



# JOURNAL OF PRAGMATIC CONSTRUCTIVISM

## Ten things about accountants and accounting that are good!

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### 1 Introduction.

Writing a festschrift contribution to celebrate the distinguished career of Hanne Norreklit is, I think, an appropriate occasion to be positive about the discipline she has professed so eloquently over the last few decades. Indeed, positivity about accounting practice is badly needed for a profession that suffers so much bad press whenever a mistake is made or a scandal uncovered, receives unrelenting criticism of the “beancounter” mentality and is constantly under attack from researchers who gain academic kudos from identifying apparent accounting shortcomings and failures. These downsides are rarely accompanied by recognition of the many successes of accountants and accounting. The result is a serious imbalance in the publicity accorded to the discipline. This has had a negative impact on the reputation of the accounting profession. So, in order to help address this negativity about accounting, this chapter outlines ten of the aspects of accountants and accounting that justify the major role it has played in enabling human societies to function successfully. Human learning comes both from appreciating what behaviours are successful as well as those that do not work well. Thus, performance improvement can come not only from the elimination or modification of the latter but also from the repetition, emphasis and enhancement of the former. To achieve this, strengths have first to be recognised and to this end a set of ten of the successful, but often neglected, aspects of accountants and accounting are identified, described and discussed below.

#### 1.1 Accounting provides necessary records.

Human memory is limited in capacity and potentially biased in favour of subjective (as opposed to objective) interests. Tangible records of a more comprehensive and objective nature are, therefore, needed for societies to function successfully. A major characteristic of accounting is that it has always involved the creation and keeping of records. These records are usually to do with the commercial activity that is central to most human societies. Records of the accounting type are essential, for without them many aspects of society would experience chaos. Record keeping is a fundamental reason for accounting’s value and durability within human society. In essence, if there were no records of who one owes money to or who one is owed money by, then large scale credit transactions would not be possible. Similarly, it is crucial to know what inventory you possess for sale and what it has cost you, if you wish to trade effectively. It is also important to have records of what money you have spent, what you have received and what balance you possess otherwise your capacity to trade becomes uncertain. Likewise, details of lending and other financial arrangements need to be recorded. Records such as these are basic but they bring an order to commercial activity and facilitate its operation and growth.

Accounting records may also prove beneficial in other ways. For example, one of the reasons that Scotland is known as the home of golf is because the King’s accountant kept records of his King’s spending. In the early sixteenth century this provided a record evidencing the earliest recorded golf matches in the world as the dated expenditure records showed the King buying golf equipment for golf game challenges against certain of his nobles. In the contemporary world, records have been expanded and enhanced through computerisation designed to accommodate the growing volume and complexity of modern commerce. Without such accounting records, the commercial aspects of society would fail to make progress and society would be the poorer for it. Record keeping is one of accounting’s most important societal contributions and lies at the heart of its longevity.

### ***1.2 Accounting is knowledge.***

Accounting is based on the creation of (largely financial) knowledge. Events, estimations and data are turned into knowledge generating information by accountants. The processes, concepts and constructions that constitute accounting are designed to this end. Fundamentally, this is what accountants all work towards. Accounting, therefore, supports those in need of financial knowledge as they are tasked with making economic choices and taking requisite action. Without knowledge, societal decisions have to be made by guesswork or superstition or worse and enduring progress on these bases is unlikely. Accounting knowledge, as in the case of management accounting, can be tailored to providing knowledge about the financial consequences of specific decisions by estimating the financial implications of the possibilities facing the decision maker. It also provides an important mechanism for planning and control in large organisations. It is part of the “visible hand” which together with Adam Smith’s “invisible hand” of markets enabled the massive economic growth delivered by capitalism. However, accounting can also provide more general knowledge as, in the case of financial accounting, where the annual report can be a general information source, accessed and used by many different users seeking knowledge about the entity concerned for a large variety of purposes.

Accounting knowledge is not perfect as it is a human creation and it often involves uncertain future estimates. However, knowledge does not have to be perfect to be used and useful. Weather forecasts, share price expectations and military assessments are all similar examples of the imperfect knowledge that people employ to make decisions that will impinge substantially on their lives. To enhance society accountants and others have to engage in a learning process that will, over time, improve the knowledge that they generate. The success of this process will reflect their ultimate practice achievements and underpin the societal value of accounting.

