

## Theory and methodology of accounting

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**Abstract:** The main purpose of the research is the verification of the importance of knowledge of the theoretical and methodological bases of arrangements for accounting, which contribute to correct and perceptual unity, and therefore their application in practice. The interconnection of the theory of accounting with practical application is analysed. The research demonstrates the theoretical and methodological diversity, reviews different points of view, gives arguments for and against. The originality of the research lies in obtained scientific results, where the conceptual apparatus of the research has been formed in order to deepen and link together theoretical and practical knowledge.

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### 1. Introduction

In modern conditions the further development of theoretical and practical principles of accounting is necessary. Knowledge of theory is necessary for those who work and solve vital issues, in particular, how to gain profit and how to calculate it. By choosing a particular methodology, an accountant or entrepreneur could increase the financial outcome. Modern theory is essential for owners, investors, administrators, and public officials to understand adequately enough the methods of defining financial outcomes.

### 2. Material and Methods

Accounting affects many aspects of society. Society dictates to accountants the methods and sometimes the format of their work. During the 1990s in Kazakhstan the steps of transforming Kazakhstan's accounting into a more western model, and more specifically into an American one, have been taken. Rightly on this issue writes Professor Erzhanov M.S., 'The content of our regulations, textbooks and curriculum has got considerably nearer American standards, but the thinking of our accountants in general has remained the same [1]. Of the same opinion is Professor Dyusembayev K.S. [2].

The low level of accounting may lead to many discrepancies, affecting the country's economic progress. Accounting nowadays the same as politics and ideology has not got national boundaries. Accounting problems are urgent because they always exist in real life and require solutions in any society. Today academics worldwide are aware of the necessity and practicality of intensifying efforts for the binding together of national accounting systems.

The problems in the theory of accounting and their methodological interpretation in FSU countries

always have been put separately from similar studies of Western countries. The author agrees with the words of Sokolov Y.V.: «...cannot be so called national science, moreover, the national theory and methodology of accounting, just as the national theory of multiplication is impossible. Another matter is the practical application of research results. In this case, we can and should talk about the nation's schools of accounting. Their essence is the transformation of general scientific ideas in specific circumstances, in determining the rules of this transformation...» [3]. The author also agrees with the opinion of Seidakhmetova F.S., who says that especially important is the knowledge of the scientific and theoretical foundations of accounting, which promotes proper and holistic vision and as a result, their application in practice [4].

In the author's opinion, accounting is characterised not by the absence of theories, but by the presence of a huge number of implicit or incomplete theories which are not always consistent with each other.

Accounting lacks the consistent theory which could assess the already established, newly emerging and proposed practical procedures. There is a connection between the theory of accounting and its practical application: the theory is supposed to give a rationale for the actions or intentions of accountants. The link between theory and practical application of accounting is explained by Chimbers: «Theory is designed for practice. Unlikely that we will use a method that does not meet the scientific criteria. While the method, eliminating the apparent contradictions, gives reliability to practical activity, validity to the findings, the value of the information services provided to the managerial apparatus or clients» [5].

As defined by Kerlinger, «theory forms the opinion on changes, which allows to explain, forecast, and form the system based on these changes, in addition theory is the collection of related definitions, concepts and principles» [6].

The author agrees with the opinion of western scholars and by developing it further the next definition of accounting theory is given as: accounting is a set of conceptual, hypothetical and pragmatic principles forming the general frame of reference for the study of the nature of accounting. Under this definition, the main objective of accounting theory is to provide a system of logical principles that serve as a basis of reference for the evaluation and development of accounting practice.

This definition has been given in a wide meaning, so this definition refers to the fact that together with the traditional opinion on the theory for developing and assessing the practice, it is possible to try to explain and forecast the accounting practice based on theory.

The validity of the above is determined by various methods, which are currently in the development process.

Sterling describes the accounting theory as, «an assessment of accounting, methods of decision making and examples of connecting independent opinion» [7]. Here the two research directions could be underlined. The first is a tentative estimate of the price, and the second is its characteristic value. The main function of accounting theory is the development of new ideas and construction of conceptual base for choosing the accounting process.

