is, the higher the perceived value thereof may be and, similarly, the scarcer the desired item, the higher its perceived value may be.

Bringing these concepts together, Schumpeter (1954:589) states that value theory essentially relates to the exchange ratio between two commodities or services. Seen in the light of accounting's objective of translating operational performances into financial terms, the absence of clear guidelines on the contextual concept of value can lead to the phenomena of different values for different purposes. Accounting debates on value interpretations, including the methods and policies around value measurement, have considerable room for subjective value judgements.

4.5.3. Accounting value measurement

There is a great fascination in the reality that accounting information intends to reflect. However, Mattessich (2003:129-146) states that the phenomenon of relative values is a key issue facing accounting theory. Therefore, *how* operational data is valued and recorded, are key factors in *perceived* financial performances. A company's primary financial statements include i) the *Income Statement* (Wild, 2008:17-18; Epstein *et al.*, 2005:64) or *Statement of Comprehensive Income* (IFRS, 2008:915) that reflects its operational results, and ii) the *Balance Sheet* (Wild, 2008:17-18; Epstein *et al.*, 2005:64) or *Statement of Financial Position* (IFRS, 2008:909) that reflects its financial position at a given time.

In the reality of the business environment, it may be difficult to prepare financial information that meets all the earlier mentioned requirements of relevancy, reliability and comparability. Consequently, there may have to be some trade-off between such requirements. The historical cost basis of accounting presents such a trade-off because its objective nature means that the reliability and comparability of value information is enhanced (Scott, 2003:35). However, according to Boyles (2008:29), the US-based FASB has also long believed that a value-based accounting approach is the most relevant basis of accounting.

4.5.3.1. Value-based accounting

The proponents of value-based accounting techniques believe it provides more relevant and timely information despite its increased use of estimates and subjective judgments (Ryan, 2008:1608), while opponents believe it provides unreliable information (Krumwiede, 2008:34). According to King (2009:28), Boyles (2008:31), Krumwiede (2008:33), and Ryan (2008:1607), the misuse (intentional or otherwise) of fair value financial reporting is (at least partially) being blamed for the sub-prime meltdown, bank failures, credit crunch, economic recessions and global corporate failures.

Campbell, Owens-Jackson and Robinson (2008:32) define fair value as the accounting practice to value certain assets and liabilities at their current market values, while the FASB's Statement of Financial Accounting Standards (SFAS No.157) defines it as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (FASB, 2006:2).

In the determination of fair values, the FASB's SFAS 157 requires companies to disclose the *level* used. These levels are, according to Boyles (2008:32), Krumwiede (2008:36), Campbell *et al.* (2008:33-35) and Ryan (2008:1626), based on the objective nature and quality of the inputs used in determining the value of an item.

- Level 1 is objective and observable prices in active markets for identical assets and is considered the most reliable level of data.
- Level 2 is objective and observable pricing inputs other than in active markets for identical assets.
- Level 3 is considered the least reliable and objective level of values and is typically unobservable firm-supplied estimates.

Even though from the IASB's perspective there are no set standards on such levels, there is currently a proposal that the same levels as required in the US are used (IFRS, 2009).

4.5.3.2. *Challenges facing fair values*

Reis and Stocken (2007:576) argue that even though FVA may have better predictive value, there are many subjective assessments in the preparation of FVA statements. Furthermore, the periodic relativity of values aggravates this valuation predicament (Christensen & Frimor, 2007:36-50; Reis & Stocken, 2007:576). This predicament becomes even more important within the context of the balance sheet approach, under which financial performances are judged based on the asset values, as opposed to cash flow (Van Cauwenberge & De Beelde, 2007:4; Perry & Nölke, 2006:563). A concern with this approach is that a constant re-measurement of assets may lead to increased profit volatility. Because many values are based on estimates, it is quite likely that even well-intended management estimates may be incorrect to the extent that the underlying assumptions are incorrect. Furthermore, opportunistic managers may take advantage of judgments that have been used in the estimation process to manipulate the accounting numbers in order to get closer to the desired financial performance indicators.

Another concern of value-based techniques that is raised by Boyles (2008:32) and Eaves (2007) is that many companies have been reporting sizable portions of their earnings using subjective level 3 inputs, which lead to many analysts questioning the quality of information, which in turn cast doubt on the quality of decisions based thereupon. Furthermore, Boyles (2008:30-31) states that with the complexities and subjectivity involved in value-based measurements, it becomes important that management understands additional implications involved, such as on i) corporate governance, where the subjective nature of value determination means that companies should adopt governance policies to evaluate the quality of internal methodologies as well as the external fair value information, and ii) financial reporting whereby additional financial reporting concerns are coming to the fore, such as financial executives needing to be more cognisant of key market events that may cause changes in the asset values.

Whether or not managers are well intended, the use of subjective value inputs will result in accounting figures that are difficult to verify. Krumwiede (2008:38) states that the company's management would typically have the

best business information at their disposal and would be in the best position to make value predictions, which in turn means that independent auditor verification would need to place a greater reliance on such management estimates. However, if these predictions turn out to be incorrect, the question is how it would be possible to determine whether these estimates were the result of honest mistakes or intentional data manipulation.

4.5.3.3. *The contrast of historical cost*

Riahi-Belkaoui (2000:419) states that historical cost accounting assumes either i) a stable monetary unit, or ii) immaterial value changes in the monetary unit. Both these assumptions may be challenged in the current market conditions, and over time the historical cost values may become less relevant for decision-making (Schroeder *et al.*, 2005:208; Scott, 2003:36). Furthermore, in order to smooth out current period cash flows, the matching principle is applied, which attempts to match costs and revenues (Scott, 2003:37; Riahi-Belkaoui, 2000:132). However, it is here that a challenge may arise. There is often not a single objective way to match costs with revenues, which complicates the ability of historical cost-based earnings to reveal persistent and true performance measurement.

A key difference between historical cost and value-based accounting is the timing of recognition of value changes, for example:

- The FVA approach is a balance sheet approach to accounting (Van Cauwenberge & De Beelde, 2007:4; Perry & Nölke, 2006:563), which means that value changes are measured and recognised as they occur by discounting future cash flows and capitalising it on the balance sheet (Campbell *et al.*, 2008:32). The net income essentially becomes the change in the periodic present values.
- Historical cost accounting is an income statement approach (Ronen, 2008:184; Scott, 2003:36), in which the unrealised value changes are not recognised on the balance sheet. The recognition of value changes is only recognised (in the income statement) once an actual transaction or cash flow occurs. According to Scott (2003:36), the income statement

therefore provides information on the current installment of the value created by the company.

It may therefore be argued that historical cost accounting is more reliable because the cost values are less prone to estimation errors as might be the case with value-based estimates.

4.6. CONCLUDING DISCUSSION AND RECOMMENDATIONS

According to Mattessich (2003:129-146), the phenomenon of relative values has been a topic of contention throughout the history of accounting. This is still the case in the current accounting environment where there is a move to introduce value-based accounting. However, value-based accounting practices are often inherently more *subjective* in its value determination, which means that an accounting concept of value should focus on more than only the quantitative aspects of value and include the ideological aspects of the preparers of the value information.

4.6.1. Qualitative perspectives

In the modern-day performance-driven business environment, accountancy's stewardship function is less a question of black and white, and more a situation of shades of grey. The early philosophers and civilisations recognised the importance of proper accountability and resource management. Within this management process, accountancy plays an important role in not only the recording and reporting of resource consumption, but also in how the created wealth is being distributed. The moral and ideological values of the accountant therefore play a central role in business and society, as well as the interaction between business and society.

Even though the accountant's interpretation of ethical values is often formed through personal experiences and training, the accountant should resist questionable short-term pressures and focus on the calling and responsibility of the profession and its reputation, as well as on his/her own long-term reputation. Within an accounting context, stewardship should not only focus

on individual resources or organisations, but should also follow a more holistic corporate social responsibility approach for the greater good of all stakeholders, including the corporation itself. Such a responsible stewardship approach belongs to the entire human race, and individual ownership *per se* should be subservient to the overall stewardship role. Furthermore, stewardship responsibility matters to our personal lives and the sustainability of the global economies.

Finally, stewardship bestows on us the responsibility, as custodians of God's property, to support the continuing need of the common good. The accountant should therefore remember that ultimately God is the stakeholder of all, and that he/she is in effect God's financial manager.

4.6.2. Quantitative perspective

Within a more materialistic context, the concept of value often relates to the price of an item. However, the price thereof need not always be expressed in monetary terms. Even in times before currencies, when an exchange of goods took place, such an exchange was based on the parties' perception of the item's value. When we depart from the assumption that there is not a single correct application of the value concept, we see that value is governed by varying situations and scenarios. However, a pragmatic adaptation of the fluctuations of values according to current circumstances may detract from the scientific foundation of value theory. An objection against this opportunistic viewpoint of value is that it acknowledges a value based on *current* prices and economic realities, while at the same time acknowledging values based on the *historical* prices and economic realities. In this way, the foundations of value determination are distorted to the pragmatic illusions to suit a particular situation.

In the consideration of accounting value, there are three essential objectives to which accounting theory should point. Firstly, the primary purpose of the recording and collection of the value data should be understood. Secondly, it should facilitate the provision of relevant, reliable and comparable information concerning the company's historical economic events. Finally, it should facilitate the understanding of business decisions made upon such

information. The question is then whether historical cost or value-based accounting provides better information.

The first consideration revolves around the reliability of accounting information. One of the key accounting postulates, the going concern assumption, justifies the valuation of assets on a non-liquidation basis (Wild, 2008:9; Epstein *et al.*, 2005:377), which underpins the historic cost values in the balance sheet. Therefore, abandoning the historic cost value principles could imply that values are to be reported on a realisable value basis (Riahi-Belkaoui, 2000:165). Seen in this context, the historic cost values might therefore present more reliable balance sheet information. As stated earlier, accountants serve a stewardship role, and because the historical cost measures the actual resources exchanged in the transaction, it indicates how resources have been used.

This raises the second concern of relevancy of the information. Values are key quantitative anchors on which capitalism is based, and the valuation method can be considered a key parameter in socio-economic relations. In an education environment where financial accounting education is very much focused on the application and interpretation of accounting standards, it may be difficult for the accountant to determine whether the value-based amounts for financial disclosure and reporting purposes are reasonable and based on sound value theory, which may put the information's relevancy in doubt. Furthermore, it becomes important to understand whether the value-based information received from third parties is of adequate quality and in compliance with disclosure standards, which not only places some doubt on whether the value information is relevant, but also on the comparability thereof. For example, is the information being compared from period to period, or from entity to entity, based on the same set of accounting assumptions and foundations?

A further concern with the increase of fair values is the resource efforts that are required to gauge the reliability and relevance of such measurements. Even well-resourced auditors cannot be expected to properly verify huge amounts of level 2 and 3 assets on a balance sheet. Furthermore, the determination of fair values becomes difficult to determine when there is a

disconnection between the supply and demand for such items. When the supply exceeds the demand, there is uncertainty and difficulty for companies to determine with any degree of certainty what the assets they hold are truly worth.

