Accrual accounting representations in the public sector—A case of autopoiesis

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ABSTRACT

This paper is based on a case study of an accrual accounting change endeavor at central government level in Norway. The case represents alternative accrual accounting solutions and thought. Earlier studies have discussed the (hyper) reality of accrual representations. This study contributes by examining why and in what form alternative accounting thought emerges, and what this means for accounting theory. The discussion stands out from prior studies by relying on autopoiesis as a frame of reference and centering on public sector as the empirical basis of inquiry. This enables a new way of understanding alternative accounting thought, founded on interrelated and complex organizational structures with blurred boundaries and potentially multiple identities. Such a form of autopoietic accounting is argued to represent something new, while still maintaining and representing old structures and identities. This paper illustrates e.g. how the debits represent something new and interrelations with other accounting environments, whereas the way of accounting for credits helps to preserve internal authority, capital and organizational structures. Documents and interviews constitute the empirical material.

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1. Introduction

Accruals (particularly accrual accounting) have dominated financial reporting and calculations in the private sector for many years. One important reason seems to be its assumed superiority in calculating profit measures (on the basis of subjective assessments of expenses and revenues) and predicting future profit and cash flows (see e.g. Riahi-Belkaoui, 2004). By so doing, the accounts are said to represent economic activities and position, at a given time, as well as over time. Yet, researchers have also questioned accrual representations. One example is the potential for misusing the inherent subjective assessments to manipulate the profit calculation (see e.g. Chabrak and Daidj, 2007; Macintosh, 1995; McMillan, 2004; Rezaee, 2005).

Accrual\(^1\) accounting has become more commonly applied in the public sector despite certain experienced difficulties with accruals in the private sector (as mentioned above). (OECD, 2008, p. 4) argued that:

“...the emerging consensus among OECD countries is to adopt full accrual accounting and financial reporting while continuing to budget on cash, or only to apply accruals to a limited number of transactions in the budget.”

\(^1\) For a definition, see e.g. IPSASB (2009).
This paper continues by presenting the frame of reference, and thereafter the Norwegian case. Subsequently, the empirical material is discussed, and later concluded upon. The latter also entails suggestions for further research.

2. Frame of reference

Since accounting representations is the topic of discussion, the frame of reference seeks to clarify the paper’s perspective on accounting representations. Research literature related to this topic is therefore presented in Section 2.1. It is thereafter shown (in Section 2.2) how difficulties related to constructing accounting representations can be understood as a case of autoepoiesis.²

2.1. Accounting representations

Accounting representations, or the perceived need for them, relate closely to the functions of accounting. The latter is said to necessitate accounting representations to provide (especially external) decision makers with information about the organization or entity. This reduces uncertainty relating to decision making and control, herein accountability relations (see e.g. Mellemvik et al., 1988; Oguri, 2005). As such, it is no surprise that representational faithfulness² has been regarded as a core analytical perspective on accounting standard setting (see e.g. Ruland, 1984; Shapiro, 1997). It has therefore been subjected to accounting theorizing, herein relating to conceptual frameworks, like that developed by FASB (see e.g. Hendriksen and van Breda, 1992; Robson, 1999; Wolk et al., 2004).

Macintosh and Shearer (2000) severely challenged the traditional view on representational faithfulness, namely that accounting functions as a mirror of organizational activities. Relating to Baudrillard’s work, Macintosh and Shearer (2000, pp. 612–613), relied on three concepts in their discussion; namely simulacrum, implosion and hyperreality:

“Simulacrum refers to any sign, image, model, pretence, or shadow likeness of something else. The accounting model, for example, is a simulacrum of the entity. Implosion is any situation where the distinction, difference, or boundary between two or more entities, concepts or realms disappears, melts, dissolves, or otherwise collapses. . . Hyperreality. . . refers to the condition where simulacra are no longer associated with any real referent and where signs, images and models circulate detached from any material reality.”

² Autopoiesis was also discussed by Hikaka and Prebble (2010), but primarily in relation to the (nature of) law. The focus in this paper is different, where autoepoiesis relates more to ways of organizing and accounting (herein accruals).

³ The notion of representational faithfulness has also been critically discussed in relation to the use of metaphors in accounting (Amernic and Craig, 2009; McGoun et al., 2007; Morgan, 1988; Morgan, 1997).
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