
Factors Underlying Accounting Development in the Educational System

By

ZACCHEAUS OGUNKUADE

*Department of Accountancy
Federal Polytechnic, Auchi.*

Abstract

The study is to examine the factors shaping accounting development in the educational system with emphasis on economic environment, taxation, quality of accounting education, level of sophistication of capital market, political and economic ties between countries and legal system in a country. These further results to changes which will evolve new standard and guidelines or amendment of existing ones to accommodate these influences.

Introduction

Accounting is a field of specialization that is very essential to the day to day running of all types of organizations. It plays the role of maintaining and processing all relevant information that entity requires for its managing and reporting purposes. Accounting is a body of principles and conventions as well as established general process for capturing financial information related to entity's resources and their use in meeting the entity's goals.

As a social science, accounting is a product of the environment in which it operates. That is, it is shaped by, reflects and reinforces particular characteristics unique to its natural environment (Nobes, 1998).

However, accounting also influences the social environment. There is interdependence between accounting and the environment in which it exists. A country's accounting regulations and practices are the product of a complex interaction of social, economic and institutional factors. Thus, different environment have produced different results in accounting structures. It is unlikely that this mix is identical in any two countries therefore, diversity is to be expected. The factors that impact accounting development at the national level also contributes to accounting diversity at the international level.

Factors Underlying Accounting Development

The factors shaping accounting development are so numerous amongst which are:

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- i. Economic environment.
 - ii. Taxation.
 - iii. Quality of accounting education.
 - iv. Level of sophistication of capital market.

- v. Source of fund and working capital.
- vi. Political and economic ties between countries.

i. Economic Environment

Economic environment is important to the development of accounting. The economic environment includes two macro and micro aspects. For the macro aspect, factors such as the type of economic system chosen, the level and growth rate of income, the extent of government intervention and expenditures, inflation and the level of exports etc. may imply a specific impact on accounting development, which needs to be investigated. For the micro aspect, factors such as the source of funds, differences in sizes and complexity of business firms, level of sophistication of business management and the financial community etc. may also influence accounting's development. Other factors such as ties to other countries, and degree of international activity may also exert influence on accounting development.

Stages of economic development may decide the complexity of accounting practice and theory. The higher the level and growth of income, the higher the political and economic freedom and the better the adequacy of reporting and disclosure. This may apply to any economic system, since economic growth in some socialist countries was often followed by an effort to liberalize the regimes. At extremely low levels of economic development, there is few economic activities and correspondingly little financial, tax or managerial accounting. As the level of economic activity and size of companies increase, there is a corresponding increase in accounting activity. This continues through each successive state of development, albeit with certain lags. Although from a historical point of view, accounting development is an evolutionary process dependent upon and interwoven with economic development, social function of accounting, to measure and communicate economic data, can not be considered simply as the effect of economic development, but should be considered a valuable tool for promoting the development process.

The developing level of exports and imports may have a positive effect on the higher the need for better reporting and disclosure. Free-trade policies in general and export promotion in particular, increase co-operation with other countries, the flow of human and capital and the need for comparable reporting and adequate disclosure.

Types of economic systems may decided one country's basic orientation of the economic system and the degree of government's involvement in the economic sector, and decide the objective of accounting.

In communist countries, for example, the state owns all production facilities, makes most of the economic and business decisions, and controls virtually all operations through a central planning and control system. These countries have a highly standardized and uniform accounting system to facilitate the government's planning and control function, and there are few users of accounting information other than the government.

In market-capitalist economies, there is predominantly private ownership. With greater individual freedom in economic activity and decision making, a correspondingly greater diversity in accounting practices is permitted and practiced.

There are also more users of accounting information – stockholders, auditors, suppliers, and creditors, in addition to government.

The higher the level of government expenditures, the higher the level of government intervention and the better the adequacy of reporting and disclosure. Because government is assumed to be accountable to the people, its intervention may be followed by an effort to report and disclose, and may be favourable to the development of an accounting program and a reporting and disclosure tradition.

ii. Taxation

Worldwide tax collections constitute one of the greatest sources of demand for accounting services. The tax on income, both on individual and business enterprise level, is one of the largest sources of revenue for governments of countries with literate populations. Clearly, the collection of tax revenues, the life-blood of government, outweighs the best of accounting theory. Income tax evasion is frequently grounded in distortions of records or in absence of record. Therefore, tax collecting governments initially become involved in the bookkeeping and accounting procedures followed by individuals and companies, to provide some assurance of collecting taxes.