4.6.3. In conclusion

A key flaw in the current mixed-characteristic accounting model with both value-based and historic cost information is that some assets and liabilities are recorded at fair values, while others are not. As a result of this mixed model, it may become difficult for stakeholders to compare the financial performances of companies based on the elections these companies made regarding the value-based items, when such elections are based on subjective determinations on a case-by-case basis. It also becomes difficult to imagine the extended use of value-based measurements without an ever-increasing set of disclosure requirements and corresponding rules as to the determination of such values. This makes it conceivable that any movement to a value-based model, governed by multiple accounting rules, could be inconsistent with a principles-based accounting standard-setting approach.

Finally, experience has shown that the sinful and greedy human nature often gives in to temptations of greed and creative accountancy practices. Providing more subjectivity into the recording and reporting of financial information might be creating even more opportunities for such temptations. The historical cost accounting approach, with its shortcomings in reflecting current financial values, may therefore not be the ultimate accounting and reporting method, but overall, it may be the best method we have.

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CHAPTER 5 (ARTICLE 4)

Title: Ontology and epistemology: A transcendental reflection on decision-usefulness as an accounting objective

The reader is requested to take note of the following:

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Abstract

As key global accounting regulators, the FASB and the IASB have accorded much importance to the concept of decision-usefulness, especially in respect of the capital providers as a user group. However, a vague reference to the usefulness of accounting information means nothing unless the utility being sought is properly defined. This paper reflects on the relevancy of decision-usefulness as a key financial reporting objective from two perspectives. Firstly, the ontology of accountancy with specific reference to decision-usefulness and utility versus ophelimity are considered. Secondly, epistemological issues around the quantification of accounting data and its predictive abilities are discussed.

The article does not deny the importance of the usefulness criterion, but rather argues against a vacuous concept of decision-usefulness, which, as a key accounting and financial reporting objective, is devoid of any substantive meaning. Instead, a more realistic key objective of accounting should be to provide factual economic and financial information, which, since it presents any user with information in a unique company specific context, can be considered *judgment*-useful, rather than *decision*-useful.

Key terms

Accountancy, accounting ethics, decision-usefulness, financial reporting, stewardship.

5. ONTOLOGY AND EPISTEMOLOGY: A TRANSCENDENTAL REFLECTION ON DECISION-USEFULNESS AS AN ACCOUNTING OBJECTIVE

5.1. BACKGROUND

“The quality of decision is like the well-timed swoop of a falcon which enables it to strike and destroy its victim.”

(Sun Tzu, The Art of War)

This age-old advice of the great Chinese general and philosopher, Sun Tzu, is just as true in the modern business environment as in ancient warfare – perhaps even more so. In the current fast-paced, competitive business environment, quality decisions are crucial, and according to Wild (2008) and Fellingham (2005), accounting is viewed as the measurement activity that provides financial reports in support of decision-makers and their business decisions. In recent times, these decision-makers have been accorded much importance by key accounting regulators, so much so that most contemporary accounting theory textbooks declare the primacy of users’ decision support as underlying to the external financial statements (Young, 2006; Ijiri, 1980). The conceptual framework of the US-based Financial Accounting Standards Board (FASB) maintains that a primary purpose of the financial statements is to provide information that is useful to investors and creditors in making their economic decisions (Williams, 2009; Young, 2006). This focus is echoed by the UK-based International Accounting Standards Board, or IASB (IFRS, 2008), when they state that the:

“...objective of the general purpose financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers.”

At the current juncture in financial reporting history though, it is evident that these *investors, lenders and other creditors* have made and concealed some astonishingly poor business decisions. Furthermore, as capital providers,

current day investors seem to be disconnected from the real economy (Mitchell, 2008), and engage in trading that largely serves to finance the finance industry (Williams, 2009).

Williams (2009) states that accounting research of the past four decades has focussed heavily on the concept of *decision-usefulness*, which then also became the agreed-upon guide for judging the effectiveness of accounting and financial reporting. This connection between i) the users of financial statements, ii) the objective of decision-usefulness and iii) accounting standard-setting was forged fairly recently and was initially quite controversial (Young, 2006). According to Schuetze (1983) and Armstrong (1977), more than 60% of the respondents to the FASB's discussion memorandum on the objectives of financial reporting opposed adopting the provision of information for economic decision-making as an accounting objective. In fact, Spiller (1964) earlier argued that an emphasis on this pragmatic aspect of accounting requires answering to *whom* the information was to be useful for, and *what purpose* it was to be useful for. According to Young (2006), *this* is where the danger lies; it can become easy to get trapped into defining accounting theory and formulating its postulates and principles, in terms of some special-interest group(s).

According to accounting theorists, such as Cluskey, Ehlen and Rivers (2007), Schroeder, Clark and Cathey (2005) and Riahi-Belkaoui (2000), accounting theory is the *framework* of accounting principles that directs the practice of accounting, which is presented as the accounting concept of GAAP. In South Africa, GAAP is typically taken as Generally Accepted Accounting *Practices* (Everingham, Kleynhans & Posthumus, 2007:2; Sowden-Service, 2006:6), and encompasses the conventions and rules required to define acceptable accounting *practices* at a given point in time (Epstein, Nach & Bragg, 2005). It may therefore seem that what gets taught as accounting theory is in actuality prescribed accounting practice, which then questions the validity of what gets taught at academic institutions as *theory*. It also raises the concern of the role of the accounting regulators in describing and prescribing what accounting theory should be.

Notwithstanding the aforementioned, accounting has long been searching for criteria that can be used to identify and select the best financial measurement techniques (Ijiri, 1980; Ijiri & Jaedicke, 1966). To confuse the matter somewhat, accounting is plagued by the existence of many alternative techniques and methods. The accounting method selection, however, is not a whimsical decision and vague references to *usefulness* mean absolutely nothing unless the specific utility sought by such an objective is clearly defined.

5.2. PROBLEM STATEMENT

The question begs as to whether decision-usefulness, as currently understood, articulates a minimally coherent basis for accountancy, including accounting theory. Considering cases in recent corporate reporting history, it may be an opportune time to reflect somewhat on the concept of decision-usefulness. Therefore, the primary question under consideration can be formulated as follows:

- Is decision-usefulness as straightforward and unquestionable a way to classify the intellectual and policy-making aspects of accounting as it might seem to be?

5.3. METHOD AND OBJECTIVES

The research method used in this article comprised a combination of literature study and philosophical discussion, which is based on a transcendental criticism aiming to further individuate the foundations of the concept of decision-usefulness. The primary aim is to consider the development of decision-usefulness as is currently being articulated by the authoritative accounting regulatory institutions and to highlight certain key conceptual and operational flaws therein. To achieve this aim, two philosophical concepts, namely ontology and epistemology are used as the basis for the discussion.

Firstly, the term ontological refers to the nature of the reality that is to be studied (Terre Blanche, Durrheim & Painter, 2008), while ontology refers to the *study of reality* and the improvement of the phenomena in the social world by the generation of knowledge regarding the nature of being (Brynard &

Hanekom, 2008; Hole & Hawker, 2004). Within the context of this article, the first objective is therefore a consideration of the reality in which accounting is practiced and the accounting history that gave rise to the concept of decision-usefulness. Furthermore, key in the consideration of this reality is especially the issue of social utility versus individual ophelimity seen against accounting's decision-usefulness objective.

Secondly, the term epistemological refers to the search of knowledge with the objective of arriving at a result that is as close to the truth as possible (Mouton, 2009; Brynard & Hanekom, 2008; Audi, 2005), while epistemology is defined as the *theory of knowledge* (Terre Blanche *et al.*, 2008). Within the context of this article, the second objective is therefore to analyse key epistemological issues regarding the theoretical foundations put forward by the accounting regulators in justification of their version of accounting theory (i.e. that of decision-usefulness). Crucial to this analysis is the consideration of accounting data's predictive capabilities, which in turn is based on the quantification of such data.

5.4. THE ONTOLOGY OF THE DECISION-USEFULNESS OBJECTIVE

Young (2006) states that the connection between the user of financial statements (as decision-maker) and the standard-setting process was made amid a confluence of events, ideas and people. Starting with the American Accounting Association's (AAA) Committee on Accounting Procedure through to the FASB and the IASB, accounting regulators have sought to bind their responsibilities via some kind of coherent accounting theory statement that provides a rationale for the rules they propagate. According to Williams (2009), many accounting theorists have been preoccupied with the creation of an accounting theory that neither clarifies a logical accounting foundation, nor describes current accounting practices, but rather attempts to shape future choices by choosing between different accounting and financial reporting techniques. As a point of departure in this article's reflection on accounting's decision-usefulness objective, a brief overview of the history of how the concept of decision-usefulness became a prominent accounting objective is provided.

5.4.1. The evolution of the decision-usefulness objective

According to Young (2006), the focus area of equity investments shifted during the mid 20th century from *dividend yield* to *capital gains*, with institutional investors becoming increasingly significant in financial market participation. As these patterns changed, the number of investment analysts increased, which resulted in, among other, the Financial Analysts Federation being founded in 1947. These changes resulted in financial statements being subjected to increased scrutiny, which resulted in the increased significance of the audited financial statements at that time (Corbin, 1958); while West (1959) also reiterated the importance of comparability of financial statements to ensure the usefulness thereof to the various users thereof.

Amid various accounting information concerns, the AAA appointed a committee in 1964 to consider the role, nature and limitations of accounting (Young, 2006), which produced a report entitled *A Statement of Basic Accounting Theory*, hence ASOBAT. According to Staubus (1999), the first prominent publication on the topic of decision-usefulness was the ASOBAT³ report of 1966. This committee's primary mission was to define a basic statement of accounting theory by providing a cohesive set of hypothetical, conceptual and pragmatic principles forming a general accounting reference (Young, 2006). The ASOBAT I defined accounting as the process of identifying, measuring and communicating economic information to permit *informed judgments and decisions* (AAA, 1966). Even though ASOBAT I recognised that decision-usefulness is an encompassing principle that is dependent upon the user, it did not explicitly identify the actual users of the accounting data (Young, 2006). Furthermore, according to the AAA (1966), the ASOBAT I also cautioned that i) the users of accounting information often do not possess adequate competency to determine what information would be most useful for them, and ii) against accountants implying that the information supplied is wholly adequate for such prediction, while iii) also stating that relevance should be the primary criterion when choosing between accounting alternatives. Notwithstanding its emphasis on individual decision-making, the

³ Since this was the first of two such committees, we will refer to it as ASOBAT I

ASOBAT I committee added additional objectives with a social welfare orientation by stating that a purpose of accounting is to provide information for the maintenance and reporting on the custodianship of resources and to facilitate social functions and controls (AAA, 1966).