Scientific publications suggest taking the following ways of building the accounting theory: deductive, inductive, pragmatic, ethical, behavioral, and communication.

The creation of the theory of deductive method starts the same as accounting from designating a target for social science.

By the opinion of Belkai, the deductive method is the definition of the purpose of financial reporting; choice of 'postulate' of accounting; compilation of the 'principle' of accounting; compilation of 'methodical way' of accounting [8].

The base of inductive method comes from controlling unique features of common laws and principles. This method provides a conclusion based on principles of the best practice.

The inductive method consists of: records of all controllers; in order to identify recurring communications to analyze and classify; identify inductive result which indicates among generalization the recurring connection; to control all accounting principles; check the result [8]. According to Yu, the inductive method is similar to the deductive method

[9]. That is why they always have been applied together contributing to each other.

By the opinion of Shredder, McCullers and Clarks, adapted to date accounting principles are the consequence of the use of the pragmatic method [10]. Its main goal is to find the «beneficial for work» optimal solution for the problem.

The study of accounting is, as the rule, the research of accounting methods and ways. The truth is that the knowledge of all methods and rules is necessary in any case. But the presentation of methods and rules is not the presentation of accounting itself. They are only a part of accounting, they will be applied as they are presented. In themselves they cannot be a complete explanation of all the functions and essence of accounting. The author agrees with exactly these opinions of western scholars [10]. The main meaning of all that has been mentioned is that to strengthen accounting theory it is necessary to control the environment.

The main base of the ethical method is the concept of truthfulness, fairness and honesty. Today the esthetical aspect has got an important role. Similar problems remind us of the limitations of this method as an addition to accounting [10].

The behavioural method is directed towards individuals and on understanding and reaction of the group of accounting information. Its meaning lies in the provision of necessary information in the decision making process of accounting [10].

The communication method is the same as the behavioural method as it provides accounting with necessary information. The main goal of its application in accounting is to find out the correct perception of accounting data between the accountant who provided this data and users of this data. Regardless of the significance of this method, it is not a global research method [10].

At the moment it is time to creatively rethink about economical categories, the time has come for the necessity of concretization of meanings of the theory and practice of accounting. In the author's opinion the significance of this topic will strengthen in connection with past concepts in discussions on the basis of science, in textbooks, scientific papers, and other information regarding the accounting system.

The analysis of the development history of accounting outlines two systems of its organisation, static and dynamic, each of them could be characterised as methodology of accounting, as they define the principles, methods and ways of organising the accounting. Static accounting methodology was inconsistent, as the «reference period» and the moment of recognition of earned income have not been defined, and property appraisal

was made only at the time of liquidation of the subject. The methodology of static accounting system can be defined as a system that is based on the legal interpretation of accounting items.

The dynamic accounting system is a system of registration of facts of economic life, the main purpose of which is continuous or via close intervals of time assessment of the effectiveness of a company's activity. The most important priority of a dynamic accounting system in the defining of the financial result is the introduction of the category of 'reporting period', not matching with the end of a company's activity, its liquidation. Dynamic system methodology is characterised by the priority of economical content over legal form, thus this system could be defined as the system of accounting based on the economical interpretation of accounting items.

Five centuries of history allows us to conclude that all the authors, giving the definition, always emphasized either methodological or substantive aspects, or stressed the importance of outcomes for which accounting is made. In this regard, the disclosure of accounting outlines three definitions of the group, in other words, different approaches are being used.

The most early definition of the methodical approach was given by Luca Pacioli who in 1494 under accounting understood, «business in proper order and as it should be» [11]. At this 'proper order' and 'as it should be' were in a full authority of an accountant or master, who had full freedom to act as they wanted to. This is a very common and procedural definition. It has been popular during the whole history of accounting.

In 1910 the French author G.Faure gave one of the classic definitions: «Accounting is a science about methods of registration of facts of economic life committed by economic entities» [12].

