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Accounting Development and Theory: Testing of Theory (Criteria for Truth- Self Evidence) It's Sociological Effects

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Abstract

This research is an attempt to identify accounting development and theory: testing of theory (criteria for truth- self evidence) it's sociological effect from the legal dimension. There is a huge gap in the literature in this regards as research in this subject are very much inadequate. The concept of the law of evidence and its relation to accounting theory has a long history as it affects the society. In this regards, accounting evidence is information gathered from company's financial statements that have been prepared with reference to financial transactions, formidable internal control system and other issues required for forming opinion on financial statements by a certified auditor. In 2010 IAASB modernized two standards related to audit evidence which include ISA 501 `Audit Evidence Additional Considerations for Specific Items and ISA 500. The research identifies several legal channels to development of theories accounting and its impact on the society. Finance theory states that lawful societies vary primacy given to private property rights, which in turn affects financial development, as these rights forms its foundation, accounting development history and its impact on the society is general explained by gritty variance explanation in legal tradition. The law and finance theory advocate that lawful adaptableness channel emphasizes custom variance, stating that their capabilities to adjust to varying situation and since rigidity has resulted in gaps among lawful competences and financial requirements, archeologically indomitable variance in lawful customs practically elucidate accounting development today. Additional empirical work is required to drive down research on the effect of accounting theory on the society.

Keywords: *Accounting Development, Accounting Standards, Accounting Theory, Sociological Effect, and Truth Criteria*

Introduction

Accounting, a fundamental discipline in business and finance, has evolved significantly over the years, driven by advances in theory and practice. Development of accounting theories have been shaped by various contributions from philosophical, economic, social factors, influencing the way accounting information is prepared, presented and utilized. This paper explores the testing of accounting theories, focusing on the criteria for truth; particularly self-evidence which include among other things; intuitive appeal, logical consistency, empirical support and parsimony (Ahmed & Hossain, 2020; Subramaniam & Ng, 2017). On the other hand criteria for truth can be look from the angel of objectivity, reliability, validity and generalizability (Subramaniam & Ng, 2018; Sarea & Hanefah, 2016). Accounting theory development relies on rigorous analysis and evaluation; it also serves as foundation for standard-setting, financial reporting and decision-making. However, the validity and relevance of these theories are continually challenged by changing market conditions, technological advancements, and shifting societal values. The testing of accounting theories is crucial to ensure their accuracy, reliability, and usefulness in real-world context (Chamber, 2020).

The study delves into methodological aspects, testing accounting theories, emphazing importance of self-evidence as a criterion for truth. Self-evidence refers to the intuitive and logical appeal of a theory, making it acceptable without requiring extensive empirical evidence. We shall examine how self-evidence influences the development and acceptance of accounting theories. Furthermore, this research invested the sociological implications of accounting development, including its impact on financial market, organisational behaviour, and societal well-being. The study will analyse how accounting theories shape and are shaped by societal norms values and institution. By exploring the intersection of accounting theory, testing, and sociology, this research contribute to deeper understanding of complex relationships between accounting, business and society.

Literature Review

This section is organised into the following sub-head; accounting theory, evidence, law and accounting/financial development, the law of evidence: an accounting perspective, types of evidence, physical evidence, documentary evidence, confirmations, accounting theory and conclusion.

Accounting Theory

Ram and Tapri (2019) opine that accounting theory refers to the systematic and logical framework of general principles that provides a comprehensive foundation for understanding and evaluating accounting practices. It serves as a guiding framework; in essence, accounting theory provides the intellectual underpinnings for the discipline. The American Institute of Certified Public Accountants [AICPA], (1970) defined accounting theory as structure that ties fundamental of accounting report logically and reasoning. These structures might be abstract in nature but affected by complexities of global world accounting theories are designed to achieve smooth and easy analysis that will impact positively on the society. These theories are advantageous in enlightening, classifying, appraising and forecasting phenomena connected with accounting. Osuala (2005) defined theory as an endeavor to synthesize, interact with, and, integrate empirical data for optimal unification, clarity, coherence and unity of understanding accounting practice. He further opined that every person has an amount of individual theories founded on assumptions and postulates which differs with degrees of truth and adequacy. The word ‘theory’ is used at various levels in accounting history; 1t underpin speculative empirical explanations or interpretations of actions for economic decision making.