The next phase in the evolution of the decision-usefulness objective was entered into with the formation of the FASB in 1973, which, according to Young (2006), embarked on a conceptual framework project to rationalise its promulgated accounting standards. This framework's format resembled ASOBAT I in that i) the FASB specified the objectives of financial reporting in their Statement on Financial Accounting Standards (SFAC) No. 1 (FASB, 1978), and ii) listed the characteristics that accounting information should possess in order to fulfil those objectives in SFAC No. 2 (FASB, 1980). The FASB, however, was more specific about the users and the types of decisions they consider the accounting information to be relevant for. According to the FASB, financial reporting should provide information that is useful to present and potential *investors* and *creditors* in assessing the amounts, timing and uncertainty of prospective cashflows (FASB, 1978). The statement that financial reporting should provide information useful to certain decision-makers regarding prospective cashflows can be considered a *normative* instruction rather than a *foundational* summary of accounting theory (Williams, 2009). The peculiarity of this as a statement of theory was objected to by many who espoused the more traditional stewardship objective as accounting's primary function (Young, 2006), which is now limited only to how management discharged its stewardship responsibility to the company's owners (FASB, 1978). Therefore, according to the FASB, accounting information is to be evaluated based on its decision-usefulness, which means that data that best helps certain types of decision-makers to make certain types of decisions are preferred. The declaration that decision-usefulness is to serve as the primary purpose of financial reporting and the basis for selecting among accounting alternatives, however, raise questions about this user group. Furthermore, the FASB failed to address the empirical issue of how to determine which alternative is most helpful to actual users (Young, 2006); users whose ability ASOBAT I had cast doubt upon.

In disputing normative accounting standards, Demski (1973) asserted that standards that deviate from individual preferences cannot offer guidance in selecting accounting alternatives. In defining *normative*, Demski (1973) stated that such previously failed standards (theories) relied on relevance, usefulness, objectivity, fairness and verifiability to delineate the desired alternatives. A second ASOBAT Committee (ASOBAT II) assembled in 1977 and asserted that since normative standards are divorced from individual preferences, the imposition of such standards presents serious difficulties (AAA, 1977). Thus, ASOBAT II reiterated the key role of individual preferences and decision-makers as the focus of financial reporting, thereby supporting both the original ASOBAT theory and the FASB's conceptual framework. While the ASOBAT II Committee criticises earlier normative standards as problematic, it elected not to acknowledge that the original ASOBAT theory and the FASB statements are indeed normative as well (Williams, 2009).

The last phase in the evolution of the decision-usefulness objective is set against the background of global accounting convergence efforts. Accounting's most recent conceptual framework is a joint effort by the FASB and the IASB. Since the FASB is coordinating and cooperating in developing this framework, it is not surprising to find this framework reiterating many earlier FASB pronouncements (Barth, 2008). The proposed framework's objective for general purpose financial reporting is to provide financial information about the reporting entity that is useful to the primary users of financial reporting, which are, according to IFRS (2008), the present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers. IFRS (2008) also notes that it is accounting information's qualitative characteristics of *relevance* and *representational faithfulness* that render it useful to the users in their capacity as capital providers. Representational faithfulness refers to the appropriate presentation and portrayal of the economic phenomena deemed to be relevant, which is enhanced by the four qualities of comparability, verifiability, timeliness and understandability (IFRS, 2008). Seen from the accounting regulators' perspective, relevance is concerned with the economic phenomena of the capital providers' decisions and it is the application of the qualitative characteristic of relevance that will identify the economic phenomena to be

depicted in the financial reports. To the IASB, relevance therefore refers to and delimits the scope of what content should appear in the financial reports.

Considering all the above, it seems that decision-usefulness has been narrowly circumscribed to be defined as the actual decision needs of the capital providers and those others whose decisions are analogous to that of such capital providers. These objectives subsume stewardship under decision-usefulness and all but abolish an explicit stewardship reporting objective.

5.4.2. Social utility versus individual ophelimity

The ASOBAT and FASB were seen as groundbreaking because they shifted the focus from accounting information's normative qualities to its decision-usefulness objective (Williams, 2009). The next section of the article analyses in more detail who the potential users of this information are and what they might consider decision-usefulness to be, within the context of a lexicological consideration of *decision utility*. Decision-usefulness is not only the current underlying principle of promulgating accounting standards, but according to Staubus (1999), also the current research focus of many accounting academics. Earlier, however, Sterling (1972) stated that decision-usefulness is such a broad and vague concept that there is no real reason researching it as a single paradigm. Furthermore, Beaver, Kennely and Voss (1968) also acknowledged that the decision-useful criterion is problematic because the decision model is often either unknown, or it does not allow the identification of the better accounting alternative. As was illustrated earlier, the concept of decision-usefulness as currently presented is based on the fulfilment of individual preferences. It is, however, not clear whether it serves to create *individual* or *social* utility (Williams, 2009). The implied presumption may be that a general form of decision-usefulness will lead to increased utility for all individual decision-makers. The question in this ambiguous presumption remains as to *which* decision-makers and *what* types of utility are being referred to.

There is a certain degree of ambiguity between the concepts of utility, which is defined as the state of being useful (Livingstone, 2008; Webster's Dictionary and Thesaurus, 2006), and usefulness, which is defined as being able to be used for a practical purpose (Livingstone, 2008; Webster's Dictionary and

Thesaurus, 2006). Williams (2009) goes a bit further and aligns utility/usefulness with classical economics, which, according to Sen (1998) as well as Cooter and Rappaport (1984), focused on material welfare. Classical economists used the term utility to denote something that was conducive to the development and prosperity of an individual, a people or the human race (Pareto, 1896 as quoted in Cooter & Rappaport, 1984; Burchfield, 1982). However, since the term *utility* can be ambiguous, Pareto substitutes it with *ophélimité* to delineate individual subjectively-defined preferences (Sen, 1998; Cooter & Rappaport, 1984), which means the capacity to satisfy any rational or irrational want and designates a relationship of convenience, which makes a thing satisfy a need or desire, legitimate or not (Burchfield, 1982). Therefore, in contrast to utility, the concept of ophelimity refers to subjective, individually-based and ordinal economic gratification. It can be argued that it is doubtful that accountants possess either the linguistic or the conceptual abilities to distinguish between social utility (welfare) and individual ophelimity. It might therefore seem that what is currently propagated as accounting theory is based on a perplexed blend of two essentially different concepts (Schipper, 2002). On the one hand, as the stated goal of financial reporting, decision-usefulness is embedded within implicit concepts of welfare economics based on *social utility*, while on the other, the justification of decision-usefulness springs from a theory of markets based on *individual ophelimity*.

When reading the IASB's objective of financial reporting as contained in IFRS (2008), it is clear that the regulator considers the capital providers as the prominent user class. Within the context of this user class, the information contained in the financial statement serves, according to Beaver (1972), two key roles; i) as an aid to establish security prices to facilitate resource allocation between companies and security allocation among investors, and ii) as an aid to the individual investor in the selection of optimal security portfolios. The question of the nature of such investors (capital providers) immediately arises (Beaver, 1972). Assuming on the one hand *homogeneous* capital providers, the regulators must choose from accounting alternatives by relating them to the decision-makers' responses. If the assumption is made that all investors have the same utility function, then would they not all make

similar decisions and select similar accounting choices? In contrast, assuming *heterogeneous* capital providers, attempting to optimise ophelimity would entail overwhelming informational needs by the regulators to specify how decision-makers will use the information in altering their behaviour. Can the regulators presume to know which accounting alternatives would provide information that would enable individual decision-makers to their individual preferences? Ophelimity is known only by the individual, which means that interpersonal utilities are not comparable. Furthermore, Beaver and Demski (1974) argue that since non-investors may be affected by decisions based on the financial reports, they are also users thereof. In an environment where the regulators understand utility as the ophelimity of a delimited grouping of decision-makers, the notion of *general purpose* financial statements, as defined by the IASB, becomes undetermined.

If the regulators did not seek to maximise individual ophelimity, the obvious alternative is social utility, which opens up the possibility that they are pursuing the ASOBAT I goal of improving social welfare. Williams (2009) states that such an objective would aim to alleviate need by increasing the material means available to a society and then allocating such means in a manner to achieve the greatest material well-being for the greatest number beneficiaries. In SFAC No. 1, the FASB (1978) notes that the role of financial reporting in the economy is to provide information that is useful in making business and economic decisions, it does not attempt to be specific on what those decisions should be. Thus, the FASB explicitly excuses itself from any responsibility for its standards on the premise that it can ascertain what information is actually useful to rational decision-makers.

The capital providers' utility orients the regulators' decisions and fosters the rationale provided for the capital market research paradigm centred on the efficient market hypothesis (Williams, 2009). Accounting data is useful if it correlates with share prices, share returns, solvency measures, etc. The logic is that if one accounting reporting system leads to higher values for capital providers than another, then that reporting system is preferred. Beaver (1972), however, warned against the fallacy of composition and stated the securities market should be distinguished from the individual investors that compose the market. This distinction is somewhat artificial, because the aggregate

actions of the individuals determine market behaviour. However, the process of aggregation is often deceptive, because in many cases, what is "true" for the group as a whole is not "true" for any individual of that group, and vice versa (Williams, 2009). Beaver and Demski (1974) expatiated on the difficulty of moving from individual to group and stated that the payoff-relevant partition of future states will vary considerably between these two and even within the different major user categories a lack of unanimity exists due to the heterogeneity of preferences and expectations.

5.5. AN EPISTEMOLOGICAL CONSIDERATION OF DECISION-USEFULNESS

The second objective of the article revolves around the theoretical foundations upon which accounting's decision-usefulness objective is based. When considering the basic nature of quantitative accounting information within the context of whether such data is indeed appropriate for delivering on decision-usefulness as defined by the FASB and IASB, two key problems come to mind. Firstly, there are questions around the quantification of the data presented in the financial reports, and secondly, there are questions around these financial reports' predictive abilities.

5.5.1. The question of quantification

The FASB (1978) states that the information in the financial statements must be quantifiable in monetary terms. The IFRS (2006) further reiterates this quantification's pre-eminence by declaring that the financial statement information should be about resources, claims and the changes therein. According to Williams (2009), much of current accounting research is then also focussed on:

- the quantitative nature of accounting information manifested in elaborate mathematical and statistical models, correlations and forecast errors;
- analytical models of accounting phenomena that are reliant on calculations that presume quantification; and
- economic and business decisions that are modelled on accounting inputs, as are the development of various prediction models.

However, although current-day accountants do produce numbers, these numbers are no longer necessarily actual quantities. West (2003) argues that i) the basic arithmetic functions of addition and subtraction may only be performed with concrete numbers of the same type, and ii) modern-day accounting numbers lack such characteristics. Even though modern financial statements comprise many different types of numbers varying from historical costs to value-based numbers (such as fair value, market value and present value), conventional accounting practices and rules treat all amounts as being of the same kind. The aggregation of numbers that signify dissimilar types may very well result in totals whose connotation becomes, by definition, inexplicable. A further aspect to remember is the fact that operational numbers are the numerical depiction of an original reality that is qualitative in nature. However, in reality, these operational numbers do not correspond to any real quantities *per se* (Williams, 2009); it is merely an opportune technique of summarising a complex, qualitative situation. Furthermore, these disclosed values often depend on subjective decisions and are therefore somewhat arbitrary. Gillies (2004) warns that operational numbers should only be used to the extent that measurement connotes an action characterised by actual quantification. It can therefore be argued that accounting is *not* a measurement activity, or it could be construed as such only in a feeble sense by providing an arbitrary and rough indication of a more intricate and qualitative reality. As long as the accounting numbers are perceived in this manner, it remains a useful tool, but the risk lies in regarding it as a more precise mathematical quantity existing in reality.