Taxation may have a strong influence on one country's accounting practice, especially for accounting measurements. Countries have different national tax systems which define most directly and most frequently the conduct of business and hence the practice of accounting. In many countries, law, particularly tax law, is the only reason that accounting is done at all. In these countries accounting rules and practices are spelled out in laws often called Companies' acts, which also contains the general laws for all business operations and activities. In most of these countries, there is no difference between tax accounting and financial accounting. But virtually in all countries, tax laws specify accounting procedures to be used in tax area.

iii. Quality of Accounting Education

The quality of accounting education in countries has a significant impact on the kind of accounting that develops. Naturally, the quality of education is also impacted by a number of factors, such as, the level of economic development, the political and economic ties with other countries, and the stature of the accounting profession. Certain countries have a long history of including accounting in their tertiary institutions of higher education. In such countries, university students are able to choose accounting as a major field of study in Bachelors, Masters and PhD programs. At these programs, students are able to receive a rigorous training in accounting and emerge as well trained individuals ready to enter the accounting profession. Upon graduation, they are recruited by public accounting firms as well as corporations, thus enhancing the attractiveness of accounting as a field of higher education (Hofstede, 1980).

The more the educational level of the people improves, the less accounting problems may happen, and the extensive and sophisticated accounting system and reports become feasible. Because accounting takes a written and numerical form, it has relatively little use or significance in a society that is predominantly illiterate. Meticulous preparation and widespread circulation of corporate financial reports in such a society obviously would not be judicious use of corporate time, money and

effort. Internally, the accounting planning and control system would be more difficult to be used effectively because of the limited ability of employees to prepare an understand budgets and reports.

iv. The Level of Sophistication of Capital Markets

The level of sophistication of capital markets impacts financial reporting, in that, accounting constantly has to keep up with financial terms of drafting accounting rules for new financial instruments. Thus, in countries such as United States of America where Wall Street constantly brings out highly complex and innovative financial instruments, the financial reporting must of necessity be constantly changing to account for the economic substance of the new financial instruments (Violet, 1983).

v. Source of Funds and Working Capital

The relationship between business and the capital provider can be best described as that of stewardship. This refers to management's responsibility to properly utilize and develop its resources, including its people, its property and its financial assets. It implies accountability to the true owners. In a bid to keep this relationship very mutual and cordial, there comes the need to moderate both the giver and the taker.

Various regulatory bodies all over the world have put in place standards that serve as guidelines for companies and investors as well. The Nigerian Accounting Standard Board (NASB) established September 9th 1982 is one of the so many regulatory bodies. It is the only authorized independent structure in Nigeria, with power and authority to create and mandate standards to business and financial institutions. Publicly quoted companies are obliged to disclose certain aspects of their operation for the benefit of the investing public. Disclosure requires that full details of the security vulnerability are disclosed to the public, including the details of vulnerability. The Nigerian Accounting Standard Board (NASB), Statement of Accounting Standard (SAS-1) directed the disclosure of accounting policies employed in preparation of financial statement while (SAS-2) outlined the information to be disclosed in financial statements.

As the business environment develop economically, politically and socially, the board reviews the issued standard, make adjustments as necessary. The prime objective of the board is to work in the best interest of the public (the capital provider).

The Companies and Allied Matters Act (CAMA) requires all registered companies to prepare financial statement embodying among others, the balance sheet and profit and loss account of each company, for the review of the shareholders, directors, debenture holders and other stake holders of each company. CAMA requires both the preparers of the financial statement and the auditors to comply with the accounting standard and guidelines published by the Nigerian Accounting Standard Board. The relevance of the Companies and Allied Matters Act and the Nigerian Accounting Standard Board is to assist any reader in the understanding and interpretations of financial statements and the information disclosed therein.

vi. Political and Economic Ties Between Countries

Another important factor shaping accounting development in countries is the political and economic ties between countries. Accounting like legal system and

educational system are often imported and exported among countries. In the past, countries have adopted the accounting regime of other countries both voluntarily and involuntarily.

Where a country was colonized for an extended period of time, it typically adopts the accounting system of the colonial master. Good examples are the countries in British Commonwealth. All these countries were colonies of Britain at some point in their history and as result, ended up with accounting system either similar or identical to that of Britain.

The Nigerian accounting system falls within this category. In some situations, the former colony has replaced the system imposed upon it by the colonial power with a different system. An example of this is Indonesia, which discarded the Dutch system of accounting after gaining its independence and chose to move towards the United States of America's model of accounting.

The political freedom of a country is conceived to be important to the development of accounting in general and reporting/disclosure in particular. When people cannot choose the members of a government or influence government policies, they are less likely to be able to create an accounting profession based on the principles of full and fair disclosure.