American Accounting Association [A.A.A] (1966) defined accounting theory as a comprehensive framework of concepts, hypotheses and practical principles which explains and directs accountants’ decisions in recongnizing, quantifying, and reporting economic data to financial statement users. Wolk, Dodd and Rozycki (2008) opine that accounting theory consists of the basic assumptions, definitions, principles and concepts and how they are derived, they further, emphasize that it includes reporting of financial information. Perara and Matthew (1996) are of the opinion that accounting theory is logical reasoning in accounting in the form of broad principle or guidelines, that produce a general framework of accounting practice which serves as a reference guide to every accountant in evaluating and developing of novel principles and procedures in accounting profession that will promote the economic and social development. Accounting theory is characterized as a logical reasoning process, encompassing a set of broad principles that offer a universal framework for assessing accounting practice and guiding the creation of innovative practices and procedures (Hendrickson, 1992). It can be said that accounting services as a framework to elucidate existing practices, procedures, facilitating deeper understanding, providing logical foundation for developing and evaluating robust accounting practices.

Evidence

The word accounting theory has been used interchangeable and loosely with concepts, conventions, principles, assumptions, doctrines, tenets, rules, standards, procedures and postulates. The concept of the law of evidence and its relation to accounting theory has a long history. Hack (2004) noted that legal usage of the term “evidence” is ambiguous. Evidence sometimes refers to the information presented by a party during a trial to support their factual assertion. In adducing evidence refers to the legal process of presenting or submitting evidence in court to establish proof or support a claim. In legal contexts, the term ‘evidence’ usually corresponds to what epistemologists call ‘sensory evidence objects’, which are tangible or observable entities that provide proof (Haack, 2004). Smith and Jones (2019) opined that self-evidence is a fundamental concept in accounting theory, influencing theory development, testing, and application. Ahmed and Hossain (2020) gave the characteristics of self-evidence include obviousness, universal acceptance, timelessness and cross-contextual applicability. Abdel-Kader and Luther (2018), Abdel-Kader (2019) opined that the criteria for truth include; contextualization, power dynamics and social legitimacy

Evidence can be divided into three major categories; oral, documentary and real. Oral and documentary evidence are self-explanatory, while real evidence includes items such as knife used in committing crime. In order words, evidence can be denote proposition of fact proven, if looked at in another way evidence can be rational and relative. In a sense, factual proposition can be evidence if it serves as means for drawing inference either indirectly or directly material fact in case of incident. Evidence can be established orally without documentary or real evidence. With respect to accounting practice, law of evidence emphasises that accounting information should be useful in defending accounting judgments in court, especially with respect to degree of faithful representation of future events in accounting estimates. Court evidence presented by an expert witness contains strong appeal to authority (ethos) of expert’s professional reputation.

In auditing, evidence comprises the documentation and data collection by an auditor or certified public accountant to support their review and analysis of a company’s financial reports. However, there are challenges and limitations to self-evidence which include subjectivity, contextual influence, theory-ladenness and paradigm dependence (Ahmed & Hossain, 2020). In 2010, the IAASB updated two standards in relation to audit evidence (IFAC, 2010b). These two standards are: ISA 500 `Audit Evidence' and ISA 501 `Audit Evidence Additional Considerations for Specific Items' (IFAC, 2010b). The ISA 500 requires the auditors to meet an expected minimum standard in relation to the audit evidence that they gather and base their professional opinion upon (IFAC, 2010b). Evidence must be assessed by auditor using range of tests that assesses control systems in place alongside substantive tests of transactions. The second standard ISA 501 provides additional guidance to support ISA 500 so that auditors have examples along with defined testing criteria for items that are specified (IFAC, 2010).