The nature of accounting information as operational data has even further significant implications on the domain of accounting epistemology. The paradigm, which, according to Beaver (1997), outlined accounting research's positive economic approach, turned academic accounting into a sub-discipline of the neoclassical economics (Reiter & Williams, 2002). As a result, empirical accounting research is now the central mode of scholarly dialogue (Williams, Jenkins & Ingraham, 2006), which is notable for its mathematical rigor and construction of statistical models aimed to fashion economic explanations to all manner of behaviour. For example, in the December 2008 edition of *The Accounting Review*, six of the seven main articles involved multivariate

regression equations, measured with accounting information. Each article culminated in equations aimed at determining the contribution of the variables to the modelled phenomenon before explaining what these equations mean – as if the numbers in these equations were representative of quantities of some authentic economic thing. The numbers used in the calculations were mostly operational numbers from financial statements. So what the equations in reality calculate is indeterminate. As argued earlier, operational numbers provide only guides to a complex qualitative reality. Once we start performing intricate mathematical calculations with such numbers, the end result can easily stop to bear any relation to reality. So what do the hundreds of accounting and financial studies over the years actually mean? What sense is there in a study with 10 variables measured primarily by operational numbers on 400 organisations condensed into a linear equation calculation? Who knows? The significance of many of these studies is contained in their outset. Defined by naive ontological economic assumptions, the significance given to these studies is also comprised of naive neoclassical economic assumptions.

In spite of all the rigorous research and the regulatory discussions, accountants are still trapped in the world where they do not know with any degree of exactness what decision-usefulness actually is. However, this is to be expected when setting out to chase a chimera. Since accounting information is operational data, accounting regulators can never decisively demonstrate which arbitrary technique or assignment is more decision-useful than another.

5.5.2. The question of prediction

A further weakness under consideration is that of accounting information's (in-)ability to predict future business events or trends. As mentioned earlier, the regulators note a forward-looking feature of useful information as assessing the amounts, timing and uncertainty of prospective cashflows. Furthermore, the FASB (1978) also states that well-developed securities markets tend to allocate scarce resources to enterprises that use them efficiently and away from inefficient enterprises. Williams (2009), however, does not consider this as representative of the real world, but as an allegory of a romanticised market economy where impartial and invisible market forces

guide human action to some natural optimum of resource allocation. The FASB's statement is therefore a prediction of sorts in itself by stating what well-developed securities markets will do, not what they have done, and implies that if a well-developed securities market were introduced, the natural end result would be a more efficient allocation of resources.

The broader social sciences have never been, and probably will never be, able to develop explanatory and predictive theories due to the context and judgments that are pivotal to the understanding of human actions (Gordon, 2001; Flyvberg, 2001). However, in order for decision-usefulness (as accounting objective) to have some validity, economic prediction must be possible and the accounting information must be noticeably useful for such prediction. This is unlikely because of at least two key reasons intrinsic to the environment in which the accounting data is generated. Firstly, the user/s for which the information is being prepared for is/are unpredictable, and secondly, the decision/s for which the information is being prepared for is/are also unpredictable.

- **The unpredictable user:** In ascertaining decision-usefulness, the user seems to be the central point; business users consume accounting information in their decision-making functions, while academic users, reliant on the same data, attempt to construct models of how other users behave as abstract beings. Regulators and academics alike assume that it is possible to show that accounting information is useful for predicting 'something' and that this prediction will result in rational economic decisions. Williams (2009) considers the users offered as the objects for standard-setting as idealised economic actors whose behaviour is predictable with respect to some scripted explanation. As stated earlier, the ASOBAT noted that the actual users may not know what information is most useful to them. Ariely (2008) and Schipper (2002) share a similar sentiment when arguing that individuals may not be introspectively accurate and may not be aware of what information they will use most efficaciously, and even if they have the needed information, they may not use it consistently.

When considering the diminished motives ascribed to the rational utility maximiser, Sen (1977) concludes that the *purely economic man* is indeed

close to being a social moron. Galbraith (2009) concurs by stating that instead of considering the consequences of their decisions in a manner predicted by the view that they are responding purely to the market, individuals act as social beings, they are concerned about their reputation with their peers and the fairness of the offered deal or matters unrelated to the utility of the object or money on offer. These subversive findings suggest that even if there was perfect information and foresight with no externalities of monopolies, financial markets composed of real people would in all likelihood still not perform as the conservative vision suggests. According to Flyvberg (2001), social scientists do not have a theory for how the people they research determine what counts as an action, because such determination derives from unique personal skills defined by unique individual situations. Simon (1993) concurs that individuals do not form their preferences in isolation from others, but rather in response to others. Knowledge and technical information have an irremovably social component (Arrow, 1994) and seen within that context, accounting information is socially derived and socially applied. No single user of accounting information uses such information independently of some contextual background. Each individual user brings his/her personally defined skills and perceptions. It can therefore be argued that it is beyond the understanding of any accounting regulator to grasp what any user is going to do with accounting information. Individual actions are of such specificity and so socially entwined that to assert that any specific datum is more useful than another, is beyond the ken of any regulator.

- **The unpredictable market:** Even though it may be difficult to illustrate decision-usefulness to the actual users, it may be conceivable to illustrate that a particular configuration of accounting information is better in assessing individual scenarios than another. This prospect of an illustrative demonstration of usefulness underlies the current predictive ability criterion and the capital market research (Williams, 2009). Investors or creditors trying to assess the future cashflows, share price or any future economic event, face a very intricate task. Each individual is embedded in a global economic system with many other companies and its future cashflows or share price cannot be determined simply by

its own circumstances, but rather by the circumstances of all companies, including its own. Though proclaimed with great fanfare as the financial reporting revolution (Beaver, 1997), the shift to decision-usefulness has accomplished very little. Orrell (2007) states that there are valid reasons to suspect that accounting information developed and prepared in such an environment would not be able to establish decision-usefulness, including the facts that i) predictive models are based on sets of equations, ii) the intricate underlying economic systems cannot be condensed into such equations because they are based on the local rules, and iii) their global developing characteristics cannot be computed. Furthermore, the models of these systems tend to be sensitive to changes in parameters and while it can be adjusted to fit historical data, it does not mean they can predict the future. Future cashflows or security prices are not computable and the best that could be done would be a biased estimate produced by any number of possible configurations of the accounting information.

Orrell (2007) uses the *Efficient Market Hypothesis* (EMH) as a classic example of a mistaken theory because it alleges computability of an inherently uncomputable system. The EMH assumes that market fluctuations are the result of random external shocks, and that their response is governed by rational laws. The economy represents a dynamic balance between contrasting forces, feedback loops, buyers and sellers. The standard-setter's assertion that creating information useful for predicting, is just to make it appear as though we know what we are doing. The unpredictability of economic phenomena (Ball, 2004; Keen, 2002; Ormerod, 1997) makes it problematic, if not impossible, to demonstrate decision-usefulness, which leaves both the FASB's and the IASB's decision-useful objective without any substance.

5.6. CONCLUDING DISCUSSION AND RECOMMENDATIONS

The purpose of this article is not to deny the importance of the usefulness criterion, but rather to reflect on the concept as a primary foundation of *promulgated accounting theory* and the bastion of much of current day accounting research. In addressing the stated research problem, it is clear that decision-usefulness as the primary financial reporting objective is not as

clear or simplistic in classifying the intellectual and policy-making aspects of accounting as it may initially seem to be. The usefulness of accounting information is made up of many factors, which, according to Dzinkowski (2010), Buys (2008) as well as Ijiri and Jaedicke (1966), includes the timeliness, reliability, relevancy and materiality of the presented accounting data.

The first objective of this article was an ontological consideration of the FASB's and IASB's the decision-usefulness objective, in which the historical context is considered to provide a reference point for current day accounting theory, practice and research. Even though more than four decades have passed since ASOBAT I, it is still being debated by the FASB and the IASB. The article further argued that a major weakness in the objective of decision-usefulness is accounting's failure to deal with the continuing tension between the concepts and objectives of individual ophelimity and that of social utility (welfare). It highlighted that although decision-usefulness seems to be theoretically motivated by ophelimity; it is operationalised in terms of social welfare, and researched on the basis of an uneasy marriage of the two concepts. The concept of usefulness in an ophelimity sense makes decision-usefulness vacuous, since what has been declared as useful has not been determined as the result of an empirical study (Young, 2006). This is so because any individual's rational, resource allocation decision perforce depends on that individual's utility. Thus, developing decision-useful information when individuals' utilities are integral parts of their disparate decisions is an insurmountable task, because what is useful is determinate only from the perspective of those individuals' making the decisions. Decision-useful information is therefore little more than a cliché, devoid of any substantive meaning that could guide the regulators in choosing between alternative rules.

The second objective focused on certain epistemological misconceptions relating to the theoretical foundation upon which the decision-usefulness objective is based. The article highlights a fundamental flaw in the perception that quantitative accounting data is representative of actual quantities of something. This noteworthy weakness arises because the quantities used in accounting information bear only a partial connection to the more basic and meaningful notion of a measure, and instead deals in operational numbers.

Further conceptual weaknesses underlie the inherent unpredictability of exactly what the proponents of decision-usefulness hope to predict. On the one hand the unpredictability of the *user* within this context is problematic. It was highlighted that besides the problem of the many individual users of accounting information (each with its own frame of reference), many users may in fact not even grasp what is useful for themselves. On the other hand, the unpredictability of the market is also problematic. The reality is that there are so many variables influencing organisational actions and reactions, that any kind of proper prediction effort of the market is in effect futile.

Information usefulness to investors and creditors may sound like a good thing, but it is exceptionally difficult. In light of the noted weaknesses, a dark shadow of doubt is cast on the quality aspect of accounting and business decisions. This doubt is not so much only because of inherent human nature and related ethical concerns, but also the fundamental flaws that are part and parcel of the generation of accounting data and financial reports. The profession has regulatory bodies promulgating regulations without any persuasive foundation to prove that these regulations contribute to what they are alleged to be accomplishing. If the regulators mean to apply a social welfare interpretation to decision-usefulness, perhaps the view should shift from *decision-usefulness* to *judgment-usefulness*. A decision implies a motive and a goal because an action is the end result of a decision. But before a choice is made, individuals must make judgments about a particular scenario.

Coming back to Sun Tzu's Chinese proverb and the many dismal corporate failures and questionable business decisions, it may very well be that the *quality* of the actual decision is sound, but that instead the *misunderstood* accounting information (and accounting's true purpose as discussed by Buys (2008)) is to blame for many such failures. The provision of *economic and financial facts* rather than *decision-useful information* may be a more useful way to think about the mission for a regulatory accounting institution, as a key objective of accounting and ultimately of financial reporting. In doing so, it may even provide a way out of the confusion between social utility and individual ophelimity that currently promulgated accounting theory and research is based on.