### ***1.3 Accounting supports the attainment of accountability.***

Societies operate by allowing people the power to assume responsibilities. This is the essence of how they function. Hierarchies of authority are created to enable societal operation through specialisation and cooperation. Accounting facilitates this as it provides the means of holding those people in authority accountable for the use of the societal power they have acquired. This is the function that financial accounting assumed when joint stock companies emerged as the powerhouse of economic growth throughout the 19th century and initiated the divorce of ownership from control. It is also the purpose of management accounting performance reports where organisational scale precludes direct work performance observation. If it is accepted that the human condition inevitably implies that delegation involves a moral hazard threat, then that has to be countered by employing methods of incentivising through the use of performance expectations and targets and by using information on performance to clarify and highlight workplace behaviour. Given the primacy of financial objectives for companies and their component segments, accounting is the natural discipline for providing appropriate accountability information for these purposes. To achieve success in this, the principle of disclosure has to be followed. Accounting information has to disclose what the person in authority is gaining from their position, what targeted financial and non-financial expectations can be made for them and how well they are doing in achieving the objectives that they pursue. This accountability or stewardship function, therefore, represents another powerful role for accounting which helps to make it indispensable for societal operation.

### ***1.4 Accounting protects people.***

Accounting’s role in establishing accountability has a strongly protective dimension. However, this protective function is also inherent in some of the technical aspects of accounting. For example, the concept of capital maintenance employed in a system of historic cost accounting together with the legal requirement that dividends can only be paid out of profits ensures that shareholders cannot be paid dividends which are simply a return of the capital they contributed. Protection is accorded the principal from the actions of the unscrupulous agent by the mechanisms of the accounting system. Other safeguards are also impounded in accounting practice. Depreciation ensures that reported profits are reduced by the cost of assets over their life and this helps firms to retain the funds needed for asset replacement in due course. Inventories must be valued at the lower of cost and net realisable value and this ensures profits must be realised through inventory sale before they can become available for dividend payment. Reserves and provisions provide similar types of protection by ensuring accounting results reflect the potential losses that can compromise stated asset worth. Thus, accounting helps to create order by ensuring that some protection exists for the members of a society that invest in its functioning organisations.

### ***1.5 Accountants and accounting are conservative.***

Accounting has an explicit bias and that bias is one of its great strengths. Traditionally, accounting reflects a conservative or prudent view of the situations and events that it provides information about. As a result, the information user can feel reassured that overly optimistic judgements and estimates are not inherent in the information they receive.

For example, beneficial items (assets and income) are not overstated and negative items (liabilities and expenditures) are not understated. Much accounting information has significant estimation and judgement inherent in it. It does not simply reflect an objective reality that is easy to identify and describe. Knowing that such judgements will be made prudently imbues accounting information with a reliability that enhances its use in the exercise of accountability and in the many other decisions that can be informed by it. Conservatism is, therefore, a valuable principle that can help to beneficially define the role of accounting in society.

### ***1.6 Accountants and accounting are dynamic.***

It may seem strange to make this claim of a profession that is often associated with a predilection for the status quo. However, if one takes a broader view of how financial and management accounting have changed and developed over the last couple of centuries, then a conclusion of dynamic evolution does become merited. The annual financial statement of Victorian times was but a few pages long, while contemporary ones often run to several hundred pages. Disclosure has increased markedly, arbitrary measurement flexibility has been reduced, financial statements have been expanded and extended and financial results have been put in narrative context. The ongoing accounting standards programme has been an important driver of change in financial accounting and it is likely to ensure that practice retains its dynamism. Management accounting developed strongly as the industrial revolution progressed and manufacturing concerns grew rapidly. Over recent decades, its dynamism has returned with extensive new developments in costing, performance measurement, planning and control and decision making. The professional institutionalisation of accounting has provided the organisational structure to foster and promote the dynamism that accounting has increasingly exhibited. Overall, accounting has shown a strong propensity to alter in ways that will retain and increase its value to the society in which it exists.

### ***1.7 Accounting is different.***

Not only is accounting changeable over time but at any point in time it is apparent that neither financial or management accounting is uniform in nature. Practices of both differ in ways that fit their particular circumstances (see, for example, the results of contingency and configuration theory in management accounting and the particular regulations affecting small firms and not for profit organisations in financial accounting). This further exemplifies the manner in which accounting has and is being tailored to societal needs. It is in management accounting that difference is perhaps more apparent as general regulation does not apply at all there. Different techniques from the discipline's tool-kit are used in different organisations, the same techniques can be applied with different levels of sophistication and detail, the style and manner of information use can differ, the role of the management accountant can vary from centralised "isolation" to integrated business partner and, indeed, the relative influence of the managerial user on the systems created can range greatly in strength. Accountants can, in general, be viewed as active and responsive to the needs of the situation in which they operate and the societal service that they offer is all the better for this sensitivity.