Economic ties between countries also have the potential to influence accounting development in countries. In recent times, it became increasingly popular for countries to enter into regional economic alliances. Examples include Economic Community of West African States (ECOWAS), European Union (EU), North American Free Trade Agreement (NAFTA). These alliances result in boosting the economic activity between the member countries, a by-product is that member countries try to harmonize many of their business regulations, including those for financial reporting, to reduce the transaction cost of doing business with each other.

The recent global financial crisis has clearly demonstrated how interconnected global markets are. This makes International Federation of Accountants (IFAC) initiatives to achieve convergence of international standards ever more so urgent. The convergence to a common set of high quality accounting and auditing standard is essential to assuring the quality of the profession's services and is vital to the effective operations of the market and promoting cross-border trade and investment.

The degree of economic risk exposure to the investors and creditors in a country is directly related to the degree of economic instability of the country. In countries characterized by unstable economy, economic forecasts are very difficult and require constant changes leading to questionable accounting practices. Therefore, a stable economy facilitates the development of conceptually sound accounting system.

vii. Legal System in Countries

Legal factors are concerned with one country's legal system, taxation, and/or accounting legislation. These factors may affect one's country's source of authority for accounting standards, accounting functions, accounting pattern as well as the detail of accounting regulations. The legal system in most countries can be classified as either code law (legalistic) or common law (non-legalistic). Code law has its origin in continental Europe (i.e. Roman Germany etc.) while common law has its origin from

England and was exported to other countries during their colonization by Britain. The code law is characterized as mandating acceptable behaviours while the common law is basically non-legislative law whose rules seek to provide an answer to specific case rather than to formulate a general rule for the future. This naturally influences company law, which traditionally does not prescribe a large number of detailed, all embracing rules to cover the behaviours of companies and how they should publish their financial statement. To a large extent, accounting within such a context is not dependent upon law. Other general differences include the size and sophistication of government and the proliferation of regulatory agencies and commissions.

In code law countries, accounting is regulated mainly through an accounting code, which tends to be highly detailed, prescriptive and procedural and it is generally set by the legislature. The emphasis is on protecting the creditors of the company. By contrast, in common law countries, accounting regulations are set on piece-meal basis typically by a private sector standard setting body. For example, the Nigerian Accounting Standard Board (NASB). The emphasis in financial reporting in common law countries is to present a true and fair picture to shareholders. All these legal differences imply different accounting practices since accounting may be used to implement some of these laws.

Conclusion

In conclusion, factors shaping accounting development in countries are constantly being influenced by the economic, social, political, cultural and religion interplay. These further results in changes which will evolve new standards and guidelines or amendments of existing ones, to accommodate these influences. For example, The Nigerian Accounting Standard Board (NASB) periodically updates The Statement of Accounting Standard (SAS) with inclusion of new standard. Currently, the standards are numbering thirty, up from twenty-five.

Not too long ago, the United States of America developed an act called “Sarbanes Oxley”. This act limits the level of work which can be carried out by accounting firms. In addition, the act puts a limit on the fee which a firm can receive from one client as a percentage of their total fees. This ensures that companies are not wholly reliant one firm for its income, in the hope that they do not need to act unethically to keep a steady income.

Globally, the international trade has continued to have a profound effect on the way business is conducted. It has not only turned companies into global institutions, but has also challenged daily economic life, national identity and created a persistent movement towards business homogenization. The international accounting community has begun to call for a set of universally accepted set of accounting standards understandability of financial information across borders.

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Recommendations

The following recommendations are made to foster accounting development in the educational system.

- i. Adequate attention should be paid to economic development. This is one of the indices that may decide the complexity of accounting development.
- ii. Taxation constitutes largest source of revenue for the government of countries with literate populations, accounting theory should embrace the various laws and regulations pertaining tax collection from time to time.
- iii. The level of education is a significant point that justifies accounting development. Not only that, quality of education buttresses this point. Super specialization in accounting field of study such as Bachelors, Masters and PhD programmes and also professional qualifications add pep to the performance of students.
- iv. Though accounting is the same across borders, yet special attention should be paid to political and economic system between countries. The Nigerian accounting system tailors British style whereas some ECOWAS (Economic Community of West African States), European Union (EU), North American Free Trade Agreement (NAFTA) countries may have slight differences. Adequate training/knowledge of international accounting system is required.
- v. Finally, attention should be paid to laws and codes pertaining taxation, and/or accounting system. This is necessary for harmonization in accounting system.

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