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CHAPTER 6

6. SUMMARY AND CONCLUSIONS

6.1. INTRODUCTION

At the start of the 21st century, accounting is faced with many pressures, both internally and externally to the organisation. These include corporate pressures to present the best possible operational and financial performances, global convergence efforts of accounting regulations and accepted accounting practices, not to mention the high profile media exposures of recent corporate scandals and accounting's role therein.

A key objective of accounting is to facilitate the translation of a company's operational performances into financial reports (Sundem, 2007; Damant, 2006). Modern companies, however, operate in an uncertain and complex business environment in which they are under constant pressure to create value for their shareholders, while at the same time also containing their costs and adhering to the many corporate social responsibility requirements in respect of their other stakeholders.

Furthermore, the practice-driven focus of much in accounting education, the prescriptive role of non-university institutions in the universities' accounting syllabus content, and the somewhat dictatorial accounting regulators promulgating their version of what passes as accounting theory, often detract from the core function of accounting. This in turn, often results in not only the questioning of accounting information's reliability and relevance, but also of accounting's claim as being an academic and social scientific discipline. The current state of affairs confronts us with quite a dilemma, especially when having to judge the usefulness of a philosophical approach within the context of professional accountants working in the modern business environment. How often do the accounting academics comment that there is just no time for reflection on accounting, because the pace of accounting development (e.g. global conversion efforts, corporate social responsibility issues and so forth) increased so dramatically? Still, the accounting profession is widely recognised as a key contributor to many aspects of the global economy, with many and far-reaching influences on human society and the global environment.

6.2. DEMARCATING THE PROBLEM

6.2.1. Defining accounting

As a point of departure in considering the legitimacy of modern-day accounting theory, one needs to define accounting within the context of this discussion. As mentioned earlier (refer to section 1.2 on page 3), accounting information can be seen as the financial translation of the results of the organisation's performance. To put the concept in perspective, *accounting* is the generic term for the activities carried out by accountants on the one hand, or referring to the work done in keeping financial records on the other hand. In support hereof, *accountancy* is defined as the practice or profession of an accountant, which includes the related financial services and advice that an accountant might provide.

It was illustrated in chapter 1 (refer to section 1.2 on page 3) that accounting, as a business application, encompasses two general branches. Firstly, *financial accounting*, which is the practice of preparing and reporting accounting information for parties outside the organisation. Secondly, *management accounting*, which has an internal user focus in support of management's task in striving for the effective use of organisational resources. Furthermore, whereas the application of management accounting techniques is *non-standardised*, financial accounting is subject to multiple accounting *rules* (or principles), which are encompassed in the so-called accounting standards, such as those of the IASB's IFRS Statements or the FASB's US GAAP.

The focus of this study, as such, was on the *financial accounting* aspect of accounting, and the terms and concepts of *accounting* and *accountancy* are used within the context of financial accounting.

6.2.2. Accounting theory's legitimacy in question

Considering the above, the primary question as defined in chapter one of this study (refer to section 1.5 on page 8,) questioned whether modern-day

accounting theory is a legitimate and valid academic discipline within the social sciences.

In light of the lacunae in respect of the legitimacy of accounting theory, it becomes important to identify and reflect on certain foundational accounting aspects that may serve to answer the stated research question. These aspects might include i) the key ethical issues related to the profession, ii) the philosophical foundation upon which accounting is based, iii) the concept of value within an accounting context and iv) the current decision-usefulness objective of the global accounting regulators.

Following the initial preliminary research upon which these research questions were based, this study's formulated hypothesis (refer to section 1.5.2 on page 8) stated that accounting is not a legitimate social science and as such it would fail to provide valid support to the practical requirements of the business environment. The crux of the discussions of each of the mentioned research questions, as per the respective articles presented in the thesis, is discussed below.

6.3. LEGITIMACY ASPECTS UNDER CONSIDERATION

6.3.1. Ethics from an accounting perspective

The first legitimacy issue considered in the 1st article (refer to chapter 2, section 2.2. on page 31), was that of ethical accounting conduct with the question being asked what the key ethical considerations in accounting are, and the extent of its impact on accountancy.

Historically, accountancy was seen as fulfilling a stewardship function and even though key global regulators' most recently stated accounting objectives seem to downplay this function, ethical conduct remains a crucial aspect of the discipline and the professional accounting institutes continue to require adherence to *codes of professional conduct* from their members, which are typically based on the following pillars (ICAEW, 2009; AICPA, 2008; SAICA, 2006):

- *Competency*, which requires the accountant to possess adequate technical skills;
- *Integrity*, which requires the accountant to possess unquestionable honesty, determination and sincerity;
- *Objectivity*, which requires the accountant to be detached and professionally impartial; and
- *Confidentiality*, which requires the accountant to abstain from using information obtained during the fulfillment of professional duties for personal gain.

Professional conduct is seen as the manner in which an accountant, as someone who is dedicated to the profession, acts. Ethical guidelines would therefore require an accountant to refrain from dealings that may damage the accounting profession's reputation. However, professional conduct goes further than just the profession's reputation and also impacts on the individual accountant as well as related stakeholders. Therefore, basic ethical principles, such as fairness, balance and consideration, remain fundamental to accounting, and are essential in supporting the professional conduct requirements of competency, integrity, objectivity and confidentiality.

In answering the question asked at the beginning of this section, it must be remembered that even though an ethical code of conduct aims to meet the above principles, the human condition will in all likelihood always be tempted by its own weaknesses, and that no code of conduct will be able to prevent the (perhaps sinful) shortcomings in human nature. When considering the above pillars of professional conduct individually, only integrity reflects directly on human nature. As such, it may be argued that a lack in personal *integrity* may be a key contributing factor to failures in the other three pillars. However, the aim of these codes of conduct is merely the provision of a framework of ethical accounting behaviour. The reality is that in the modern secular society, personal experiences and training are often more formative in the interpretation of this framework; not so much the historical influences of family and personal belief systems any more.

Therefore, accounting educators, employers and regulators should aim to build an ethical accounting foundation and emphasise the importance of avoiding even small ethical failures, thereby focusing on the long-term reputation, not only of the individual, but also of the broader accounting discipline.

6.3.2. Philosophical foundation of accounting

The second legitimacy issue considered in the 2nd article (refer to chapter 3, section 3.2. on page 52), was the ambiguity in the understanding of the primary purpose of accounting. To set the tone of the discussion, the question can be asked whether it is possible to define a legitimate accountancy philosophy that also embraces key ethical principles, such as accountability, integrity and reliability.

Accounting theory is confronted with many relative values, which are to be reported in the various components of the financial statements. The modern business environment places big demands on accounting information to support business decision-making. It was highlighted that, although an important objective of the accounting conceptual framework is to guide accounting practice, it became the basis upon which the regulatory accounting bodies based their versions of accounting theory. The concept of GAAP is significant in accounting, since it encompasses the conventions and rules that define the acceptable accounting practices of the time (Epstein, Nach & Bragg, 2005). As such, any particular practice should have substantial authoritative support before it would be accepted as GAAP. Many scholars, however, have an issue with presenting accounting theory as a framework based on practices. A proper realisation of accounting theory would be in its capability to make proper conclusions regarding the company's performances possible. The ideal guide on which to formulate a legitimate accounting philosophy would acknowledge that accounting is a key component of all the economical aspects of a business entity and yet, while this entity is an integrated part of society, it also remains an economic entity in its own right. Furthermore, its income items, cost items, assets and liabilities are to be measured according to each component's relative

importance to the overall company performance and should preferably not lead to periodic and individual adjustments (Buys, 2008). Doing so may limit the comparability of financial information not only between different periods and across entities, but also between an entity's internal divisions.

In answering the stated question defined at the start of this section, there are three essential objectives to which basic accounting theory should point. Firstly, the primary purpose to be achieved by the recording and collecting of the accounting data is the reporting of the *economic events incurred* during the company's business operations; secondly, accounting must provide *useful and comparable information* about the company's economic events that would enable all the users to gauge the company's performances in order to assist them to meet their individual requirements for their own unique decision-making purposes; and finally, it should also facilitate the *understanding of the business decisions* made upon such information.

6.3.3. The concept of value in accounting

Building further on key aspects developed in the preceding sections, the issue of *value* comes to the fore. Should we therefore not reflect on the value concept, both from a qualitative and quantitative perspective, as a foundation for a modern-day accounting framework? This third legitimacy issue, discussed in the 3rd article (refer to chapter 4, section 4.2. on page 78), delved a little deeper into the value concept in order to shed some light on this complex and perhaps somewhat fuzzy concept.

The effectiveness of different accounting techniques is often judged on its ability to approximate the value of items and transactions. However, the problem is what *true value* means and how it should be measured. In addressing the third stated detailed question, both quantitative and qualitative value aspects were considered.

- Qualitative value perspectives: As stated earlier, ethical accounting behaviour is more than just a mere adherence to rules and regulations. It becomes the application of ethics in a business context so that the business activities are acceptable in society. The stewardship function

is a bit of a contentious issue in current-day accounting with its importance being downplayed in the latest FASB and IASB promulgated accounting objectives. The focus instead seems to be on accounting's support of the capital providers – which is just one user class in a multitude of potential user classes. Stewardship, however, must remain central to accountancy, because accounting plays an important role in not only the recording and reporting of resource consumption, but also in how the created wealth is being distributed. Stewardship should therefore not only focus on individual resources or individual organisations, but should also take on a holistic corporate social responsibility approach. Such a responsible stewardship approach belongs to the entire human race, and individual ownership *per se* should be subservient to the overall stewardship role.

- Quantitative value perspectives: Since a key objective of accounting can be seen as the financial translation of organisational performances, the quantified accounting information should be disclosed in such a manner that the financial statements are relevant, reliable and comparable. However, *how* this information is quantified (or valued), will have an impact on this relevancy, reliability and comparability. In a basic sense, value can be seen as some kind of judgment of scarcity and desiredness. These judgments, however, can be described from various perspectives, including the purpose and process of the valuation. Even though there is a move in the current business environment to introduce value-based measurement and reporting techniques, there are also concerns about the subjectivity and non-consistency inherent to many valuation techniques. Notwithstanding the debate on whether historic cost principles or value-based principles are better or not, the crux of the matter (in respect of accounting) should remain focused on the relevancy, reliability and comparability aspects of the reported accounting information. Accounting, and then especially financial accounting, should remain true to its primary purpose of reporting business *facts*, not *fiction*.

6.3.4. Decision-usefulness as accounting objective

The last legitimacy predicament to be considered is that of the decision-usefulness objective of financial statements, as suggested by key regulators, which can be found in article 4 (refer to chapter 5, section 5.2. on page 108). Even though the concept of decision-usefulness has been a criterion for the determination of accounting policy and defining accounting research for the past four decades or so, there has been some resistance to the concept as a key accounting and financial reporting objective. The question can therefore be raised as to whether decision-usefulness as a key accounting objective, is as straightforward and unquestionable a way to organise the intellectual and policy-making aspects of accounting as it initially seemed to be.