### ***1.8 Accountants can make good organisational leaders.***

In recent years, over half of the UK's top hundred companies have had a CEO with a background in accounting and finance. Why should accountants be as popular as corporate leaders? The answer is likely to lie not only in the high quality of accounting personnel (see section 9 below) but also in the breadth of high level experience which an accounting career can provide. Accountants are often trained in audit firms and observe, appraise and check all aspects of business systems in operation. When they enter practice they are usually heavily involved in a range of central business activities such as inventory control, credit control, treasury management, tax management, capital investment decisions, operational decisions, strategic decisions, financial control and performance measurement. Thus, the accountant can acquire a broad experience covering a wide variety of key business functions. It is true that they may view the firm through a financial (as opposed to say a production or marketing or human relations) lens. However, it is the financial characteristics of the business which ultimately determine organisational success or failure, continuation or cessation and consequently their specialism enhances their qualification for leadership. The varied business experience gained by accountants, therefore, provides an extensive knowledge base that can support CEO success and this has been recognised by the organisational leadership that so many accountants achieve.

### ***1.9 Most of the best accounting brains go into practice.***

I have worked in accounting academia for well over 40 years. During that time I have been lucky to teach many able and gifted students. Virtually all of them entered accounting practice in financial accounting, management accounting and auditing. It is the practice cohort of accountants (as opposed to that of academia) that contains most of the best brains that have been attracted to the discipline. The quality of people in accounting practice has, consequently,

become very high as accounting emerged as a university degree subject of great popularity with increasingly high entry requirements. However, accounting did not simply attract relevant accounting graduates. Many graduates in a diverse range of other subjects chose accounting as a career and in the early 1990s approximately one eighth of all UK graduates found employment in the accounting profession. As a result, the accounting profession now consists of a pool of well educated, highly intelligent and diversely knowledgeable people. Just the type who will ensure accounting progresses and serves well the society in which it exists.

### **1.10 Accounting has a broad applicability.**

Last but not least, accounting is for all! Different forms of accounting have a wide applicability throughout society. Individuals have their own personal accounting systems as they monitor their wealth, their financial obligations, their spending and their income. Many plan and budget both formally and informally. At the level of the household, the Victorian wife would account for her running of the household to her husband by means of her accounting for her domestic activities. Clubs and societies will have treasurers who will maintain simple accounting records to demonstrate their use of funds to members. The small business will develop its accounting as it grows and becomes more complex. Regulation of the not-for-profit sector depends heavily on accounting. The public sector has pursued private sector accounting methods as a means of improving its efficiency and governments rely on accounting to both to order their affairs and to levy the taxes that represent their revenue. In its many forms accounting lies at the very heart of societies. It has been and is an indispensable part of the fabric that enables human societies to function and progress.

## **2 Some concluding comments.**

The accounting profession deserves great credit for the often unrecognised but vitally important service that they provide to human society. Accounting is one of the basic requirements if societies are to function well economically and prosper over time. We know that forms of accounting have existed in the earliest known civilisations and accounting has had a constant presence in human societies ever since. Clearly accounting must make important contributions to society to have achieved the usefulness and durability that have characterised its existence. The ten attributes reviewed above provide supportive evidence for the salience of accounting's societal role and demonstrate, at least some of, the ways in which this has been achieved.

It is notable that among the ten good aspects of accounting there are considerable linkages which mutually reinforce and strengthen their value. For example, conservatism aids accountability and protection, accountability cannot be properly achieved without good record keeping, the high quality of accountants helps to ensure appropriate difference and development in the discipline, record keeping helps to promote order in society and dynamism helps to ensure longevity. All of this integration across many of the strengths and benefits of accounting fosters accounting as one of the essential foundations of human society.

However, accounting is a human creation and as such it must always be recognised that it is likely to have shortcomings and issues still to be properly resolved. For example, at the current time there remains much to do in dealing with inflation and measurement flexibility, overcoming accounting's motivational impacts in regard to short-termism, other dysfunctional side-effect consequences of its use remain challenging and claims of accounting's "faithful representation" of reality and the absence of a credible and operational conceptual framework. Thus, there are very significant limitations attributable to accounting and it is likely that in a changeable world accounting will continue to face important new challenges of this type.

Criticism of accounting is, therefore, in many respects merited and also valuable in the sense of generating reform and improvement. However, human learning does not simply occur through recognition of what does not work. It is also initiated and fostered by recognising strengths and what does work so that these aspects can be encouraged, fostered and further developed.

This chapter shows that accounting has many strengths and successes and more recognition is needed of them to exploit their potential to help improve the ways in which the practice of accounting serves the society in which it exists. Ray Chambers (1984) once famously described accounting as, "one of the finest inventions of the human spirit". I agree with his sentiment, which is too seldom expressed by academic accountants, and, hopefully, this chapter provides some further justification for his claim.

## **REFERENCES.**

Chambers, R. T., 1984, Accounting- "one of the finest inventions of the human spirit", Deloitte, Haskins and Sells Lecture given at The University of Edinburgh, April 14, 1983.