Role of Accounting in Nation Building

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INTRODUCTION

The changing environment has not only extended the boundaries of accounting but has created a problem in diversifying the scope of the subject. For the purpose of this paper we adopt the definition of American Accounting Association (AAA) that defined accounting as the process of identifying, measuring and communicating economic information to permit informed judgment and decision by the user of the information. This paper attempts to highlight certain critical issues that influence the quality of the accounting information available to decision-makers at both micro and macroeconomic levels of a nation. The issues covered include:

1. Nature of accounting information
2. Historical antecedents of Accounting and civilization
3. International accounting concerns
4. Consequences of accounting diversity
5. Benefits of harmonization in accounting
6. Forensic Accounting concepts
7. Environmental accounting concepts
8. Human Resource Accounting
9. Best Practices of Accounting

The main objective of this paper is to create awareness among Accountants (information preparers) and interest groups (information users) on various issues that relate to Accounting as a discipline. The readers will also see this paper as a clarion call to help and improve the quality of accounting information in whatever decision-making capacity they are operating.

NATURE OF ACCOUNTING INFORMATION

Accounting generates three basic types of information namely score keep/stewardship information, attention directing information and problem solving score-keeping information provided by financial accounting relates to the statutory financial statement which must be prepared in most cases on annual basis. Most stakeholders are interested in this set of information because it highlights the profit/loss for the period and the balance sheet which show the structure of organization assets and liabilities. Most accountants rigidly hold on the financial accounting because they erroneously see it as the only professional section of accounting. There is a fusion between Attention- Directing and problem solving information. While the attention-directing is mainly supplied by cost accounting, problem solving information is supplied by management accounting. Attention-directing and problem solving information relate to issue of planning, control and decision making for short and long range operations. Many operatives decision-making processes rely on such information like budgeting, variance analysis, capital investment appraisal, cost determination, contract costing and a lot of other information Accountants need to de-emphasize on the score-keeping information and pay more attention on the attention-directing and problem-solving information required for day to day decision making by management. Though score-keeping or steward accounting is a statutory requirement Accountants need to understand and short-coming of financial accounting information.

LIMITATION OF FINANCIAL ACCOUNTING

Financial accounting is a statutory body requirement. Though the nature and contents of statutory financial statements are useful, there are many limitations which mitigate against its usefulness.

The statements are published once a year and mainly at the end of the financial year. This means that an interested party must wait for twelve calendar months before receiving the information required to evaluate the management performance for the period.

The statutory requirement of Financial Statement is historical in nature (Historical Cost Accounting HCA). This means that the statements do not show any thing about the future of the organization except where analysts start to interpret the figure in forms of ratio, percentage and trends. Since monetary values are placed on items, it is impossible to reflect the value of staff, customer or competitive strength of the organization compared with others in the same industry in a set of published Financial Statement.

In Nigeria as at today, there is no standard method of taking care of inflation in our financial statements. This means that most Assets and liabilities are either over – valued or under – valued in the financial statement which is misleading to decision-makers.
Auditing which is designed to give an independent view of the financial statements is based on random sampling which means that the audit work is not detailed enough to highlight all the weaknesses in the financial statement.

Lapses of the management team cannot be highlighted in the financial report such as favouritism, marginalization, poor working capital management etc. this explains why many companies with unqualified audit reports collapse soon after huge profit figures have been reflected in their financial statements (Okoye, 2000:3).

HISTORICAL PERSPECTIVE OF ACCOUNTING

Accounting and civilization have slim boundaries in terms of history, and a separation of one from the other may not be successful without inflicting injury on the other. According to Garry (1999) “Accounting at any point in time and place can represent the level of civilization then and there”.

Edward in his work, looked at accounting history from three phases namely; the Record Keeping phase the ancient practice the Bookkeeping phase (Italian methods) and the accounting phase (the modern method) (Edward, 1960:447). In similar vein, Alexandra (2002) highlighted accounting developments in Mesopotamia, Egypt, China and Rome.

Mesopotamia (3500BC-2000BC): About 3500BC evidence of record keeping could be traced in Babylonia and Syria. As it is reported that the oldest known records of commerce were kept in the Mesopotamia, valley. Prosperous farmers from Assyrian, Chaldean- Babylonian and Syrian were reported to have triggered business and small industries giving rise to more than one banking firm in Mesopotamia, employing standard measures of gold and silver and extending credit for some transactions.