The capital providers of the company, as a user group of financial statements, are being accorded so much importance by the accounting regulators that a principal function of the financial statements has become the provision of information that is useful primarily to this user category. However, indistinct allusions to the *usefulness* of accounting information are valueless without clarity on the type of utility being sought. This study therefore reflected on the relevancy of the decision-usefulness objective from two perspectives:

- Firstly, the ontology of accountancy, with specific reference to decision-usefulness, and the associated concepts of utility versus ophelimity are considered. Utility is seen as being able to be used for a practical purpose, with social utility referring to something contributing to the development of an individual, a population group or even the entire human race. However, when considering the exclusivity of the decision-usefulness objective as it is currently being put forward as a key objective of financial statements, it may be argued that the regulators are not really addressing social utility, but rather individual ophelimity, which can be seen as subjective, individually-based and ordinal economic gratification. Furthermore, it may be argued that *modern accounting theory* is founded on seemingly different concepts, claiming to promote utility, but instead striving for the ophelimity of a specific user class.

- Secondly, epistemological issues around the quantification of accounting data and its predictive abilities were considered. In respect of the question of the quantification it can be argued that the accounting information presented in financial statements is often not representative of an actual real *quantity* that exists somewhere in reality, but is rather the result of summarizing techniques aiming to provide a window on a more complex qualitative situation. Accounting should therefore only be seen as a measurement activity in the sense of providing a rough estimate of the reality. In respect of the question of prediction, the study argued that the reported accounting information is unlikely to possess any real predictive ability because of two reasons. On the one hand, the users of the information have different objectives in mind when they use the data and do so against different backgrounds. Therefore, no single set of financial information in a specific format would be able to meet the unique individual requirements of users, even within the single group of ‘capital providers’. On the other hand, the market actions and reactions that the financial statements are supposed to help in predicting future economic events and trends operate in such a complex and dynamic environment, with so many variables and divergent market forces, that it may very well become an impossibility to claim any kind of predictive ability.

In answering the question of this section, the decision-usefulness criteria cannot out rightly be rejected, but rather argue against a vacuous concept of *decision*-usefulness, devoid of substantive significance. It is suggested that the idea of *judgment* usefulness in respect of accounting information’s support to the users thereof, should rather be presented.

6.4. CONTRIBUTION AND CONCLUDING REFLECTION

Notwithstanding the searches for a true accounting theory, the debates around which accounting techniques are better, or even who the real users of the accounting information and the associated financial reports are, this study’s overall conclusion is that accounting and the manner in which it is

practiced, has a definite impact on human society. The accounting discipline should therefore be considered as a legitimate social science, based on sound scientific concepts and as such should also be able to provide support to the practical requirements of the business environment. The hypothesis as stated earlier (refer to section 1.5.2 on page 8) is therefore rejected. This rejection is based on the following arguments.

Firstly, in light of the discussed legitimacy issues, it becomes important to acknowledge the interdependency between philosophy and accounting as a social scientific discipline. The philosophy of science can be defined as the investigation of questions that arise from reflection upon the science and scientific practice. Accountants should therefore not be averse to philosophize about accounting – it may in fact be better for accountants to turn to philosophy in attempting to work out the basic theories of accounting, than it is for philosophers to turn to accounting. According to Demski, Fellingham, Ijiri and Sunder (2002) learning accounting and philosophy in tandem is better than learning them independently, as accounting offers a context in which the quintessence of philosophy may be materialised. The learning of this essence forces us to ignore meaningless words by way of a reality check and stop us from becoming dilettantes taking up the profession for mere *amusement*.

Secondly, accounting can only be considered a social science if it acknowledges its place in the broader scientific world, which in the first place supposes its own feasibility studies, and secondly at least obeys the rules of logic. Furthermore, being classified as a social science certainly also implies accounting is directed and led by a certain regulative idea about the reality it finds itself in. When considering the principles upon which accounting's 'standards' (such as IFRS and US GAAP) are based, and the (logical and reality-based) processes followed by the regulators in accepting and promulgating it (flawed as some of it might be), it is clear that there is at least some scientific process and reasoning behind its postulates.

Thirdly, accounting is in a difficult position in that the requirements of practice have a major impact on how it is taught, how its theories are formulated and also how and what is researched. However, there are

fundamental assumptions in accounting, and its place in the greater socio-economical environment, that have to be considered. Accounting is more than the mere 'book-keeping' of business events, or the interpretation and application of IFRS Statements. As a business discipline, accounting is concerned with the business events of business entities, which in turn have consequences on, not only the social relationships of its human stakeholders, but also on its environmental stakeholders. Therefore, because of this integrated nature of accounting in society and the environment, and its impact on both, one cannot deny accounting its rightful place in the social sciences.

Finally, as in any profession, failures do occur in accounting. When such failures occur however, they should not be ignored and wished away. Instead they should be analyzed and corrected in an attempt to prevent it from occurring again. In conclusion therefore, when looking back at the four key issues addressed, the following should be noted.

- Ethics and ethical behaviour, in some form or another, play a crucial role in accountancy, just like in all sciences (both social and natural). Just because there are instances of ethical failures does not take away the legitimacy of the scientific foundation of the accounting discipline.
- Even though many (perhaps even most) accountants and accounting academics get bogged down in the details of the GAAP postulates and its interpretation, and because of that they often lose perspective, does not mean that the foundations upon which accounting is built, are any less legitimate.
- It is acknowledged that many users of accounting information (not just the accountants) often put more trust in the accounting values presented than that what it is entitled to. However, if it is understood that these values merely serve as an indication as to a complex state of affairs, and do not (and cannot) claim to reflect exact values, accounting theory remains a legitimate social scientific discipline.
- Finally, perhaps the biggest aspect against the legitimacy of accounting theory is found in its decision-usefulness objective, especially in respect

of any claims of predictive abilities. There are just too many complex variables impacting on the information and the users thereof, that any claim of decision-usefulness (even for an exclusive and precisely defined user group) is nonsensical.

Notwithstanding the above, in the greater scheme of things it was seen that many of the practical and real-life challenges that the modern business environment places on accounting, and will continue to place, will have substantial influence on how accounting regulators develop and refine the accounting conceptual framework, and such accounting theory. This in turn will continue to impact on not only *how* accounting is taught, but also *what* is taught.

6.5. LIMITATIONS OF THE STUDY

Perhaps a key limitation of many reflective and philosophical studies is the fact that often a definite answer to a problem is not found. However, this is not *per se* the reason why such studies are undertaken. Instead it serves to place current day issues in the context of the *big picture* and to get at least some debate going, which may lead to a better understanding of reality as well as better education, and then ultimately better informed business decisions, which are based on a better understanding of the presented information.

A further limitation in undertaking reflective studies in a typically quantified discipline such as accounting is the fact that the objectivity of the disclosed financial numbers, the quantitative techniques and the statistical analysis are lost. In such instances, there is more room for subjectivity and bias to raise its head. Any reader of such studies should in turn take cognisance of such possibilities. Although every effort has been made to remain as objective as possible in this study's evaluation, interpretation and reflections on the issues at hand, the researcher remains human. As such, personal beliefs, opinions and bias, may be present.

6.6. FUTURE RESEARCH

As far as future (reflective) research opportunities in accounting are concerned, the following may serve as a guide in formulating such research problems:

- In respect of ethics in accounting, a philosophical reflection in the context of the *conflict of obligation or commitment* can be undertaken. The answer to ethical conflict situations where there is a clear right or wrong (or even a clear legal or illegal) answer, should be very easy to answer. However, in many instances there are *right* versus *right* issues where legitimate opposing sides or stakeholders are in conflict, both of which may have legitimate and ethical claims. The question is which side should receive preference and why?
- Furthermore, it was indicated that accounting is a very broad and diverse discipline encompassing areas such as financial accounting, management accounting, financial management as well as auditing and internal control. Each of these areas in itself could warrant a reflective study aiming to individuate the deeper foundations of such areas' systems of thought.
- Finally, there is a close relationship between the *philosophical* foundations and the *historical* foundations of accounting. The age when Luca Pacioli documented the double entry booking keeping system (and earlier), was also the age of many great philosophers, such as Albertus Magnus, Thomas Aquinas, Henry of Friemar, Jean Buridan and Gerald Odonis to name but a few. Historical research into the early days, of not only the double entry booking system, but also on other accounting techniques used by ancient civilizations such as Mesopotamia, Sumeria and even Egypt, China and Greece, will further enhance modern day accountants' foundational knowledge and principles of their chosen vocation.

6.7. REFERENCES

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**ANNEXURE A: SUPPORTING DOCUMENTATION FROM THE AFRICAN
JOURNAL OF BUSINESS ETHICS (AJOB)**

SUBMISSION CONFIRMATION

per email

From: Van Vuuren, Leon
Sent: 28 April 2010 18:13
To: Pieter Buys
Subject: Article submission: AJoBE

Dear Pieter

Thank you very much for your submission! It will be entered into the review process ASAP.

Best regards

Leon

Prof Leon van Vuuren
Editor: African Journal of Business Ethics (AJoBE)
Department of Industrial Psychology and People Management
University of Johannesburg
PO Box 524, Auckland Park, 2006
Johannesburg, South Africa
Tel: +27 11 559 2073
Fax: +27 11 559 2095
Mobile/cellular: +27 82 300 8113
Email: lvanduuren@uj.ac.za
www.benafrika.org/ajobe
email: ajobe@benafrika.org

From: Pieter Buys [Pieter.Buys@nwu.ac.za]
Sent: 28 April 2010 12:45
To: Van Vuuren, Leon
Subject: Article submission: AJoBE

Dear Leon

Enclosed please find an article we would like to submit for consideration for publication in an upcoming edition of African Journal of Business Ethics. This article is entitled **A pragmatic consideration of ethics in the accounting profession** and is part of an original research project and has not been published before, nor is it currently under consideration at any other publication anywhere in the world.

I attach the following two files:

- 1) Cover letter, including the authors' details
- 2) Article's main text, including abstract and key words.

Please let me know if you need any further information. We are eagerly awaiting your response.

Best regards
Pieter Buys

AUTHOR GUIDELINES

Guide for authors

Please submit your manuscript to:

The Editor: AJoBE
Department of Human Resource Management
University of Johannesburg
P.O.Box 524
Auckland Park, 2006
Johannesburg, South Africa

Alternatively you may send an electronic version to:

ajobe@benafrica.org
or
ivanvuuren@uj.ac.za

Attention: Leon van Vuuren

Manuscript requirements

Typing

Please use Arial 12 font in double spacing and leave generous margins. All pages must be numbered, and headings/sub-headings must be consistent. Unusual or handwritten symbols must be clearly identified. Please limit the length of manuscripts to 30 pages (excluding figures and tables).

Title

Provide the title in full, as well as the authors name, affiliation, and email address. If the title is longer than 70 characters including spaces, provide a brief title for use as a running head.

