

Accounting Theory & Current Issues



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Introduction

Positive accounting theory can be considered as the concept which is based on the accountant's behaviour. This report paper is a critique of an article 'Half a defence of Positive Accounting Research' which is written by Paul V Dunmore. Positive accounting Theory is known as PAT and it has some strength as well as some key issues. A particular structure has been followed in completing this article. It starts with a summary and followed by a research question and theoretical framework of the Positive Accounting theory. At last the significance and limitations of the article has been discussed and conclusion is given in the end.

Summary of an article

The main focus of the article is on the discussion of Positive Theory of Accounting. Positive Accounting theory is a prediction of the real world events and then converting them into the transactions of accounting. Positive theories are just opposite the normative ones. These theories explain and suggest that what should be done. It guides about the actions which the business should take and also suggest how the business should react for the new standards of accounting. The main intention of Positive Accounting theories is to identify and recognise the actions which should be taken in the business (Mir & Zaheer, 2012). The firms know that under Positive Accounting theory, they need to maximise their profits and revenues so they operate and organise things according to that. The scientific reasoning and meaning of the theory has been questioned in the paper. It is examined that the theory has many meaningless points but also have some strong points to consider. It shows that the managers in the organisations provide more benefits to the organisations than to the shareholders of the organisation. This shows casual behaviour of the managers towards the shareholders of the company. When the theory is practiced, I show weaker points. Basically there are two sides of every coin which is also applicable to the Positive Accounting Theory. Hypothesis testing is done in the paper for making the effective decisions and finding out the answers to the research questions. The conclusion suggests that the Positive Accounting Theory is capable of achieving the scientific objectives of the business and the researchers are continuing their research on the concept (Murray & Ali, 2016).

Positive accounting theory (PAT) can be achieved when the accounting policies keep on changing and when new accountings standards are to be adopted in the business. It is when

the expenses like repairs, maintenance, research and development and advertising changes in the business. In this article Watts and Zimmerman tried to develop the Positive accounting theory and its reaction on the capital markets when there are abnormal results in the accounting information (Nelson, Ponsian & Musa, 2011).

Research Questions

The following are the research questions which have to be answered while completing the paper:

1. How much adequate the accounting theories are for effective decision making in the business?

To answer the existing or new issues and problems, decisions have to be taken in the business at various steps and in different operations as per the needs and requirements. The article answers the question that the positive accounting research contributes in the identification and solution of the problems (Paul, 2009).

2. Is the current research on Positive Accounting adequate?

The current research on Positive accounting involves some of the qualitative models and some quantitative models which altogether make a good combination to conduct a good research on the subject. But the problems still remains which are discussed in the paper.

3. How the theoretical models of the accounting research framework are tested. Are there any valid or reliable techniques for testing or measuring?

This is another question which is to be answered in the paper. It focuses on identifying the testing and measuring of the theoretical models of accounting research framework. It will also answer the adequacy of these frameworks or models.

Theoretical Framework

Theoretical framework can be understood as the structure which helps in supporting the study on research. It includes the concepts and explains the scholarly literature which is used for the study. It helps in bringing strength to the story. Here, different concepts of the theory have been evaluated so that they can be made related to each other. It helps in explaining the meaning and nature of the theory and challenges which are associated with the phenomenon.

It strengthens the knowledge and understanding on the concepts (Schaltegger & Zvezdov, 2015). In this paper, the theoretical frameworks which are used are explained below in detail:

The article includes the Human Agency theory. This theory is tested and also examined and then applied in the article. The theory helps in defining the roles and responsibilities of the humans in different situations in the society. This shows that the society is nothing without human behaviour, interaction or activities. Different theories are analysed and their uses are examined. It shows that these theories form the basis for conducting tests of the present accounting systems (Sorin, 2011).

It is also examined that the main ideas of many theories are not even relevant to the present societies and concepts. The quantitative aspects of many theories are considered and also the auditing activities are conducted to know the theories in a better way. Auditing assertions are applied which means that the statement of facts are taken as the basis for the analysis of process of auditing. These assertions can base on the personal experiences and experience of the people. The theories discussed here are the part of Pioneer 10 and 11. There are other theoretical frameworks like hypothesis testing which has not worked well with the concept of positive research of accounting. On the basis of testing of hypothesis, there are many researches which got the conclusion. So, it can be considered as one of the biggest and most significant basis to conduct accounting research. The researchers utilise the data of probability so that they can test the figures in the research and it also helps in analysing the situations (Wang & Shanker, 2012). This all happens in the testing of hypothesis and it helps in giving the best results out of the research. These tests use only the quantitative data but not the qualitative data which is a limitation because quantitative data can change with the time. It changes frequently with the time so one cannot trust completely on the quantitative data. This limitation of the test can be realised and seen from the naked eyes and the hypothesis is proved against the logics.

