



Four Critical Issues in Contemporary Accounting

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ABSTRACT

This paper is a result of survey of contemporary accounting research topics and proposes critical issues in accounting research. This study summarizes the extant accounting research into four major areas and is among the few to recapitulate most important current accounting research topics with a synthetic framework as well as some critiques on missed pieces of the current research. As research indicated, academia closely serves the purpose of accounting practices, which prominently shows in accounting research.

KEYWORDS: Accounting research; internal control; Accounting quality; Auditing; Accounting internationalization

Introduction

After the Sarbanes-Oxley Act was passed in 2002 that intended to revolutionize accounting reporting and auditing in response to accounting reporting debacles like Enron, Global Crossing, and WorldCom, top-rated accounting academic journals have published most articles on corporate governance, internal control, accounting irregularities and restatements or aggressive accounting, earning management, accounting transparency, auditing quality and audit independence, and auditor conservatism, among others. All these topics not only bear practical weights and signify implication for regulations and policy settings, but also have much academic indications and propositions. The present research could be classified into the following four critical topics, offer some critiques, and discuss missed pieces. The issues are in the matter of fact interlinked, and thus studies are seen likely to cross the classifications. To elaborate the inter-linkage of the classification, eventually outline a framework that delineates the relationship of the components among themselves and with the outside world.

Four Critical Issues in Accounting Research

The first critical issue is accounting system and internal control systems. Except organizational guarantee, the typical divisions and segregations of accounting functions supply accounting internal checks and balances, which is the first and foremost important front-line of prevention against potential violations and frauds, though collusions and management overrides can easily break down the frontline.

According to the current research, professional training, including accounting ethics and professional moral and independence education, can help to but cannot prevent frauds. The implementation of accounting functions is not as evident until the accounting reports are produced and rendered to the public. If we bring in more restrictive requirements of the Sarbanes-Oxley Act, and functioning of internal and external auditing, we would see dramatically more new research topics on their effects on accounting in recent years.

However, many studies touching upon the corporate governance and business environments have more or less investigate on the accounting internal system functions. The one main reason is that effectiveness of accounting functioning can be derived from its outcome of financial reports and quality accounting information. Thus, it is easier to study the outcome of the process, which is often not directly observable or viewable to outsiders, than to investigate the process itself. In general, this area is not yet as much studied as other topics, especially as those discussed below.

The second critical issue targets internal and external auditing, and related mechanics of monitoring on accounting function. This is another large research area, and it is closely linked to the accounting systems and control examinations. Sarbanes-Oxley Act has special and restrict requirements on internal and external auditing. One of them is that the auditor must maintain independence from material decision-making and operations of the company, and be shed from influences by management. The Audit Committee should be the one to control and supervise the internal auditors and hire and monitor external auditors. Research has found that management can influence or mislead auditors' judgments on internal controls. Auditors' professional proficiency

and conservatism can also act as major factors in audit effectiveness and efficiency. Research has found that a company must maintain effective supporting systems of audit and other monitoring means to help to provide high quality of accounting information. A number of studies have examined the functionality and effectiveness of internal auditing and external auditing, and their influences on accounting quality improvements. Most studies can be made as auditing is one of the last preventive screens that can help to prevent accounting from functional failure and providing low quality of reports.

The third topic is the relationship between accounting and other disciplines, and uses of accounting reports. The value of accounting all depends on the usefulness of its products to the users, especially by investors, financial professionals, tax authorities, and unions. Throughout many years of accounting history, principles and techniques of accounting have evolved into more adaptive to societal development and economic growth. For instance, historical costs are considered non-economic valuation, and they are likely to distort reporting on fair value of assets and liabilities of a company.

However, as historical costs are more reliable and less subjective, they are probably still the best valuation method accounting professions can provide and report on. These past years have witnessed that accounting professions have been trying to balance reliability, which is more acceptable to accounting practitioners, and relevance, which is more tended by other disciplines, like finance and economics. The recent pronouncements of the current Financial Accounting Standard Board have been struggling between the two pillars, and trying to serve the best interest of users of accounting information while keeping up with the accounting theoretical framework, established in its FASC no. 1-4. The current accounting academia follow closely, sometimes even anticipatively study the topics that are or may be interested to accounting regulatory bodies. The interactions between of academia and professionals have demonstrated the best in various topics of this area. (Gao 2010) examines the effects of disclosure quality on cost of capital and investor welfare. (Callen, et al 2009) inspects the impact of earnings on pricing of credit defaults swaps. (Kothari, et al 2009) examines the effects of management disclosure and analysis on cost of capital and return volatility. (Bradshaw 2009), and (Langberg and Sivaramakrishnan 2010) examine the relationship between disclosure and financial regulations. While (Keung, et al 2010) investigates the effects of changes in earnings on stock market, (Ball and Shivakumar 2008) and (Ball, et al 2009) examine the general effects of earnings on asset prices, and specific usefulness of earnings. (Nekrasove and Shroff 2009) look into the fundamentals to examine the risk measurement in valuation. (Piotroski and Srinivasan 2008) probe the effects of Sarbanes-Oxley Act on cross-listings. All these studies have investigated the usefulness of accounting information, or effects of quality accounting information on the users' decision making. It can be easily observed that as the most likely users of accounting information, financial professions make various adjustments to accounting data before applying them to analyses. Whether accounting formats and presentations need to be adjusted accordingly is a research topic (Ball, et al, 2009).

