

Accounting Theory and Practice

M W E Glautier and B Underdown

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and B Underdown**

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Preface

The tradition in accounting education has been to focus the teaching of accounting almost entirely upon procedures for processing financial data. The treatment of accounting as a skill, rather than as a body of knowledge, is based on the belief that 'accounting is what accountants do'. Whilst this assertion undoubtedly holds good as a statement of what accountants do, such a view of accounting has serious shortcomings as regards the educational qualities of accounting courses and the education of accountants. First, by restricting the nature and scope of accounting to an exposure of its procedures, it fails to provide an adequate understanding of these procedures in relation to the problems facing accountants. Second, it impedes the recognition of economic and social changes which bear directly on these problems. These changes have made many accounting practices redundant, and have called for a re-structuring of the accounting process. Third, it supports a conviction widespread among students and practitioners that what they have been taught is in the nature of an everlasting truth, or a collection of everlasting truths. Hence, it has hindered the development of accounting.

The most damaging factor as regards the teaching of accounting has been the absence of a theoretical framework to serve as a standard of reference for examining the validity of the assumptions held by accountants. As a result, accounting courses have sometimes tended to be virtually devoid of rigorous analysis, which is characterized by the uncritical acceptance of the assumptions reflected in accounting procedures. It is not surprising, therefore, that teachers of other subjects tend to regard accounting as being qualitatively inferior in the potential which it offers for the development of the mind and person.

This textbook is committed to a different view of accounting education in a number of important respects. First, as its title *Accounting Theory and Practice* implies, it attempts to provide a theoretical framework for the understanding of the nature of the accounting problem and an appreciation of the purpose of various accounting practices. This approach permits accounting practices to be exposed to critical analysis by means of which their usefulness and relevance may be assessed and their shortcomings exposed. Hence, it provides the teacher and the student with a means of overcoming the most serious criticism made about accounting education. Second, the nature and the scope of accounting is extended beyond accounting procedures by conceiving the essential function of accounting as facilitating socio-economic activities and decisions. Accordingly, we give a global and rounded view of accounting in which the emphasis is appropriately placed on the role of accounting as being the provision of information for decision making. We examine both traditional and new problems, and bring to our analysis

developments in other subject areas which are important to accounting. In so doing, we provide for the interdisciplinary nature of accounting and hope to end its isolation as an esoteric collection of procedures. From this viewpoint, we believe that the traditional emphasis placed in first-year texts on the importance of financial accounting is misplaced.

We have emphasized the importance of the scientific method for the development of accounting. In terms of its ultimate objectives, accounting is as scientific as any other discipline. In terms of its ability to develop and apply empirically verified theories, it is far from being a mature science, but it is striving in this direction. We try to reflect this trend in this textbook.

Finally, we believe that accounting is a very important social science. We hope that our readers will develop insights into the social role of accounting at an early stage, and it is for this reason that we decided to adopt a global, rather than a narrow view of the accounting process.

We have interpreted the broad objectives of accounting as being to provide information for the following purposes:

- (1) Decision-making regarding the use of limited resources, including the identification of crucial decision areas, and the determination of objectives and goals.
- (2) Effectively directing and controlling human and material resources.
- (3) Maintaining and reporting on the custodianship of resources.
- (4) Facilitating social functions and controls.

The textbook is divided into five parts, as follows:

- Part 1 A Theoretical Framework
- Part 2 Financial Accounting—The Historical Cost Approach
- Part 3 Financial Reporting—Alternative Valuation Approaches
- Part 4 Financial Reporting—Extending The Disclosure of Information
- Part 5 Planning and Control

In Part 1 we discuss the nature and the importance of theory covering every aspect of accounting knowledge and incorporating this knowledge into a unified whole, the purpose of which is the provision of information for decision making.

Part 2 examines the traditional nature of accounting information based on the historical cost approach which illustrates the way of thinking underlying financial accounting practices and looks at the development of financial accounting practice in the context of accounting conventions and standards.

Part 3 examines the problems of financial reporting in terms of alternative valuation methods to those employed in conventional financial accounting, which are based on historical cost.

Part 4 evaluates current financial reporting practices in terms of extending the disclosure of information to investors and employees as well as corporate social reporting.

Part 5 focuses on the role of information for management decision making and examines the needs of management relevant for planning and control.

We would emphasize that although this textbook is divided into five parts, each addressed to a special aspect of accounting, they are nevertheless linked

by the provision of a theoretical framework which brings them together and establishes their purposes in the provision of information for decision making.

We believe that this book will be suitable for the following uses:

- (1) University and Polytechnic first- and second-year degree courses in Accounting;
- (2) First-year MBA courses in Business Schools;
- (3) Professional examinations;
- (4) Practising accountants who wish to acquire a broader viewpoint of the accounting process.

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