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Impact of Social Change Agents on Accounting Development: A Critical Review

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Abstract: The quality of accounting is dependent on its environment. Accounting principles, procedures and practices are consensus issues rather than laws fashioned according to environmental needs to ensure relevance and usefulness of the information produced for decision making. Accounting, therefore, is an evolutionary process of changing social and economic trends. This paper examines the impact of social change agents on accounting development. The paper is a library research thus content analysis was adopted. A critical review of available literature revealed, among others, that social changes had impacted greatly on accounting development, and as rightly observed by Gluatier and Underdown (1986), social changes that will arise in the future will still have much influence to exert as to what accounting will be. It was concluded that the force of social change has greatly shaped what today constitute accounting principles, procedures and practices; greatly altered and expanded the objective and scope of accounting and significantly impinged the content and presentation of financial statements and the attitude and conduct of accounting professionals in discharging their accounting tasks. Based on the findings, the paper calls on accounting standards setting bodies, accounting professional bodies and accountants in general, at the international and local levels, to be more aware of the changing nature of accounting in the light of social changes, and hence respond appropriately so that accounting may better serve the needs of users and the society in general.

Key words: social change; accounting; accounting standards; accounting development
JEL code: M41

1. Introduction

The quality of accounting is dependent on its environment. This is because its principles and procedures adopted in the preparation of financial statements which avail various users with relevant information for decision making necessarily need to reflect the needs of the users. Since the information needs of users change with time as a result of changes in socio-economic conditions, accounting principles and practices also need to assume new dimensions to really serve its users. This assertion concurs with Sawani (2006) who maintains that accounting provides useful information to decision makers, therefore as the business environment has changed, so has the

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accounting standards that govern the presentation and disclosure of information.

Social change which could be opined as a major change in a society or culture that has lasting effects on that culture brings about alteration and new development of accounting principles and procedures. In fact, some of the principles may not only be altered but become less relevant or completely irrelevant. The threat on historical cost accounting methods due to the phenomena of inflation evidenced by the serious criticism that had befallen it is illustrative here.

Glautier and Underdown (1986) posit that the history of accounting reflects the evolutionary pattern of social developments. They argue that accounting principles and practices does not rest on universal truths or general laws but that they are rooted in the societal value system which they operate and are socially determined. Accounting is in this regard held as a product of its environment. According to Anao (1998), the force of change is an abiding characteristic of man’s dynamic environment thus accounting necessarily has to yield to social changes. Dandago (1998) observed accounting as haven passed and as still passing through various stages of development the world over. This development is propelled by social as well as economic changes. In Nigeria, accounting legislations such as the Banks and Other Financial Institutions Act (BOFIA), Companies and Allied Matters Act (CAMA), among others are stated by Muhammad (2009a) as being enacted to regulate accounting practice due to changing circumstances.

From the foregoing, there is little disputing the fact that accounting as it is known today is similar but quite distinct from what it was in the early times of its history. The objective and scope must have undergone refinement due to changes in the society. In essence, changes in the society have created greater demand on accounting as a financial information system. This has therefore influenced changes in the principles and procedures that underscore the performance of the accounting function.

This paper theoretically examines the impact of social change agents on accounting development globally, and specifically in the context of Nigeria. Ten social change agents classified into: the invention of money, the invention of Arabic numerals, the Italian Renaissance, the industrial Revolution, the Growth of Corporations, the stock market crash of 1929 and Great Depression of 1930s, the advent of the computer, inflation, globalization, and the accounting standards setting bodies and their impacts on accounting development are examined. The paper is structured into four main sections. Following this introduction is methodology. Section three is literature review consisting of conceptual clarifications, accounting and its environment, influence of social changes on accounting development, challenges imposed on accounting by social changes; while section four carries conclusion and recommendations.