Law and Accounting/Financial Development

Legal theories underscore two channels through which legal systems affect accounting and financial development. According to the law and finance theory, the political channel emphasizes that (a) legal traditions diverge in prioritizing private property and investor rights, and (b) these differences drive financial development, accounting for international disparities in financial outcome (LLSV, 1998, 1999). More specially, comparative law extant literatures emphasises Common English Law developed to safeguard owners of private property against crown. The law and finance theory's stress that, civil law systems focus relatively less on private property rights and more on government right with negative consequences on financial contracting (Mahoney, 2000). The law and accounting theory differ in origin cross-country which can explain variances in today financial development. Legal theories lay emphasis on second channel through which legal tradition impacts accounting development through legal adaptableness channel. These channels emphasize firstly, legal traditions vary with respect to their capabilities to adjust to changing economic and commercial activities. Secondly, legal systems have ability to quickly adjust leading to gap minimization among between the economic needs and the capacity of the legal system. These of course enhance accounting development (Beck, et al., 2001; Johnson La Porta, et al., 2000). Comparative law states that common law is fundamentally as adjudicators respond to cases in changing economy on day-to-day.

The Law of Evidence: An Accounting Perspective

Evidence has received substantial responsiveness from numerous fields like auditing, law and sociology, which have attempted to explain the meaning of evidence. For example, theoretical methodology to evidence in law subject area is described as the means of creating and proving the details of any fact alleged demonstrating the truth or untruth of the assertion (Keane, 2008; Gorter, 2008; Gardner and Anderson, 2009; Nemeth, 2010). While, evidence defined by the ISA 500 (2010) as all necessary information used by auditor in forming its opinion on financial reports during audit year and includes the financial and non-financial information (IFAC, 2010). Kumar and Sharma (2005); Soltani (2007)'; Rittenberg et al. (2009) opine that evidence is any information auditors uses in evaluating whether material information under audit has been stated in accordance with acceptable principles or established criteria.

Persuasiveness or quality of audit evidence hinge on reliability of its source (Gronewold, 2006; Missah, 2008), Goodwin (1999) argued that sources that are independent is preferred by the auditors as being more credible when compared to non-independent source of evidence, however, the auditor need to confirm it reliability.The ISA 500 (2010) stated that audit evidence obtained from an independent source may not be reliable if the source is not knowledgeable (IFAC, 201). There is need for auditor to collect substantial evidence to ensure the risk of material misstatements is reduced. Assurance gained through combined procedures include: firstly evaluation of internal controls system over financial reporting process and; secondly, direct tests of underlying transactions and account. Evidence is obtained through the combination of control testing and account balance testing (Rittenberg et al., 2009). Several studies in the accounting area have indicated that the competence and the objectivity of the source is a significant determining factor of persuasive power of the evidence (Payne, 2004; Marris, 2010).

The ISA 500 (2010) state that: Evidence gotten from independent sources outside the enterprise is more consistent than that secured solely from within the enterprise" (IFAC, 201). However, Rose and Rose (2003) advise that is not always possible to determine the validity of specific information or its source. Prior accounting literature including Kizirian et al. (2005); McDaniel and Simmons (2007); Payne and Ramsay (2008); Kaplan et al. (2008); Zhang et al. (2009); Marris (2010) have focused on examining the influence that some characteristics have on the audit process. Amongst the characteristics are credibility, competence, objectivity and reliability of management and quality of information.

Janvrin (2001); ISA 500 (2010) are of the view that auditors should give more weight to evidence obtained from independent external sources than evidence provided by internal parties with a vested interest. The onus lies on the auditors whether the external evidence is ready available and adequate. There could be delays in obtaining responses to requests for information and this auditor may compelled to rely on internal sources for gathering audit evidence (Caster & Pincus, 1996). ISA 330 stated that the Auditor's Responses to Assessed Risks' (2010) directs auditors to maintain an attitude of professional scepticism when they integrate information from management into their auditing judgments (IFAC, 201).

Types of Evidence

Kaptein et al. (2009); Agoglia et al. (2009) noted that audit evidence are documented information by auditors during an audit year, which is normally gotten through audit check, observation, interviewing relevant persons, examining records and testing documents. This information be gotten various forms such organized accounting system, internal control system (Marris, 2010). The diverse types of audit evidence can be categorized as: physical evidence, documentary evidence, confirmations (third-party representations), analytical procedures, and oral evidence (Aldhizer & Cashell, 2006; Zhang et al., 2009; IFAC 2010b, ISA 500).

