THE REGULATORY APPROACH TO THE FORMULATION OF ACCOUNTING THEORY:
The PLACE OF THE NIGERIAN ACCOUNTING STANDARDS BOARD

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Abstract
Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making informed decisions among alternative courses of action. The primary objective of accounting theory is to provide a basis for the prediction and explanation of accounting behaviour and events. Different approaches have been adopted by accounting researchers and academics to the formulation of accounting theory. The traditional approach to the formulation of an accounting theory has employed either a normative or a descriptive methodology, a theoretical or a non theoretical approach, a deductive or an inductive line of reasoning, and has focus on a concept of "fairness", "social welfare", or "economic welfare". The traditional approach has evolved into an eclectic approach and is now being replaced by newer approaches; prominent among which is the regulatory approach which can technically be regarded as an embodiment of accounting standards. Accounting may be described as the language of business. As with any communication, it is important that the preparers of a document and the users adopt the same language. Accounting standards can be regarded as the generally accepted language. The setting of these standards in Nigeria is the responsibility of the Nigerian Accounting Standards Board (NASB) [Now Financial Reporting Council of Nigeria (FRCN)] and has since its inception in 1982 set 33 statements of Accounting Standard to regulate the practice of accounting in Nigeria.

The committee on terminology of the American Institute of Certified Public Accountants (1953), defined accounting as the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof. Lewis & Pendrill (1996) also see accounting as consisting of techniques whose applications are not an end in itself but merely a means to an end, the end being the satisfaction of the needs of decision makers. This opinion is in agreement with that of the American Accounting Association (1966), that accounting is a communication tool, a means for communicating the results of the operations of an entity to interested parties for decision making.

A theory is an interrelated set of concepts, definitions and propositions that present a systematic view of some phenomenon (Kerlinger, 1973). According to Baker & Spear (1988: 31) it is "a framework of explanation involving demonstrated hypothesis containing the facts of a unified system purporting to explain natural phenomena." A theory is a systematically organized knowledge applicable in a relatively wide variety of circumstances, especially a system of assumptions accepted as principles and rules of procedure devise to analyze, predict or otherwise explain the nature or behaviour of a specified set of phenomena. (Complete Reference CD Library). Accounting theory, therefore, should be the result of both a process of theory construction and a process of theory verification (Belkaoui, 1992).

Hendriksen (1977) defines accounting theory as a set of broad principles that (1) provides a general frame of reference by which accounting practice can be evaluated and (2) guides the development of new practices and procedures. This definition allows us to perceive accounting theory, in the views of Belkaoui (1992) as a basis of explanation and prediction. No comprehensive accounting theory exists at the present time. Instead, different theories have been and continue to be proposed in the literature. There are different approaches to the formulation accounting theory and one of them is the regulatory approach. The regulatory approach is an embodiment of accounting...
standards. This approach is based on the suggestion that accounting theory should be developed by first identifying the users of accounts and then finding out what information they require. It is suggested that this approach would allow us to judge current accounting practices and help to guide the development of new procedures, thus satisfying the objectives of accounting theory which were specified by Hendriksen (1977). The focus of this paper is to review the activities of the Nigerian Accounting Standard Board as a regulatory approach to the formulation of accounting theory.

**Accounting Standards: Nature, Importance and Procedure**

The establishment and enforcement of standards is an important problem to the accounting profession and to interested users. Determining the best mechanism to employ in establishing and enforcing uniform accounting standards is essential to the acceptability and usefulness of accounting standards. Accounting standards dominate the accountant's work. These standards are being constantly changed, deleted, and/or added. They provide the accountant with practical and handy rules for the conduct of his or her work. They are generally accepted as firm rules, backed by sanctions for non-conformity (Belkaoui, 1992). According to Lewis & Pendrill (1996), given many generally accepted accounting bases, the choice of a particular policy may not be free from bias. The establishment of accounting standards, with the consequent need to justify departures from them, limit the possibility of exercising such bias and strengthening the hands of the auditors. Generally, standards are issued to solve a problem or correct a problem. Other importance of standards are that they:

- Provide users of accounting information with information about the financial position, performance, and conduct of a firm. This information is assumed to be clear, consistent, reliable and comparable.
- Provide public accountants with guidelines and rules of action to enable them exercise due care and independence in selling their expertise and integrity in auditing firms' reports and in attesting the validity of these reports.
- Provide the government with data base on various variables that are deemed essential to the conduct of taxation, regulation of enterprises, planning and regulation of the economy, and enhancement of economic efficiency and other social goals.
- Generate interest in principles and theories among all those interested in the accounting disciplines. The mere promulgation of a standard generates a lot of controversy and debate in practice and in academics, which is better than apathy (Belkaoui, 1992).