2. Methodology

This study is a library research. Secondary sources, such as articles published in journals, textbooks, and materials posted on the internet, were utilized. Evidence of events documented in these literatures was critically examined to enable the paper form an opinion on how social change impact accounting development.

3. Review of Literature

3.1 Conceptual Clarifications

Accounting has been widely defined. However, two definitions of accounting are reviewed by this paper. These are the definitions put forward by the American Institute of Certified Public Accountants (ACIPA) committee on Accounting Terminology in its Accounting Terminology Bulletin No.1 released in 1961 and that by the American Accounting Association (AAA) in 1966. Emphasis is laid on these definitions because they are the most accepted and widely used in the accounting literature. According to the ACIPA cited in Nwaeke (2005, p. 2), accounting is "the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof". The AAA more broadly construed accounting as "the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information" (Glautier and Underdown, 1986, p. 3).

It could be inferred from the considered definitions that accounting is a process involving financial information production to support decision making. Catlett (1962, p. 381) stated the purpose of accounting, and financial statements in particular as "to fairly reflect all material and significant facts in the light of current economic and social conditions in such a manner that these facts are most useful, meaningful and fair to the affected segments of our society … for the purpose of exercising judgment and making decisions". This view of the purpose of accounting suggests the fact that accounting is shaped by economic and social changes.

Kornblum and Smith (2000) in Muhammad (2009a) opined social change as changes in the ecological ordering of population and communities, in pattern of roles and social interactions, in structures and functioning of institutions and in the cultures of societies that occur over time. Social change has also been viewed as any significant alterations overtime in behavioral patterns and cultural values and norms. By significant alteration, it means changes yielding profound social consequences. According to Solomons (1991), the improvement in the position of women (feminist movement), disappearance of colonialism could be seen as social change. It should be noted from the foregoing that a social change event is dramatic and occurs at a magnitude, altering significantly the society in certain respects. Events such as the invention of money, the invention of Arabic numerals, the Italian Renaissance, the industrial Revolution, the Growth of Corporations, the stock market crash of 1929 and Great Depression of 1930s, the advent of the computer, inflation, globalization, and the accounting standards setting bodies are considered social change agents within the realm of accounting by this paper that have occurred in our society at one time and another. These are termed social agents because they all in one way or another emerge out of advancement in the society that had gone to shaped accounting in no small measure to better serve its needs in terms of provision of comprehensive, adequate, useful, qualitative, and quantitative, financial information for decision making about the business.

3.2 Accounting and Its Environment

Accounting principles, procedures and standards are evolution of environmental factors. Anao (1998) contend accounting as a client-driven, service-oriented profession which has to follow the direction pointed out to it by the client-users. This means that accounting must necessarily respond to environmental forces at play which themselves determine the needs of users. Okoye and Iyoha (2005) argued that accounting both as a measurement and reporting system is influenced by the socio-economic and political system it serves. Muhammad (2009a) submitted that developments in accounting are in response to environmental and social changes of the time. Muhammad (2009a) further states that as a social service, accounting practices and methods would remain inseparable from events in the environment. The dynamism in the socio-economic environment within which accounting operates therefore is maintained not only as necessitating but as a significant change inducer of accounting principles, practices and procedures. These assertions show that accounting like any other discipline has an environment and changes in the environment influences it.

The changing nature of accounting as a respond to its changing environment is enunciated by Gluatier and Underdown (1986, p. 3) as follows: "accounting is in an age of rapid transition; its environment has undergone vast changes in the last two decades and an accelerating rate of change is in prospect for the future. Much of what is accepted as accounting today would not have been recognized as such fifty years ago, … in fifty years time the subject will bear little resemblances to what it is today". The specific forces of change that may bear on accounting in the years ahead were pre-empted by Okoye and Iyoha (2005) to include evolving corporate structures, change in business practices, development of new financial instruments and technology, amendments in business laws and regulations, and greater public scrutiny of government and management decisions.