Physical Evidence

Physical evidence refers to the verification and inspection of tangible assets, such as inventory, cash and other balance sheet items (e.g. licenses, patents, trade effects and securities) to confirm their existence and condition (Gray, 2008; Oprean & Span, 2009). In verifying production or inventory physical examination is needed (Gray, 2008; Pany & Whittington, 2010). The Inventory process and physical examination of tangible assets provide conclusive audit evidence or a high probative force (Oprean & Span, 2009). Jarboh (2006); Joshi and Deshmukh (2009) augured that physical evidence is a reliable audit evidence when looking at existence. However, it cannot provide sufficient evidence about the ownership of goods or on the valuation of these assets (historical cost, realizable value or recoverable amount) (IFAC, 2010b, ISA 500). However, to increase reliability of physical evidence of tangible assets, Oprean and Span (2009) suggested that the existence of assets shall be inspected on the basis of related documentary evidence.

Documentary Evidence

Documentary evidence has traditionally been defined as paper based information and recently this definition has been refined to include any type of 82 recorded information such as a computer or video or audio (Gray, 2008; Jarboh, 2006; Agoglia et al., 2009; Marris, 2010). Documentary evidence is described by ISA 500 (2010) and Joshi and Deshmukh (2009) as a reliable form of evidence. The ISA 500 (2010) opined that documents that have not gone via client's organisation are normal regarded most trustworthy, next are the ones generated outside the organiastion in custody of client. However, those that were prepared inside the client's entity are considered the least reliable ones" (IFAC, 2010b: Para. 7). However, the extent of credibility of this type depends on the independence and objectivity of the document's source, the effectiveness of internal control (Ross & McHugh, 2006; Oprean & Span, 2009). External documents such as confirmations form third parties are more credible than documents created inside the entity (IFAC, 2010b, ISA 500).

Confirmations

Janvrin et al. (2010) stated that confirmation can consists of some written statements such as result of requests made to third party organisations and individuals such as lawyers' letters and specialist reports (Gray, 2008; IFAC, 2010b, ISA 505). Obtaining confirmation from client's confirmation and verifying claims made debtors can be a time-consuming and costly process, causing inconveniences to third parties involved (Allen & Elder, 2001; Hammami & Fedhila, 2009).

However, the requested answers for confirmations are received directly from independent sources of the audited entity and, therefore, they are considered reliable audit evidence (Oprean & Span, 2009; Caster et al., 2008; Marris, 2010). US audit standards have required auditors to confirm accounts receivable balances since 1939 (American Institute of Accountants [AIA], 1939), and because auditors perceive them to be persuasive evidence for many assertions, they also use them for other accounts such as cash, debt and marketable securities (Caster et al., 2008). The current international audit confirmation standard, ISA 505 `External Confirmations' was recently revised and updated (IFAC, 201 Ob). According to this standard, confirmatory applications take several forms such as positive and negative forms (IFAC, 2010b, ISA 505), each of them have some advantages and disadvantages.

Accounting Theory

Accounting theory has various schools of thought, the first school focuses on the evolution of accounting principles is rooted in accounting theory, which can be defined as a systematic framework of fundamental principles that (1) serve as a benchmark for assessing existing accounting practices and (2) inform the creation of inn0vative methods and procedures (Hendriksen 1982). Accounting theory encompasses the fundamental assumptions, definitions, principles, and concepts that form the foundation for developing accounting rules and guidelines (Wolk et al. 2008). The second school of thought views accounting theory as an explanatory and predictive endeavour, aiming to provide a foundational framework for understanding and forecasting behavior and events (Riahi-Belkaoui, 2004). Riahi-Belkaoui (2004); Watts and Zimmerman (1986) opine that accounting theory as an activity which can explain and predict financial reports, theory tries to explain prediction and relationships phenomena (Wolk et al., 2008). Prevailing accounting practices can be clarified using accounting theories to gain a healthier understanding of practices. However, accounting main goal is comprehensible principles that form general framework of reference for assessment and development of inclusive accounting practices.

The second school of thought is embedded in twofold methodologies which resulted in development of general theory known as descriptive and normative. Existing theories are usually questioned by normative methodology questions to describe what the theory should be, on the other hand while descriptive methodology examines the underlying phenomena to describe what they are (Riahi-Belkaoui, 2004). Normative methodology focuses on ideal outcome, providing prescriptive guidance on what should occur, and anticipate the underlying phenomena that will lead to those desired result (Deegan & Unerman, 2006). By disparity, descriptive methodology defines, clarifies and predicts the underlying phenomena (Deegan & Unerman, 2006).