These definitions are good because they are general in nature, but their advantage turns into a drawback, as they do not reveal the content side of accounting.

Supporters of the content-related approach argued that accounting reflects the financial position of the company. Here is a typical formulation: «Accounting», wrote the famous French economist Jean Fourastié, «is a branch of modern science, the purpose of which is the calculation of monetary value of the assets of the enterprise and determination of the amount of its equity capital» [13].

This assumes the existence of accounting procedure, but does not outline the purpose for which the calculation is made. In other words, for the benefit of what has the calculation of the value of assets and the amount of equity capital been made.

Here we should distinguish the definition of

Italian accountant E. Pisani, who believed that «Accounting is a science which, following the rule of law and economics, uses calculations to characterize the functions of management and by the fewest means to achieve the greatest economic effect» [14].

All three approaches assume that accounting data can reflect and adequately reflects business processes. In fact they are not, as claimed by the Russian scientist Y. Sokolov, and he gives his definition of accounting, that is «Accounting, is the language of signs and rules for their use, created to replace the real objects by their characters, allowing describe economic activity and its results» [15].

There are many definitions of accounting. This variety is due to, on one side, the ambitions of their creators thinking that it is necessary to write a new page in the history of science and show the failure of all that has been done by their predecessors, and on the other side, the complexity of determined object.

In the characteristic of accounting given by American scientist K. Spinsnell it is noted that: «Accounting is not a science, it is an activity in the service sector» [16]. According to him, «accounting can be equated not to science, but to such areas of activity as medicine, technology and law, the essence of which is to meet social needs. Certainly, the service sector uses scientific (empirical) knowledge, but its main concern is to perform a particular job, the satisfaction of social needs».

In opposition of this, L. Bernstein gives a definition: «accounting refers to social science, and its purpose is expressed and defined socially» [17].

In his work M. Seid underlines that by this reason the harmonization of international accounting practice has been difficult and illusionary [18].

The European economics school, represented by the academics Jean Gustave Courcelle-Senel, Leon Sayha, Adolf Guilbaud, Pierre Eugène Leota, has defined the fundamental objective of accounting based on priority of management functions of accounting. Jean Gustave Courcelle-Senel outlined that «the knowledge of accounting is necessary for all, but most of all for managers» [19].

Analysis of accounting practices and the theoretical foundations of accounting in European countries shows that the feature of the European School of Economics is the consideration of cost accounting as part of the accounting system. Production accounting has not been isolated in a separate subsystem of accounting.

This methodological feature in the organization of accounting in Europe exists to this day. Thus, the methodology of the European Economic School was characterized by unity in the account of all records, including production.

From the historical point of view, the

development of accounting theory is undergoing significant changes in terms of the issues raised and used for their solution methods and techniques. Hendrickson, Brown and Peyrson identify different periods, as the period of the general theory of prescriptive or normative theory (1955-1970) and the period of private descriptive or positive theory (after 1970) [20].

The main normative theories of accounting in 1960 were continuous accounting of present value and replacement price accounting. Chimbers was one of first academics revealed the importance of: 1) the logical consistency ideas used in the theory, 2) the utility function of accounting information for decision-making [21].

The discussed statement of aspects of the accounting theory of Western countries to a certain extent expands many preconceived ideas and gives the opportunity to better understand the essence and meaning inherent in the accounting system. It can be concluded that in the conditions of the dynamic development of market relations in Kazakhstan there is a need for significant adjustments of current accounting theory in the country.

At the same time a variety of approaches to accounting requirements in different countries is in existence. Thus, in the book of J. Blake and O. Amat 'European accounting', there is a comparison of approaches in different countries at the development of accounting standards in three areas: the main sources of accounting requirements, the width of their coverage; the role of professionals in the accounting profession in the development of accounting requirements [22].

The legislation of every country participates in defining accounting requirements. But the degree of influence on this activity by accounting professionals may significantly differ. For example, in the USA financial reporting is prepared in the interest of stockholders, in the UK, creditors, in Germany and France the main subject of attention are tax authorities.