Significance and Limitations of the article

To look out for the reliability and validity of the concept Positive Accounting research examination of the theory has been done. It is seen that Positive theory of Accounting is the part of the basic accounting theories (Beja & Palma, 2008). It helps in predicting and explaining the basic accounting practices of the organisation. The theory is considered as the good economic theory but it is also criticized for its shortcomings by some of the authors.

Below is the discussion about the significance and limitations of the Positive accounting theory:

Significance of theory

The significance of Positive Accounting Theory can be understood by its popularity. These theories are more beneficial to the accounting practices. They provide basic of the knowledge and provide guidelines to the business on the basis of which important and crucial decisions of business are taken. These theories, if utilised effectively, set up clear understanding of the accounting practices.

This method has the basic purpose to make the accountants understand that how the accounting practices should be used. It helps in identifying the relationship between the managers and the owners and the manager and debt providers. Basically, agency relationship has been identified and analysed.

The theory helps in identifying the changing circumstances in the organisation for managers so that they can have flexibility in selecting the practices of accounting as per the situations. The theory helps the organisations in maximising their survival chances and it also helps in organising them efficiently (Ciesielski & Weirich, 2009).

Criticism of Positive Accounting Theory

The following are the points on the basis of which the Positive Accounting Theory is criticized by many authors:

- The assumptions are not valid: It means that the assumptions taken in the theory on the basis of which the actions are taken in the business are made to maximise the wealth of the organisation. This shows that there is no clear basis and the assumptions are invalid (Ciesielski & Weirich, 2015).
- More emphasis on self-interest: This is seen that in the Positive Accounting Theory the actions are taken in self-interest.
- It lacks in development: The theory is stagnant and no significant has been seen since its development in the year 1970. Since its developed there has been three hypothesis which are Bonus plan hypothesis, debt hypothesis and political cost hypothesis but since then,

no additions have been made (Melis, 2007). Many authors argued that there is no positive future for this theory and no new ideas will be developed in this.

- Scientific flaws: The theory is not sufficient and it contains the scientific flaws within it.
- Conclusions: There is a lack of unanimity of thoughts when the conclusions are made. The organisation specific relations are ignored while making conclusions.

Methodologies

The methods are the systems and practices which are followed to undertake a research or study. This is an empirical design of research which is used in the current article. The hypothesis has been made in order to provide support to the positive accounting practices. The methodologies have been discussed and the applicability and utility of the theory has been discussed in the paper (Kabir, 2010).

Author has drawn successful conclusions out of the theory by using the methods and study conducted. The article on the Positive Accounting Theory has been analysed critically and it is seen that the human behaviour lays an important part in the positive accounting research. The concepts which are important to carry out the research have been used in the article (Cosenza & Mamede, 2010). The author has made efforts to test different models which provide suggestions on the Positive Accounting Theory. It is seen that as the expectations of the researchers and accountants has been increased with the passage of time for the use and applications of the theoretical framework, the Positive Accounting Theory is not able to fulfil the expectations properly. The article suggests that audit processes are important for checking the reliability of the accounting transactions but the fee of audit processes should be according to their criticality and complexity of the processes. The methodologies used in the research article helps in finding out the concepts and their applicability of the Positive Accounting Theory (Crawley & Wahlen, 2014).

Conclusion

The article 'Half a defence of Positive Accounting Research' has been evaluated and critical analysis has been done. It can be concluded that the activities of accounting which are adopted in the present business scenario are not sufficient to fulfil the needs and requirements of the business. The Positive Accounting research has clearly shows that only quantitative measures have been considered and this is not sufficient to take effective decisions in the business (Dye & Sridhar, 2008). The quantitative data alone cannot help in taking the effective decisions in the business because they may or may not be developed properly. It can also be concluded that there should be some effective measurement techniques which should be used to test the theoretical models effectively. The further researches should be conducted on the improvements made on the measurement techniques. It also concludes that the hypothesis testing is not done properly which the basis for decision is making for the researchers. There are many limitations of the theory which weakens the whole concept of the Positive accounting theory. This theory is an important way to analyse and understand the human behaviour properly. There are various other implications of the article which are application of the accounting theories and how they can be used further in this field. Some of the theories have strong statistical base but they are not good in application. As far as Positive Accounting theory is concerned, it is not proficient in functions but it is very helpful in decision making for the firms.

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