Any individual or organization may present an issue to the Council of the Board for standardization. For the issue to be considered for standardization, it must be sufficiently significant in terms of its effect on the financial statements. The development of a new standard involves a long procedure usually referred to as “due process”. The due process ensures that all interested parties get the chance to make some contribution towards the proposed standard (Nnadi, 2009). Usually, the following procedure is followed in establishing standards:

- A reporting problem is identified and place on the Board's agenda
- A steering committee composed of a group of knowledgeable individuals representing the professional, private and public sectors of the economy is appointed. Such a committee usually includes an Accountant in practice, representative of the affected industry, representative of the Board of Inland Revenue, an academic, and at least one person representing the business community who may be affected by the proposed standard. The technical staff of the Board in consultation with the steering committee draft (redraft) the Points Outline and prepare a Discussion Memorandum (DM) also called the Draft Exposure Draft on the problem. The DM exposes the principal question and alternatives to be considered by the Board. The research into the accounting and legal contents and implication of the standard is the responsibility of the Secretariat.
- The DM is made available to the public for examination for a period of at least sixty days.
- A public hearing is staged, during which viewpoints regarding the merits and limitations of
various possible positions are presented.

- When a satisfactory Draft Exposure Draft is developed and approved by the Steering Committee after about eight to fifteen meetings depending on the area of standardization, it is recommended to the Council of the Board for consideration and subsequent approval as an Exposure Draft.

- Based on the oral and written comments received, the Board issues an Exposure Draft (ED) of a proposed statement of Financial Accounting Standards. Unlike the DM, the ED sets forth the definite position of the Board on the reporting problem.

- The ED is made available to the public for examination for a period of ninety days within which comments in writing are expected from all recipients of the document.

- Another public hearing is staged, during which viewpoints regarding the merits and limitations of various possible positions are presented to the Board.

- Based on a careful analysis of the oral and written comments received following the issuance of the ED, the Board may take any of the following actions:
  A. Adopt the proposed standard as an official Statement of Accounting Standard (SAS) subject to approval by the Council by three-quarters of the members present at its meeting before it becomes a standard.
  B. Propose a revision of the proposed standard.
  C. Postpone the issuance of a standard and keep the problem on the agenda.
  D. Not issue a standard and eliminate the issue from the agenda.

The Nigerian Accounting Standards Board (NASB)

The Nigerian Accounting Standards Board (NASB) was formally inaugurated on 9th of September, 1982 after consultations initiated by the Institute of Chartered Accountants of Nigeria (ICAN) as a private-sector organization. It is the only recognized independent body in Nigeria responsible for the development and issuance of Statement of Accounting Standard for users and preparers of Financial statements, investors commercial enterprises and regulatory agencies of government. The work of NASB is similar to that of other national Accounting Standard Setting Bodies like the Financial Accounting Standards Board, USA; Australian Accounting Research Foundation, Australia, etc. Some specific reasons for setting up the NASB according to Nnadi (2009) are to:

i. narrow areas of differences in practices so that financial statements that are presented to users are structurally uniform and meaningful;

ii. produce accounting information that reflects our economic environment but at the same time satisfies the anticipated needs of the users of the information;

iii. introduce measures which will enhance the reliability and validity of information reported in financial statements.

The membership consisted of the following eight establishments/organizations:

(a) Central Bank of Nigeria (CBN);
(b) Federal Ministry of finance (FMF);
(c) Nigerian Accounting Teachers Association (NATA);
(d) Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA);
(e) Nigerian Bankers Association (NBA);
(f) Nigerian Stock Exchange (NSE);
(g) Securities and Exchange Commission (SEC); and
(h) The Institute of Chartered Accountants of Nigeria (ICAN).

The status of the Board was changed by the provisions of Sections 335 and 356 of the Companies and Allied Matters Act, 1990. Section 335 states that the financial statements of a company shall comply with the accounting standards laid down in the Statements of Accounting Standards issued from time to time by the NASB and that the Board shall be constituted by the Minister; while Section 356 states that the Minister after consultations with the NASB may alter accounting requirements for the preparation and presentation of a company's financial statements.
The membership of the Board was expanded from eight to thirteen establishments/organizations; by replacing NBA with the Chartered Institute of Bankers of Nigeria (CIBN), and adding the following:

(i) Federal Ministry of Commerce and Tourism (FMCT)
(j) Corporate Affairs Commission (CAC)
(k) Federal Board of Inland Revenue (FBIR)
(l) Nigerian Deposit Insurance Corporation (NDIC)
(m) Office of the Auditor-General for the Federation

The Board operated under this arrangement for over a decade till July 2003 when the Nigerian Accounting Standards Board Act, 2003 was promulgated. By the provisions of the NASB Act, the membership of the Board was further expanded from thirteen to fourteen establishments/organizations; by dropping two of the former member bodies (CIBN and NSE), and adding the following:

(n) Accountant-General of the Federation
(o) Chartered Institute of Taxation of Nigeria
(p) Association of National Accountants of Nigeria.