Authors details

Please provide your present postal address (for receipt of proofs, if different from the affiliation). Also provide a brief personal biography of each author, containing title, affiliation, special awards, if any, and important publications. Include only the most pertinent and significant information. Restrict yourself to a maximum of 75 words.

Abstract

Please include an abstract of 100 words maximum. The abstract should contain the goal of the paper, a description of the methodology used, and the main findings.

Keywords

Add a list of 5-10 keywords.

Acknowledgements

Should you wish to express your gratitude to non-authors for significant contributions they may have made to the research/manuscript, include these at the end of the manuscript before the References section.

Footnotes

Please try to avoid using footnotes. However, should you wish to use footnotes, number these clearly and include them at the end of the manuscript before the references section.

Tables

Number all tables (e.g. 1, 2, 3) and include a short title. Vertical lines between columns are to be avoided.

Figures

All figures must be suitable for reproduction without being retouched or redrawn. Check that all lettering will still be legible after the figure is reduced to fit the page. Use black ink on white or transparent paper. A glossy print is equally acceptable. Refer to all photographs, diagrams and graphs as Figure; in the text (abbreviated to Fig.; only in the caption). Write your name and the figure number lightly on the back in pencil, and clearly indicate in the text between two paragraphs the most appropriate location for the figure. Use the words INSERT TABLE/FIGURE HERE.

Formulas

Subscripts and superscripts should be set off clearly. Use a full stop for decimals, and reserve crosses for multiplication. The sign for about equal to; is $\approx$; of the order of; is indicated by $\sim$.

References

References should be given at the end of the paper in alphabetical order. In the case where two publications of an author have been cited, include the references in chronological order (the earliest first). Please indent the second and subsequent lines of the reference.

Examples

Buckley, M.R., Harvey, M.G. and Beu, D.S. 2000. The role of pluralistic ignorance in the perception of unethical behaviour, *Journal of Business Ethics*, 23(4), 353-364.

Hoffman, W.M., Driscoll, D-M. and Painter-Moreland, M. 2001. Integrating ethics, in C. Moon and C. Bonny (Eds.),

Business ethics: Facing up to the issues. London: Economist Books/Profile Books.

Stevens, B. 1996. Using the competing values framework to assess corporate ethical codes, *Journal of Business Communication*, 33(1), 71-83.

In the text the literature is referred to by the name of the author and the year of publication, e.g. Mwangi (2004), when forming a part of a sentence, or (Mwangi, 2004), when forming an addition to a sentence, between parentheses. If a reference has three or more authors, it is referred to by the names of all the authors when cited for the first time. Thereafter it is referred to by the name of the first author, the expression et al. and the year of publication. Parentheses are to be used for direct quotations. Include page numbers after the year of publication for direct quotations.

Proofreading

Once the manuscript has been accepted and the page proofs designed, the author receives a set of first page proofs together with the manuscript. The page proofs with corrections together with the manuscript must be returned to the publisher without delay to avoid any hold-up in the production schedule. A charge is made for any substantial alteration to the manuscript at this stage.

Offprints

We supply 10 offprints free of charge. Additional offprints may be ordered when returning proofs.

Language editing and referencing

Authors that submit manuscripts for consideration are urged to conduct proper language editing before submission. This applies particularly to authors whose mother tongue is not English. Please note that the task of our reviewers is to evaluate manuscripts on content and publication requirements merits when a manuscript is fraught with language and/or technical errors it obstructs a speedy decision on publication possibility.

It is also important to check that referencing, both in manuscript contents and in the list of references is done correctly, and consistently so. Please follow the guidelines as stipulated in the Guide for authors in this regard. It may also be useful to peruse the AJoBE Review Form to be aware of the criteria that reviewers use to evaluate manuscripts prior to submission.

ANNEXURE B: SUPPORTING DOCUMENTATION FROM THE BUREAU OF SCHOLARLY JOURNALS

AUTHORIZATION TO INCLUDE JOURNALS IN THE THESIS



BULLETIN VIR CHRISTELIKE WETENSKAP

KOERS

BULLETIN FOR CHRISTIAN SCHOLARSHIP

Redakteur/Editor: Me. H. Hoogstad

Versorg en versprei deur / Edited and distributed by

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KOERS

2010-03-31

Prof. P. Buys

Skool vir Rekeningkundige Wetenskappe

Potchefstroomkampus

Noordwes-Universiteit

POTCHEFSTROOM

Geagte prof. Buys

**U drie artikels: Ethical accounting conduct: a contradiction in terms?
In pursuit of a foundational accountancy philosophy
Reflections on the value concept in accounting**

Hiermee bevestig ek dat Die Buro vir Wetenskaplike Tydskrifte toestemming verleen om hierdie artikels, wat onderskeidelik in *Woord & Daad* 49(408) 2009, *Koers*, 73(3) 2008 en *Koers* 74 (3) 2009 verskyn het, te laat opneem/gebruik in die proefskrif wat u, prof. P. Buys, beplan.

Ons voorwaarde is dat daar in die publikasie wel vermeld sal word dat elke artikel oorspronklik in die betrokke tydskrifnommers verskyn het (met die volledige bibliografiese verwysings).

Vriendelike groete

Susan Lourens (Burohoof)

AUTHOR GUIDELINES: KOERS

VOORSKRIFTE AAN SKRYWERS

Aard van artikels wat aan *Koers* voorgelê word.

By die aanbieding van artikels wat aan *Koers* voorgelê word, moet die aard van *Koers*-artikels beslis in ag geneem word wat die invalshoek, vertrekpunte, aanbiedingswyse, gevolgtrekkings, ensovoorts betref.

- **Tipiese *Koers*-artikels het 'n geïntegreerde prinsipiële/lewensbeskoulike begroning en is hoofsaaklik besinnend van aard. Die artikels behoort dus nie net die aanbieding van feitelike of empiriese navorsing te wees nie, maar moet in 'n wyer (filosofies-) besinnende raamwerk ingebed wees.**
 - Prinsipiële/lewensbeskoulike besinning impliseer 'n kritiese beoordeling van gesteld standpunte. Die outeur se eie vertrekpunte en uiteindelijke standpuntinname behoort duidelik uit onder andere sy gevolgtrekkings of invalshoek te blyk.
 - Relevante en onderliggende (vak)filosofiese, etiese of morele kwessies wat verband hou met die onderwerp van die artikel kan dus in die argumentasielyn geïntegreer en aangesny word.
 - Die subtitel van *Koers* is “Bulletin vir Christelike Wetenskap”. *Koers* se grondslag is Christelik, maar ruimte word gelaat vir gemotiveerde meningsverskil en diskussie.
 - *Koers* is 'n geakkrediteerde interdisiplinêre tydskrif wat navorsingsartikels uit alle vakgebiede publiseer. Artikels moet dus vakgerig wees, maar ook toeganklik vir 'n wyer teikengroep, dit wil sê 'n leserpubliek wat nie noodwendig op hoogte is met die spesifieke vakjargon en tendense binne 'n spesifieke vakdissipline nie. Artikels moet egter steeds voldoen aan wetenskaplike gehalte en die standaard vir navorsingsartikels wat in 'n geakkrediteerde tydskrif gepubliseer word.
- 1. Ooreenkoms met skrywers: Alleenreg op publikasie:** Die voorlegging van 'n artikel aan *Koers* impliseer dat *Koers* alleenreg op die publikasie van die artikel het – sowel in gedrukte media as in elektroniese en ander media.

2. **Aard van bydraes:** *Koers* is 'n interdisiplinêre blad; daarom word artikels uit alle vakgebiede verwelkom. **Artikels moet egter 'n prinsipiële begronding of standpuntinname bevat** (wat nie noodwendig dié van die Redaksie hoef te wees nie).
3. **Keuring:** Alle voorleggings sal deur minstens twee keurders beoordeel word. Keuring word in algehele vertroulikheid gedoen, en die identiteit van die skrywer en keurders word nie bekend gemaak nie. Outeurs moet hulself **nie in artikels identifiseer** deur onder andere hulle voorletters, van of universiteit in voetnote of gedeeltes tussen hakies te gebruik nie.
4. **Formele vereistes:**
 - **Taalmedium:** Manuskripte kan in Afrikaans, Engels of Nederlands voorgelê word.
 - **Die manuskrip** moet in A4-formaat wees, in dubbelspasiëring, met ruim kantlynspasies en slegs op een kant van die bladsy gedruk. Die manuskripte moet taalversorg en finaal geredigeer wees.
 - **Vier kopieë** van die artikel word by voorlegging verlang **asook 'n rekenaarweergawe**. Slegs op **één titelblad van die vier kopieë** moet die outeur se voorletters en van, departement, universiteit en persoonlike e-posadres verskyn. Verstrek ook 'n privaat posadres, 'n telefoon- en faksnommer.
 - Die ander drie kopieë moet slegs die titel, *abstract*, opsomming en die teks van die artikel bevat.

N.B. As outeurs dit verkies – stuur aanvanklik net 'n rekenaarweergawe van die artikel aan Susan.Lourens@nwu.ac.za (verkieklik as 'n *Word*-dokument). Die kantoorpersoneel sal onderneem om die vier papierkopieë namens die outeur te maak (indien nodig). R0,25 per bladsy sal gehef word vir betaling deur die outeur.

- **Nadat die keuringsproses afgehandel is** en die outeur die kommentaar verwerk het, stuur asseblief 'n rekenaarkopie en 'n papierkopie van die hersiene artikel **en die outeur se begeleidende brief**.

N.B. As die outeur dit egter verkies, stuur net 'n rekenaarkopie van die hersiene artikel en die brief. Dieselfde voorwaardes vir die duplisering geld as bo genoem.

- **Lengte:** Vyftien (15) gedrukte bladsye ($\pm 6\,100$ woorde) word as algemene riglyn gestel.
- **Stylfasette:**
 - Die **titel** moet so kort en bondig as moontlik wees. **Genommerde opskrifte en subopskrifte** moet met Arabiese syfers met punte genommer word, byvoorbeeld 3. word gevolg deur 3.1, 3.1.1 en 3.1.1.1 (tot hoogstens die vierde vlak).
 - Artikels moet verkieslik verdeel word in **subparagrafe** met **gepaste genommerde opskrifte**.
 - Afkortings en akronieme in die normale teks is nie aanvaarbaar nie. Akronieme wat algemeen gebruik word, byvoorbeeld VSA, is egter aanvaarbaar.
 - Kursivering word as aanduiding van beklemtoning of van 'n woord of uitdrukking uit 'n ander taal gebruik.
 - **Grafiese voorstellings, sketse, diagramme, tabelle moet reeds rekenaarmatig voorberei en deel vorm van die finale dokument.**
 - ❖ Hierdie grafika kan in enige rekenaarpakket voorberei wees, maar moet in 'n **tif-** of **bmp-**formaat gestoor of "ge-export" wees.
 - ❖ Die grafiese lêers moet ook apart elektronies gestuur word. Die lêernaam moet duidelik aangetoon word.
 - ❖ Die lettertipe wat in die grafika gebruik word, moet aanpas by die lettertipe wat *Koers* gebruik (Arial) – verkieslik 12-pt grootte.
- 5. **Abstract:** Alle artikels moet van 'n taalversorgde *abstract* ('n opsomming in Engels) van ongeveer 200 woorde voorsien word. Direk daarna moet die **Afrikaanse vertaling** ingevoeg word – ook die vertaalde artikeltitel.
- 6. **Kernbegrippe:** Aan die einde van die artikel: voeg 3-4 kernbegrippe/baie kort frases in waaronder die artikel geïndekseer kan word. Gee ook onder *key concepts* die Engelse vertalings hiervan.