Egypt: The Egyptian accounting system was similar to those in Mesopotamia. The scribe occupy key position in the Egyptian government administration, as evidenced in the special qualification of an Egyptian’s scribe, which include skill in reading, writing, arithmetic and proficiency in wording the administrative formulas among others.

China: Accounting in ancient China was used as a means of evaluating the efficiency of government programs and the civil servants who administered them. This form of accounting is similar to performance measurement or management accounting of today. It was reported that the Chinese accounting achieved a reasonable level of sophistication during the Cho Dynasty of 1122-256 BC, and was only improved upon after the introduction of the double entry system.

Rome: Accounting historian, James Don Edward reported that record keeping and bookkeeping under the Roman Republic reached higher degree of perfection and accuracy than those of the Babylonians and Egyptians (Edward 1960:450). The accounting system in ancient Rome evolved from records traditionally kept by the heads of families, where records of household receipts and payments were kept in an “Adversarial” (day book) and monthly posting made of a “codex accepti et expensi” (cash book). The importance of this household or family records and accounts was for the purpose of submitting regular statements of assets and liabilities as required by law, which form the basis of taxation and determination of civil rights. The characteristics of the Roman Accounting innovations include an elaborate system of checks and balances for government receipts and disbursements by the ‘quaestors’ (manager of the treasury and supervisors of government book) and the use of an annual budget to coordinate and control government fiscal monetary policies.

INDIAN ACCOUNTING

As in other spheres, India was a pioneer in the field of accounting too. As Prof. Max Mueller observed, “whatever sphere of the human mind you may select for study, whether be it language, or religion, or mythology, or philosophy, whether be it laws or customs, undefined art or undefined science, everywhere where you have to go to India, whether you like it or not, because some of the most valuable & instructive materials are treasured up in India & in India only”.

Sufficient evidence to conclude that art and practice of accounting existed even in Vedic times. There are references to Kraya (Sale), Vanij (merchant), Sulka (Price) in Rigveda. Kautilya’s Arthashastra contains details on business of keeping up accounts in the office of accountants. It provides details of matters, which should be recorded, registers to be maintained, system of examination of accounts and even details of punishment for faults.

FACTOR DETERMINING ACCOUNTING DEVELOPMENT

The development and practice of accounting has been influenced a great deal by several factors which constitute the reason for diversity in the practice and reporting in accounting. Some of these factors according to Germon and Meek (2001) are External Finance, Legal System, Political and Economic ties with other countries and level of inflation as discussed below:

External Finance: The relation between a business enterprise and provider of business capital changes quit
drastically when new capital is secured in international financial markets. Then the information demands of both domestic and international sources of finance have to be satisfied, which typically means going beyond national expectations and customs in providing financial reports.

**Legal arrangement:**
The accounting system of some countries, are regulated by the national law, which may be at variance with the international accounting standard. In most code law countries, accounting principles are national law. The legal system of the country is what regulates the practice and accounting reporting format of such countries, which is mainly aimed at determining how much income tax a company owes and government. This type of accounting procedure is only favorable to the government and not other stakeholders, leading to diversities on the international accounting scene.

**POLITICAL AND ECONOMIC STRAP WITH OTHER COUNTRIES**
The political development of a country will determine the development of accounting in the country as well. Accounting technology is imported and exported just as a model based on certain distinguishing features of writers, but for the purpose of this study, accounting accounting to Gernon/meek (2001), is grouped into three models based on certain distinguishing features of accounting, with close identification of national pattern that conform to the identified features, such as Fair Presentation model, Legal Compliance model and Inflation adjusted model as discussed below:

1. **The fair presentation/full disclosure model:** This model accounting is oriented toward the decision needs of external investors. Under this model, financial statements enable investors to judge managerial performance and to predict future cash flows and profitability. Under this model, financial statement are said to represent a fair picture of the company’s financial position. This is also the approach adopted by the International Accounting Standards Committee. Nigeria, Australia, Canada, South Africa and Singapore are examples of countries under this classification.

2. **The legal compliance model:** This is also called the continental model. This type of accounting model is designed to satisfy government imposed requirements as computing income taxes or demonstrating compliance with the national government’s macroeconomic plan. The demand for public disclosure is low in legal compliance model of accounting.