The normative and descriptive methodologies form the basis of accounting theory development, existing theories are questioned by normative methodology in order to explain what the theory should be, on the other hand descriptive methodology examine the underlying phenomena to explain what they are (Riahi-Belkaoui, 2004). Normative methodology focuses on ideal outcomes, providing prescriptive guidance on what should occur, and anticipates the underlying phenomena that will lead to those desired results. On the other hand, descriptive methodology takes an observational approach, describing, explaining, and predicting the underlying phenomena without recommending specific actions or outcomes (Deegan & Unerman, 2006).There is also distinction in the process of developing theories using

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normative and descriptive methodologies. Usually normative methodology is deductive in nature, its process involves objectives formulation, giving rise to the development of principles, however, descriptive methodology is inductive in nature, it states from observations of real life situation. The second school of thought is known as explain-and-predict school, adopts descriptive approach to observe basic phenomena but prioritizes explanation and prediction, aligning with positivistic principles. Consequently, a significant number of accounting theorists fail to differentiate between normative and descriptive research, often blurring the lines between prescriptive and descriptive approaches (Schroeder et al., 2005; Deegan & Unerman, 2006).

Inanga and Schneider (2005) contrasted normative and positive theories, noting that normative theories are goal-oriented, idealized representations of real-world situations, depicting how they ought to be rather than their current state. Unlike descriptive theories, normative theories are prescriptive, providing guidance on what ought to be; they are chacterised by deductive reasoning based on goals and underlying assumptions (Inanga & Schneider, 2005). Positive theories strive to be accurate depicting real-world scenarios as they exist, with research grounded in empirical evidence and observational data, allowing problems to be identified and defined.

Sociological Effects

Sociological factors shape financial reporting that influencing stakeholder perceptions (Adbel-Kader & Luther, 2018; Adbel-Kader, 2019; Chambers, 2020; Lukka, 2010; Brennan & Solomon, 2008; Gendron, 2020)). Chamber, 2020; Subramaniam & Ng, 2018; Lukka, 2010; Hines, 1988 opined that social context influences accounting practices and guides decision-making (Lukka, 2010, Hines, 1988). Accounting prioritizes certain stakeholder interest over others (Chamber, 2020 Subramaniam & Ng, 2018; Hines, 1988). Sociological factors influence the truth criteria that can be influence by power dynamics among stakeholders (Subramaniam & Ng, 2018; Lukka, 2010). Sociology helps analysis how self-evidences shape accounting practices and financial reporting, it also help exploration of the impact of self-evidence on stakeholders' perceptions and help the discussion of potential consequences of flawed consequences of flawed self-evidence (Smith & Jones, 2019).

Conclusion

This paper attempted to examine accounting development and theory its sociological effect: testing of theory (criteria for truth- self evidence). There is a huge gap in literature with regards to the research, as literature in this subject is very much inadequate. The research identifies several legal channels to development of accounting and finance practice. Accounting development and theory its sociological effect: testing of theory (criteria for truth- self evidence) holds that accounting theories are mainly derived from normative and descriptive theories. Therefore, law and finance theory's opined that legal traditions vary in relations to importance given private property rights, this because private property rights form the root of financial development, historically indomitable variances in lawful custom substantially elucidate accounting growth.

The law and finance theory adaptableness argues that lawful customs varies in capabilities to adjust to evolving situations and since unyielding legal customs result in gaps amid legal capabilities and financial needs, historically determined variances in legal tradition practically explain accounting development today. As specified earlier, the concept of the law of evidence and its relation to accounting theory has a long history. In this regards, accounting evidence is information gathered from examination of company's financial reports, internal control and other factors necessary for the forming an opinion auditor or certified public accountant. Changes in accounting theories and adaptability are major changes in the accounting field was has adversely affected the society. The changes in accounting theories and financial requirements, archeologically determined variance in legal tradition basically elucidate accounting development today. Additional empirical work is required to drive down research on the effect of accounting theory on the society.

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