The abovementioned arguments are outlined with the aim to bring the clarity into separate statements, which are still taking place in Kazakhstan. In particular, the emergence of various business entities promotes opinions that accounting is necessary for inspection bodies. Some of them reduced accounting to a critical minimum, following the principle of «with a minimum of information there is a minimum of questions».

But with the transition of Kazakhstan to market relations the enterprises has been put into essentially new conditions of economy management. The adopting to new conditions objectively requires new approaches to the enterprise management, and

therefore the implementation of new informational requirements in management.

There is a regular need for the creation and organization of such accounting, which would perform the tasks associated with the management of the enterprise and its constituents. This requires the solution of problems in developing its methodological, systematic and organizational framework, intended to benefit domestic consumers of information, to align with the requirements of the market economy and international experience.

Based on users interests, accounting theory is being classified by authors based on the following types:

Tax accounting is characterised by the principle stating that the taxable amount of income is the income of the enterprise. The studies of theoretical assumptions of tax accounting shows that the ultimate goals of tax accounting differ significantly from financial reporting purposes. Tax records do not provide a complete definition of the measurement of income. Conclusions of tax accounting is not consistent with the conclusions of accounting, but we cannot say that the tax regulations do not affect the accounting theory and practice. Tax accounting theory complements the general theory of accounting, making it more meaningful and consistent, as well as accelerating the expansion of good accounting practices, and bringing a critical focus to applied concepts.

Legal or judicial theory is characterized by the control of the rights and obligations of persons involved in business processes. Regarding the effect of these rights on the development of the theory of accounting, it may be said, that the law raises questions that stimulate the development of accounting theory, but rarely gives answers.

Ethical theory assumes the absolute truthfulness of information to be included into accounting not just legal values, but the justice in the relations between the participants of economic activity. Ethical values have increasing importance today.

Behavioural theory means that accounting information brings special stimulus or some other reaction from users. At the development of accounting theory this approach is based on psychological and social factors. Thus, the accent is on interconnection of information, which is the base for decision making and reactions of separate individuals or groups, caused by information received. Therefore, behavioural theory makes an attempt to measure and assess economical, psychological and social effects of all possible accounting procedures and reporting indicators.

Macro and micro economical theory, is characterised by the approach to the organisation of

the accounting system applied to a whole country's economy; or with regard to the activity of separate enterprises.

Social corporate theory reflects a combination of micro-level with social problems that society places on the management of economic entity (environmental issues, social protection of different levels of population, etc.).

Neutral or structural theory, is characterised by the sequence of grouping identical facts of economic life in the records and reports, allowing aggregate accounting processes. Here arises the need for the correct classification of the facts of economic life, so that the financial information acquired meaning. In 1941 the Committee on Terminology of the American Institute of Accountants, the predecessor of the American Institute of Chartered Accountants, characterizes the process of aggregation in the following definition: «accounting, is the art of recording, classifying and summarizing in monetary terms the facts of economic life which are wholly or partly of a financial nature, and also the interpretation of results» [23, 24, 25, 26].

The listed types of theories may individually contain elements inherent in one of mentioned theories, on the basis of what they generally represent a fusion of different approaches in the study of accounting.

### 3. Results

The issues of theory and methodology of accounting are constantly at the center of attention of the scientific societies of Kazakhstan. The big contribution into solving these problems has been made by scholars of Kazakhstan and the FSU and beyond. Urgency of the issue of forming the conceptual apparatus of the research lies in the necessity for allowing an unambiguous perception by the reader of the main ideas and points of the author.

The results of conducted research: 1) different approaches to the development of the theory of accounting have been analysed; 2) theoretical and methodological approach to the accounting, based on a system of conceptual and pragmatic principles of investigation into the nature of accounting has been extended; 3) methodological approaches to the development and usage of terminological research apparatus has been developed.

### 4. Discussions

Thus, in the author's view scientific methodology of accounting requires further improvement of theoretical ideas about the principles, methods and techniques of organization of accounting in accordance with the peculiarities of accounting methodologies in different countries.

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