

2nd World Conference On Business, Economics And Management - WCBEM 2013

Accounting modeling – a multiple determination approach

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Abstract

Accounting models were and are influenced by the changes in the economic, financial, politic, juridical, social and cultural environment in which they operate. A study of this influence is necessary because the accounting modeling is a very dynamic process that greatly influences the economic environment. The objective of this research is to present the factors that determine the creation and development of accounting models, highlighting the main accounting models at this moment and their actual tendencies.

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Selection and peer review under responsibility of Organizing Committee of BEM 2013.

Keywords: Accounting model, normalization, accounting information, governance;

1. Accounting modelling process – conceptual limitation

Accounting is the key to important moments in history, and one of the most important professions in economics and business. Professor G.Giroux considered that the accounting profession participated to “the development of towns, trade and concepts of wealth and numbers. Accountants invented writing, participating in the development of money and banking, invented double entry bookkeeping, saved many investors and entrepreneurs from bankruptcy during industrial revolution, helped develop confidence in capital markets necessary for capitalism.” He also considered accounting to be the center of the revolution that transformed the entire economy. Accounting models had an important impact on economic development; this development, among other factors, influenced the accounting modeling process, and its result is reflected in standardized accounting model that wants to be accepted worldwide.

Accounting modeling is the result of changes and influences of a number of factors on accounting. An accounting model is the representation of the company given by the accounting through the balance sheet, profit and loss account, cash flow, etc. It defines the recognizing, recording, and reporting methods of financial transactions. Accounting models were and are influenced by changes occurring in the economic, financial, political, legal, social and cultural environment in which they operate. Accounting differs by its content and its methods of application

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from one country to another, being shaped by four factors: a historical record, a descriptor of current economic reality, an information system, and as a commodity. (S.Davis, K.Menon, G.Morgan, 1982)

The American Accounting Association defined accounting in 1966 as “the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information.” This is an important definition because:

- It recognizes accounting as a process concerned with capturing business events, recording their financial effect, summarizing and reporting the result of those effects, and interpreting those results;
- It is concerned with economic information: while this is predominantly financial, it also allows for non-financial information;
- Its purpose is to support ‘informed judgments and decisions’ by users: this emphasizes the usefulness of accounting information and the broad spectrum of ‘users’ of that information. (P.Collier, 2003)

Accounting serves two basic purposes: to inform outside world, such as shareholders and creditors, and also to boost financial and operational management by internal tracking of the organization. These basic functions are performed using various systems. It is very important that accounting model be structured to fit the standards and objectives of the organization and meet the users’ needs for information. (OECD, 2008)

Considered an instrument of disclosure, accounting is an economic language. Accounting transforms information or ideas in signs whose meanings is intelligible to members of a cultural group. Thus, the accounting language developed at national level is adapted to local targets: dialogue with investors, lenders or tax authorities. (N.Felega, 1999)

2. Determinant factors of accounting models

It is known that, in accordance with universally accepted conclusion, accounting is a social construct, and as such, reflects the society in which it developed. National accounting regulations are the result of various events and circumstances. Accounting history tells us that the statutory accounting requirements are often responses to financial scandals, abuses of the political, economic and social, or economic pressures. (N.Felega, 1999) Factors that influence the development of national accounting model define the diversity of accounting models in the world. Choi F., Frost C. and Meek G. (2002) identified eight possible factors with significant influence over the development of accounting: the source of finance, the legal system, taxation, political and economical ties, inflation, level of economic development, educational level and culture. The ways in which the accounting developed is useful in anticipating its direction changes. Some accounting models can be understood knowing the factors that influenced their development. Thus, the historical evolution of accounting puts a decisive stamp on existing accounting models.

Accounting model is closely related to corporate governance, depending on it, interacting, although “governance has a dominant influence on accounting.” We admit that corporate governance is a primary accounting system, controlled by shareholders in order to maximize company value. The accounting model provides us with valuation methods, and applications of accounting standards give management confidence, the presentation of results being more efficient and ensuring good corporate governance.

The accounting field has evolved in search of appropriate accounting theories from historical cost to the new generalized model of fair value. Thomas Jeanjean, in the chapter entitled "Fair value" of the "Encyclopedia of accounting, management control and auditing" states that "fair value is probably at the origin of the most passionate debates in accounting standards [...]. From a theoretical perspective, the use of fair value can noticeably improve the relevance of public financial information to investors. At the same time, its use is problematic related to the objectives of accounting".

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