The functions of the Board, as specified in its constitution at inception, have been updated and stated in Section 6 of the NASB Act. By these provisions, the Board shall:

(a) Develop and publish in the public interest, accounting standards to be observed in the preparation of financial statements;
(b) Promote the general acceptance and adoption of such standards by preparers and users of financial statements;
(c) Promote and enforce compliance with the accounting standards developed or reviewed by the Board;
(d) Review from time to time the accounting standards developed in line with the prevalent social, economic and political environment;
(e) Receive from time to time notices of non-compliance with its standards from the preparer, user or auditor of an account;
(f) Receive copies of all qualified reports together with detailed explanations for such qualifications from auditors of the accounts within a period of 60 days from the date of such qualification;
(g) Advise the Minister on the making of regulations under Section 356 of the Companies and Allied Matters Act 1990;
(h) Advise the Federal Government on matters relating to accounting standards; and
(i) Perform such other duties which in the opinion of the Council, are necessary or expedient to ensure the efficient performance of the functions of the Board under this Act.

The activities of the Board are financed through subscriptions from institutional members, support / grants from interested parties and subvention from the government. The Board also enjoys technical assistance from international organizations such as IFAC and international standard – setting bodies.

The Statements of Accounting Standards issued by the NASB as at 2011 are:
SAS 1 On Disclosure of Accounting Policies;
SAS 2 On Information to be Disclosed in Financial Statements;
SAS 3 On Accounting for Property, Plant and Equipment;
SAS 4 On Stocks;
SAS 5 On Construction Contracts;
SAS 6 On Extraordinary items and Prior- Year Adjustments;
SAS 7 On Foreign Currency Conversion and Transactions;
Discussion

After over two decades of existence, NASB can boast of only thirty-three Statements of Accounting Standards (SAS), one of which (SAS No.19) was issued to replace SAS NO.12. Out of the effective thirty-two SASs, seven i.e. SAS No.10, SAS No.12, SAS No.15, SAS No.16, SAS No.17, SAS No.20 and SAS NO.25 are peculiar to Nigerian economic environment and, therefore, have no International Accounting Standards (IAS) (now International Financial Reporting Standards (IFRS) with effect from April, 2001) equivalence. The remaining twenty-five (25) are clearly inadequate to match the over forty (40) international standards. Also, these statements have not been revised since they were issued. Thus, some of them may not be in tune with present socio-political and economic realities in Nigeria.

The implication of this is that Nigerian multinational companies have to rely very much on International Financial Reporting Standards (IFRS) in preparing their financial statements.

Towards the end of 2011, a new body known as Financial Reporting Council of Nigeria (FRCN) has been established by an Act of the National Assembly. The establishment of this body was sequel to the World Bank findings of 2004. The FRCN is expected to improve financial reporting practices in Nigeria. In response to the financial crises of the 1990s, the World Bank carried out a review of corporate financial reporting in Nigeria between November 2003 and March 2004. This was followed by a stakeholders’ workshop made up of key regulatory bodies such as the SEC, CBN, CAC,
At the end of the workshop, it was among other issues agreed:

- That a Financial Reporting Council (akin to that of the United Kingdom) be set up to oversee the practice of accounting and auditing in Nigeria.
- That the NASB should fully issue some international accounting standards/international financial reporting standards to close the gap between the Nigerian standard and the international versions.
- That Nigeria accounting bodies should align their code of ethics with those of IFAC.
- That the capacity of the regulatory bodies (SEC, CAC NSE, NAICOM, ETC) be strengthened to enable them put in place more robust enforcement mechanisms.

The newly established Financial Reporting Council of Nigeria (FRCN) has replaced the Nigerian Accounting Standard Board (NASB), with additional responsibilities and wider scope of activities for the entire process of financial reporting in Nigeria. The Council is made up of seven autonomous directorates, each responsible for Accounting standard setting – private sector; Accounting standard setting – public sector; Inspectorate; Estate valuation; Actuarial valuation; Corporate governance; and Auditing standards respectively. This breadth of responsibilities and functions will enhance effectiveness and position the Council as an independent regulator better placed and equipped to rank favourably with international financial regulatory bodies.

Conclusion

Attempt has been made in this paper to emphasize that accounting theory provides a general frame of reference by which accounting practices can be judged, and it also guides the way to the development of new practices and procedures. The lack of an accepted accounting theory does not mean that it has not been attempted; there have been numerous attempts using different approaches. The construction of an accounting theory requires the justification or refutation of existing accounting practices. However, no single generally accepted accounting theory exists at the moment. Various approaches have been applied overtime to the formulation of accounting theory. Some of these approaches are known as traditional approaches because they are characterized by the absence of a vigorous process of verification in the attempt to develop an accounting theory. Others are described as new approaches, among which is the regulatory approach. This approach places more reliance on verification and present an innovative and more empirically oriented methods of resolving contentious accounting issues. The Nigerian Accounting Standards Board has played a major role in this regard in Nigeria and can do better especially with the upgrade of the board to a financial reporting council.

Recommendations

Efforts should be made to make Accounting Standards more binding than persuasive in order to increase the rate of compliance and invariably enhance the reliability of financial statements. The newly established Financial Reporting Council of Nigeria (FRCN) should be strengthened with adequate government support and infrastructural facilities to enhance its efficiency and effectiveness. Machinery should be put in place to ensure that accounting standards are reviewed at regular intervals. It seems reasonable to suggest that if standards have merit within the boundaries of one country, there would be merit if they were applied more generally; especially in this era of globalization. This internationalization of standards will no doubt improve the reliability and comparability of financial statements across borders.

References


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