The fourth critical topic is the accounting internationalization and convergence of accounting standards. In the past, harmonization of

accounting was widely applied, and considered a trend of accounting development. The perception is that accounting must be harmonized or converged to make it more useful and widely acceptable to users of different markets or nationals. With internationalization of businesses and investment, internationalization and convergence of accounting has become an unavoidable aftermath of joint efforts of international and national accounting regulatory and authoritarian organizations. The International Accounting Standards Board (IASB), joined with various international and national accounting bodies, has issued a number of standards, interpretations, and framework, in the name of International Financial Reporting Standard (IFRS). At the same time, accounting regulatory bodies of different nations have issued new regulations more intended to converge to the international standards, or simply adopted the standards, while many others have allowed companies from overseas and even domestics to report on the IFRS regulations. For instance, the Securities Exchange Commission (SEC) of U.S. once required reconciling financial statements compiled with non-US GAAP rules to US GAAP, but now accepted IFRS based financial statements of foreign companies for US stock exchanges listing. Research on effects of convergence on financial statement and accounting report quality has been the most popular issue in this area. Many unanswered topics still exist as countries and different accounting regulatory bodies have taken different attitudes and picked up with various paces for convergences. That having been said, the topics in this area will become more acceptable and published, especially in emerging markets and developing countries. For countries with more advanced and developed in accounting theories and applications, topics in this area may be less intensively studied, as their convergence may not be as extensive and widespread. (Christensen, et al 2009) investigates effects of reconciliations based upon IFRS on quality of accounting information. (Li 2010) has studied the effects of adoption of IFRS on cost of capital. Armstrong (2010) investigates market reactions to the adoption of IFRS in Europe. Their findings are that the results are more apparent for stricter rules and applications. (Daske, et al 2008), (Wu and Zhang 2009), and (Li 2010) observe that both mandatory IFRS reporting and voluntary IFRS reporting have positive effects on accounting quality, especially for those countries that have low or lax national accounting regulations. (Barth, et al 2008) is a master piece on international accounting standards and accounting quality. Their findings have been confirmed by the aforementioned research.

Conclusion

The critical contemporary accounting research topics that are identified in this observation cover from the fundamental macro and micro environments to the accounting relationship or use of accounting information by other disciplines, especially finance. The last topic identified is accounting internationalization or convergence, which may be a timed topic in the current globalized economic environment. Rather than going genetically, this survey uncovers those areas that have been recognized by acute and securitizing eyes of well-known scholars and academic journal editors. The evidences show that these areas are the most important for current practical purposes, while they also have theoretical implications. One major such area is accounting internationalization and convergences. Witness is found in more articles that are devoted to inquiries into this area have been more seen in top-rated accounting journals in recent years. Traditional topics like accounting quality and irregularities have been resurrected as the aftermath of accounting frauds and the responding to Sarbanes-Oxley Act. It can be anticipated that these areas will be seen more research and findings in the years to come. A few research topics are, on the other hand, less focused on, like the fundamental environments and its relationship with accounting functions and accounting reporting quality. One possible reason is that less data are available or they are too proprietary. Only special survey inside an organization can peek into the core of such fundamentals. Another possible reason may be that these characters are hard to be quantified. As modern accounting studies have become more quantified, and quantitative techniques and methods become a benchmark and criteria for publications, normative research has less been seen in topic accounting academic journals. However, lack of such researches and needs for more sufficient understanding of these areas should call for more research. Some other normative oriented accounting or non-accounting journals may see more research findings in these areas.

In short, all the six critical research topics identified in this paper have urgent demand for more research and investigations. More studies on the cross areas and cross topics, even the classifications here, will be easily noted in accounting academic publications in the years to come.

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