3. **The Inflation –Adjusted Model:** This model is an addition to one or two of the above models, which incorporates recognition of inflation in the presentation of its financial statement. Some countries with this type of accounting model in addition to some of the features of the fair presentation model give cognizance to the level of inflation, while some in addition to the legal compliance model give recognition to inflation. Under this model, financial statements are not prepared based on historical cost. Countries also abandon inflation adjustments once inflation is tamed e.g. a recent occurrence in Argentina and Brazil.

**CONSEQUENCES OF ACCOUNTING DIVERSITY**

Due to the diversities of accounting practices and reporting on the international scene, many consequences are inherent, which may be of adverse effect to the users of accounting reports and the credibility of the financial statements across the nation. According to Ezejelue(2001) the problems created by the divergence in accounting standards, particularly in furthering global integration of world economies, are so enormous that the pressure for global accounting harmonization is mounting”. Financial statements of companies from different countries are not comparable, which may inherently delay decision making.
at various levels. Some of the consequences on the following are as stated below:

1. **Corporate Management**: Managers of multinational companies, make use of financial reports from various countries across the globe, which makes it difficult for them to compare growth and make prompt decisions, because of the diversities of accounting standard and regulatory bodies on the international scene.

2. **Investors**: Investors face a lot of challenges, trying to make effective decision, using financial statements from different companies in different countries of the world, due to the fact that financial statements cannot be compared across countries. According to Gernon & Meek (2001) if investors, analysts, and underwriters experience difficulties with GAAP diversify, financial markets are not as efficient as they could be and therefore returns to investors are less than the ought to be. This is powerful indictment of GAAP diversity.

### STOCKS MARKETS AND REGULATORS

The stock market does two things, which include the protection of investors against risk and market quality. For these two objectives to be achieved there is need for accurate and correct disclosure of information from the listed companies, so that judgment can be drawn from the available information. Therefore if the information available is not consistent and sufficient, then these twin objective cannot be achieved, which will be to the detriment of the stock market and regulators.

Harmonization and Standardization are closely related but different. In the words of Deegan (2004:192), “harmonization does not mean absolute standardization”. Harmonization as defined above relates to the agreement of things, standardization on the other hand ‘implies making something to confirm to a fixed standard (Ezejelue 2004:320). It is a process that attempts to make accounting standards released by different countries as similar as possible (Deegan 2004:192). It can therefore be inferred that standardization facilities harmonization.

The reported divergence in national accounting policies are so enormous that they could constitute a cog in the wheel of further advancement in bilateral, regional and global trade liberation, investments, and financial and capital flows, as well as in strengthening multilateral systems to foster deeper economic integration among the world’s economies.

### BENEFITS OF HARMONIZATION

Specifically, international accounting harmonization will bring about the following benefits:

1. Increase financial and capital flows with lower cost of capital.
2. Enhanced internationalization and integration, though diversification of Global businesses.
3. Reconciliation of financial statements of multinational companies (MNCs) will be easy due to ‘standardization’ and or ‘harmonization’.
4. Cross-border analysis of financial information will be an easy task due to the agreeability and comparability of financial statements, hence increased cross border investment.
5. The tendency to reduce operational cost of MNCs competition among the accounting and auditing firms (Ezejelue, 2004:327).

### Other benefits of international accounting and auditing standards are listed below:

1. Greater international comparability of financial reports.
2. A more level playing field, engendering cross-border mergers and acquisition, as well as cross-border capital flows.
3. Improved global business competition.
4. Assistance to developing countries.
5. Reduce bookkeeping cost and allow more efficient preparation of financial statements.
6. Reconciliation of advertisement between the present and users of financial statements.
7. More efficient analyses and use of financial statement and hence increase the credibility of the entire financial reporting system.

### FORENSIC ACCOUNTING

Forensic means suitable for use in a court of law and it is to that standard and potential outcome that forensic accountants have to work. Forensic accounting is the practice of utilizing accounting, auditing and investigative skills to assist in legal matters. Forensic accounting is the specialty practice area of accountancy that describes engagements that result from actual or anticipated disputes or litigation. Forensic accounting is the application of accounting principles, theories, and disciplines to facts or hypotheses at issue in a legal dispute, and encompasses every branch of accounting knowledge. Forensic accounting encompasses all accounting and financial analyses performed for assisting counsel in connection with investigation, assessment and proof of issues in a dispute resolution proceeding. All this involves skilful gathering and reconstructing financial evidence and solving problems with the context of the rules of evidence and the legal system. An important aspect of forensic accounting is the ability to respond immediately and to communicate financial information clearly and concisely in the courtroom. A forensic accountant must be open to examining all alternatives, scrutinizing the fine details and at the same time seeing the big picture. The forensic
accountant is a bloodhound of bookkeeping. These bloodhounds inhale fraud and criminal transactions in banks, corporate, and from other organizations. They hound for the conclusive evidences. External auditor find out the premeditated misstatement only but the forensic accountants find out the misstatement intentionally.