7. **Bladgeld:** By die voorlegging van 'n navorsingsartikel onderneem outeurs verbonde aan tersiêre inrigtings om, indien die artikel vir publikasie aanvaar word, die voorgeskrewe bladgeld-fooi (R100 per bladsy) te betaal. Outeurs kan gewoonlik die bladgeld van hulle inrigtings of navorsingsinstansies verhaal.
8. **Mede-outeurskap:** Artikels wat voorspruit uit verhandelings of proefskrifte: voor die voorlegging van die artikel moet die skrywer oorleg pleeg met die studieleier/promotor.
9. **Proefdruk:** 'n Proefdruk word vooraf aan die artikelskrywer gestuur om te proeflees. Neem kennis dat die wagtyd tussen voorlegging en plasing normaalweg 3-9 maande is. Die proefdruk word normaalweg elektronies gestuur. Veranderinge moet direk op die elektroniese kopie aangebring word in **vetdruk en rooi** (of in naspeurmodus), met 'n addisionele lys van bladsy-, paragraaf- en reëlnommers waarop aangedui word watter veranderinge waar aangebring is.
10. **Verwysingsmetode:** Die **verkorte Harvard-verwysingsmetode** moet gebruik word. Verwysings in die teks word soos volg aangebring: Anderson (1982:305), of (Anderson, 1982:305). By verwysing na werke van Klassieke en Middel-eeuse outeurs word die naam van die outeur, die Latynse/Griekse titel van die werk (kursief), en die boek, hoofstuk, paragraaf of reëlverwysing (in Arabiese syfers met punte tussenin) vermeld, byvoorbeeld:

Vergilius (*Aeneïs* 12.601); of
Cicero (*De Officiis* 1.13.2).

11. **Voetnote:** Die gebruik van voetnote moet so ver moontlik beperk word. As dit egter noodsaaklik is om van voetnote gebruik te maak, dui die voetnootnommer op die tersaaklike bladsy in die teks aan en verstrek ook die volledige teks van die voetnote onder aan die betrokke bladsye.

Verwysings na bronne wat in 'n voetnoot gegee moet word, word net soos in die hoofteks gedoen. **Geen voetnoot moet egter uitsluitlik vir bibliografiese besonderhede gebruik word nie.**

12. Geraadpleegde bronne

Bibliografiese besonderhede word in die lys van geraadpleegde bronne verskaf en nie by wyse van voetnote nie. Slegs werke waarna in die artikel self verwys word, moet in die lys van geraadpleegde bronne opgeneem en alfabeties gerangskik word.

Gebruik asseblief die outeur se van en **voorletters/name (skrywersnaam)** in die vorm soos dit op die titelbladsy van die boek of in die tydskrifartikel aangedui is.

Boek:

ANDERSON, H.W. 1982. *Stylistics*. London: Macmillan.

ALFAU, F. 1988. *Locos: a comedy of gestures*. London: Viking.

In alle bibliografiese inskrywings moet die plek van uitgawe en die uitgewer van 'n publikasie vermeld word. **Titels is nie kursief nie. 'n Subtitel word van die hooftitel geskei deur 'n dubbelpunt.**

Tydskrif:

DU PLESSIS, W. 1982. Die regsetiese implikasies van buite-egtelikheid. *Koers*, 50(3):218-223.

Titels van tydskrifte word kursief geskryf. Geen aanhalings-tekens word gebruik by titels van tydskrifartikels nie. **Tersaaklike bladsynommers** moet verstrekk word.

Verhandeling/Proefskrif:

DE WET, M. 2002. Die voedingswaarde van geprosesseerde kos. Potchefstroom: PU vir CHO. (M.Sc.-verhandeling.)

Hoofstuk in 'n versamelwerk:

MASSIMO, J.L. 1970. Psychology and the gymnast. (*In* George, G., ed. *The magic of gymnastics*. Santa Monica: Sundby Publications. p. 31-33.)

By bydraes in versamelbundels moet die **tersaaklike bladsynommers** vermeld word.

Internetgebruik:

NUNES, J. 1997. Hypermedia as a learning tool. <http://www.shef.ac.uk/~is/lecturer/ircont.html> Date of access: 14 Oct. 1998.

KANNEMEYER, J.C. 2005. Bestekopname van die Afrikaanse poësie. <http://www.litnet.co.za/seminaar/konrij.asp> Datum van gebruik: 7 Okt. 2005.

Koerantberigte

- In aanhalings uit *koerantberigte* waar die outeur onbekend is, is die inskrywing onder Anon.

Voorbeeld van skryfwyse in die teks van die artikel:

Onlangs is met verontwaardiging gestel dat “net die opspraakwekkendste gegewens in ’n roman die koerant haal” (Anon., 2005:11).

In die bronnelys:

ANON. 2005. Kritici peper die media. *Beeld*: 11, 17 Feb.

- Koerantberigte waar die skrywer wel genoem word:

Voorbeeld van skryfwyse in die teks van die artikel:

’n Briefskrywer het byvoorbeeld genoem dat ouers toenemend betrokke behoort te raak by hulle kinders se onderrig (De Klerk, 2005:9).

In die bronnelys:

DE KLERK, S. 2005. Ouers – dis julle taak! *Beeld*: 9, 23 Feb.

- 13. Bladuitleg:** Titel van artikel en paragraafopskrifte – (nie hoofletters nie, behalwe waar hoofletters noodsaaklik is.
- 14. Menings en kopiereg:** Menings wat in die artikels uitgespreek word, is telkens dié van die betrokke outeur en word nie noodwendig deur die Redaksie of die *Koersvereniging van Suid-Afrika* onderskryf nie. Kopiereg berus by die tydskrif.

- 15. Bydraes en korrespondensie en intekengeld:** Intekengeld beloop R90/\$52 per jaar. Los eksemplare word verkoop teen R45 stuk. Alle bydraes en korrespondensie kan gerig word aan:

Koers

Buro vir Wetenskaplike Tydskrifte

Bussie 251

Privaatsak X6001

POTCHEFSTROOM

2520.

Tel: (018) 299 4081

Faksno: (018) 299 4084

E-posadres: Susan.Lourens@nwu.ac.za

STYLE SHEET

Nature of articles submitted to *Koers*.

When submitting articles to *Koers*, authors should keep in mind that the Editorial Board of *Koers* prefers a certain kind of article as far as point of departure, the presentation of data, the conclusions arrived at, et cetera, are concerned.

- **Typical *Koers* articles should have an integrated world-view as foundation, and should be predominantly reflective in nature. Articles should thus not merely be the presentation of factual or empirical research, but be embedded within a wider (philosophical) framework – articles should reflect a definite underlying worldview – an aspect that could feature, for instance, in the author’s point of departure, the stance he/she takes, or the conclusions drawn.**
 - Relevant ethical, moral or philosophical issues related to the topic of discussion could be integrated into the line of argumentation.
 - The subtitle of *Koers* is “Bulletin for Christian Scholarship”. The basis of *Koers* articles is thus Christian – but room is left for justified differences in opinion.
 - *Koers* is an accredited interdisciplinary scholarly journal publishing articles from all fields of research. Articles should thus be directed to the reader public of a specific discipline, but should also be reader-friendly enough to accommodate a wider reader public, i.e. a reader public not necessarily conversant with the specific jargon and trends within a certain discipline. Articles should, however, still meet the required standards for scholarly articles published in an accredited journal.
1. **Agreement with authors:** Right of publication: The submission of an article entitles *Koers* to exclusive right of publication, both in printed and in electronic and other media.
 2. **Nature of articles:** *Koers* is an interdisciplinary journal. Articles from all fields of academic research are therefore welcomed, with the proviso that **articles should contain a statement or point of view based in principle** (that needs not necessarily coincide with that of the Editorial Board).

3. **Refereeing:** All articles will be refereed by at least two independent referees. Refereeing is done with complete anonymity and confidentiality. Identities of authors and referees are not divulged. Authors should **not identify themselves** by for instance inserting their initials, surnames or name of university in footnotes or in phrases between brackets.

4. **Formal requirements:**

- **Language medium:** Manuscripts can be submitted in either English, Afrikaans or Dutch.
- **Manuscripts** should be in A4 format, in double spacing, with generous **margins** and printed on only one side of the paper. The manuscript has to be finally edited with regard to language and general finish.
- **Four copies** of the article **as well as an electronic copy** should be submitted for the initial refereeing process. The **title page of only one copy** (of the four) should have the following details: the author's initials and surname, department, university, personal e-mail address. Also supply a private postal address, a telephone and fax number.
- On the title page of the three other copies only the title, the abstract, the *Opsomming* and the text of the article itself should occur.

N.B. Should authors, however, prefer – only an electronic version of the article can initially be sent to Susan.Lourens@nwu.ac.za (preferably as a Word document). The office staff will undertake to make the four copies (if necessary) of the article on behalf of the author. R0,25 per page will be charged – to be paid by the author.

- **Once the refereeing process has been completed**, and the author has revised the article in accordance with suggestions, two copies of the **revised manuscript and the accompanying letter of the author** have to be submitted – a computer copy and a hard copy.

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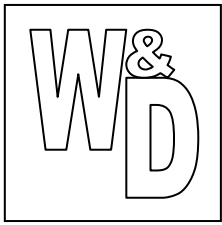
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- An ‘*Opinions and Information*’ article, based on the foundational research conducted for the 1st research article (refer to page 30) was published in the following popular scientific journal as follows:
 - **Buys, P.W.** 2009. Ethical accounting conduct: A contradiction in terms. *Woord en Daad (Word and Action)*, 49(408):26-28. Winter.



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14 September 2010

Prof P Buys
School of Accounting Sciences
North West University
Private Bag X6001
Potchefstroom 2520

Dear Prof Buys

Acceptance of revised manuscript 10-2-26 Ontology and epistemology: A transcendental reflection on decision-usefulness as an accounting objective

We thank you for your revised manuscript, and for your careful response to the reviewers' comments. Given that you have managed to address the reviewers' comments, we have decided not to send it out for review, and, instead, decide on publication suitability within the editorial board. We are pleased to inform you that we are happy to accept your manuscript for future publication in SAJEMS. Unfortunately, at this time, we cannot provide you with a definitive promise regarding when it will be published, although we will do our best to include it as soon as possible.

Yours sincerely



Prof Steve Koch
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25 March 2010

Prof P Buys
North West University
School of Accounting Sciences
Private Bag X6001
Potch, 2520

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