FORENSIC ACCOUNTING IN INDIA

The unique feature of forensic accounting is that it combines accounting with investigation. The auditor is a watchdog by its nature but the forensic accountant is bloodhound by its character that attempts to inhale fraudulent transactions from the financial record of banks, corporate and other organization. Centuries ago Kautilya the great economist distinguished the need of forensic accounting and accountant. About forty types of embezzlements had been already pointed out by him. The need of forensic accounting is growing rapidly in India. It is at the beginning and emerging point now days. Recently Reserve bank of India has made forensic accounting and auditing compulsory in banking sectors in India. In India the demand of forensic accounting is amplifying in an extraordinarily speed. After the Satyam and Sahara kind of fraud forensic auditors are much in demand. Now the companies want to know the symptoms of any type of upcoming fraud at the initial stage. Hence, forensic accounting and auditing is a pin-pointing requirement in the financial system of India.

FRAUD AUDITING, FORENSIC ACCOUNTING AND FINANCIAL AUDITING

In the glossary of accounting, terms such as fraud auditing, forensic accounting, investigative accounting, litigation support and valuation analysis are not clearly defined by today’s usage, the broadest term is litigation support, which incorporates the other four terms. But traditional accountants still feel some distinction apply between fraud auditing and forensic accounting. Fraud accounting, they say, involves a proactive approach and methodology to discern fraud; that is, one audits for evidence of fraud. The purpose is to detect fraud. Forensic accountants, on the other hand, are called in after evidence or suspicion of fraud has surfaced through an allegation, complaint, or discovery.

Financial auditing generally is not intended to search for fraud but to attests that financial statements are presented fairly. Movements are afoot to compel financial auditors to design their audits in such a way that fraud can be discerned and criminal acts can be discovered. But at this writing no law has been passed to that effect, nor have professional societies included those obligations as a matter of professional diligence (Jach Bologna & Robert Lindquist 1995:5).

HUMAN RESOURCE ACCOUNTING (HRA)

HRA can be defined as the measured quantification of human organizational inputs such as recruiting, training, experience and commitments and as the measurement and reporting of the cost and value of people as organizational resources. Human resource accounting can provide useful information about human resource cost for corporate financial reporting. It treats investment in human resource as an asset. Human resource accounting involves accounting for economic value of people to an organization.

The objective of HRA is not just the recognition of the value of all resources used or contributed by the firm, but it also includes the improvement of the management of human resources so that the quantity and quality of goods and services are increased. The basic objective underlying HRA is to facilitate the effective and efficient management of human resources.

Reason for growth of the idea of Human Resource Accounting:

1. It is recognized that services of the people are very important for organization.
2. People join organization after qualifying different types of professional examinations. Thus they bring to the organization a set of knowledge skills and experiences that constitute a form of capital. Hence, keeping record of these valuable corporate assets is very important.
3. Training and development expenses for the corporate employees are now treated as the expenditure of organization. Recognizing these expenditures as investment for future benefits gives ultimate cost effective impacts on the organization.

Significance of HRA:

Though HRA is primarily to be used as a managerial tool, it has significant uses for present and potential investors and other users of financial statements. HRA is used for both internal and external purposes.

Internal purposes: HRA facilitates decision making processes in the following areas:

1. Direct recruitment promotion
2. Transfer retention
3. Retrenchment retention
4. Decision on relocating plants, losing down existing units, developing overseas subsidiaries
External Purposes:
1. It helps potential investors on making long-term decisions to invest or not.
2. It provides a more realistic view of the rate of return of human resources employed.
3. It helps to look into the problem of training costs and benefits, and turnover.

Important factor in developing HRA in an organization
1. Before introducing HRA in an organization, the organizational climate must support the introduction.
2. Senior management must have strong support of the HRA philosophy. The organization must be prepared to make a substantial commitment of time and effort to develop the HRA.
3. There must be staff who are interested and knowledgeable in HRA or who are willing to learn it.

Why is HRA receiving attention in recent time?
1. The cognition of Human Resources as an asset.
2. The recognition that effectiveness of the assets rely on HRA.
3. It constitutes over 50% of the total assets of any organization.

MEASUREMENT OF HUMAN RESOURCES AND THEIR APPRAISAL

HRA focuses on two issues namely:
1. How human resources asset should be valued e.g. should historical cost or replacement value or present value be used?
2. The implication of capitalized human resources e.g. should it be amortized? What are the tax implications on human resource amortization? What are the implications of HRA on internal and external auditing, once they are recorded?

Socio-economic accounting aims at measurement and reporting “the impact of exchanges between a firm and its social environment”. The objective of socio-economic accounting is “to internalize the social cost and benefits to determine a more relevant and exhaustive result that represents the socioeconomic profit of a firm” (Porwal 2001).

Measurement and reporting of the social performance of profit-oriented firms forms the core of “Corporate Social Performance” (CSP). The American National Association of Accountants (NAA) committee on Accounting for Corporate Social Performance identified four major areas of social performance:
1. Community development: This includes socially oriented activities that are primarily of benefit to the general public, e.g. general corporate philanthropy, housing construction, financing of health services and volunteer activities among employees, food programs, and community planning and improvement.
2. Human Resources: This includes social performance directed towards the wellbeing of employees, e.g. improvement of employment practices, training programs, working conditions, promotion policies and provision of job enrichment schemes and employee benefits.
3. Physical Resources and Environment Contributions: Activities directed towards alleviating or preventing environmental deterioration (pollution), e.g. air, water, noise pollution, conservation of scarce resources, and the disposal of solid waste are included in this area.
4. Product or Service Contribution: This area includes consumerism, product quality, packaging, advertising, warranty provision and product safety.

SOCIAL ACCOUNTING AND SOCIAL AUDITING

The NAA Committee defined Social Accounting as “the identification, measurement, monitoring and reporting of the social and economic effects of an institution on society. It is intended for both internal managerial and external accountability purposes, and is an outgrowth of changing values that have led society to redefine its notion of a corporation’s social responsibility.

The accountant would do well to recognize that cost of operating a business is sometime more than what is being disclosed in public accounts, e.g. pollution of environment (noise, water, and air), spread of diseases, dislocation of inhabitants of a locality, local housing and transport problems, closure of cottage industries, social tensions and several other social evils. This is on the liability side. What it does: providing roads, schools and colleges,
Accounting information provides a channel for national and international economic development. Though accounting as a professional is technical, there is the need for every citizen to have an idea of the financial statements to help him/her to make an informed judgment on whether the people entrusted with national or industrial assets are making judicious use of them. Accountants on their own side should understand the high esteem that the public places on them and should strive to improve on their technical competence to justify the confidence reposed on the profession. Knowledge, ethics, honesty, fairness, accountability and sincerity are all integral parts of the public expectation of every accountant which in turn determine the quality of accounting information generated for informed decision-making of political and captains of industries.

Accounting information reflects historic, present and futuristic aspects of nation building. To ensure that accounting information is reliable, the following steps need to be embraced:

1. In this era where nations are bedeviled with corruption, the need for strengthening forensic accounting is imperative so that appropriate sanctions are meted on the culprits.
2. The militancy of trade unions and general dissatisfaction expressed by workers has highlighted the urgent need for Human Resources Accounting as an integral part of financial statement. Human Resources have been recognized as the most vital asset of any organization.
3. The current trend towards regional integration and globalization are very strong signals that every accountant must as matter of urgency understand the technicalities associate with Internal Accounting.
4. Authorities behind the guidelines for preparation of financial statements e.g. IASB, Professional Accounting Bodies, NSE, CAMA etc should sit-up to ensure compliance to the standards and guidelines.
5. Accounting Research is an inevitable element in improving the quality of accounting information generated for national economic development. Graduates and professionals accountants should embrace research in any area of their choice with a view of enriching the information content of financial statements.
6. The current crisis in some areas of our nation arose because no attention was paid to environmental issues over the years. Environmental Accounting standard need to be put in place and meticulously enforced to appease the affected communities in particular and the nation at large.

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