However, the broad environmental factors identified to influence accounting are political, legal, economic, cultural and social factors (M. Com, 2004; Okoye and Iyoha, 2005; Kantudu, 2009). The political factor has to do with whether the political system is an autocratic or democratic as well as the degree of stability of the polity. While Okoye and Iyoha (2005) contends the political structure of a country as having a serious influence on a country's accounting practice and financial reporting, Guvemli and Guvemli (2010) found it as been the most influential factor of accounting development in the Iihans and Ottoman states where their study was based. The legal factor relates to the context within which accounting regulations are development. Accounting regulation might come solely from the government (public sector) or private sector or from both. Economic factor basically rest in the level of development of the economy or volume of economic activities. Lawrence (1996) in Okoye and Iyoha (2005) writing on the cultural factor maintain that people's personal beliefs, aspirations and motivations will influence their demand for financial information; therefore shape the accounting practices adopted in preparing the information.

It is clear from the above that several environmental factors work to shape accounting hence accounting is a product of its environment. It may be in realization of the dynamism of accounting imposed by its environment that Muhmmad (2009a) recommended its principles and concepts should be evolved to take cognizance of the peculiarities of different environments and changes. This recommendation has a fundamental implication which is the fact that developing global accounting practices [including the current International Financial Reporting Standards (IFRS) to which many countries are converging to] is acceptable but could be defective for those countries that will adopt it "hook and line" since they may not adequately reflect environmental differences and social changes. Hence, refinement of all international standards to local situation remains crucial for accounting practices in every nation to adequately serve the needs of users.

3.3 Influence of Social Changes on Accounting Development

This section of the paper examines some notable social changes that have occurred in history and how they had impacted the development of accounting. As stated earlier, ten social changes events are considered.

3.3.1 The Invention of Money

The evolution of money has a long history. Prior to the invention of money, market exchanges were conducted on barter basis; the exchange of goods for goods. Sievert (2008) traced the use of barter-like methods to at least 100,000 years ago. In order to eliminate the barriers associated with the barter method in terms of accurate measurement for market exchanges varying objects had been used as medium for exchange. Objects such as the red ochre, shell or ivory jewellery, cowries, pieces of copper, bronze, silver and barley or shekel had been used as money at one time and another in different parts of the world.

It should be noted that record keeping predates the invention of money but financial accounting as a reporting system was facilitated by the invention of money. There is documentary evidence that pots had been used for purposes of storing agricultural goods. The use of pottery for the store of value first marked the origin of saving accounts (Sievert, 2008). Clay tokens were later used by the Mesopotamians for counting agricultural and manufactured goods. According to Sievert (2008), the clay tokens in various forms and shapes were used as counters (record keeping). The counters represented pictographic thereby depicting concrete objects. Clay tokens were later simplified with scratches or strokes (marks).

The origin of money as a means of exchange is traced to the Chinese who used coined money some two thousand years before it appeared in Europe (M. Com, 2004). However, the coinage of money having a uniform value suitable for use as a medium of exchange is traced to have first occurred in Europe in the seventh century BC. With the influence of money as early as 2000 BC, sophisticated forms of government accounting including both historical accounting and budgetary control together with audit function performed by a high and independent public official began in China (M. Com, 2004).

According to the Wikipedia (2010), bartering was used by merchants during the middle ages. In the thirteenth century, when the medieval Europe moved to a monetary economy, sedentary merchants then depended on bookkeeping to oversee multiple simultaneous transactions financed by banks loans. An important breakthrough of the time made possible by money was the introduction of double-entry bookkeeping. Though Salisu (2011) states accounting practice to predate the concept of money, this may only be the ordinary record keeping aspect and certainly not as financial reporting system. The invention of money has had tremendous impact on accounting especially in the expression of business activities in a single unit for recording and financial reporting purposes. In fact, Salisu (2011) also reasoned that factors like illiteracy and the lack of money could had been responsible for ancient Egyptian accounting non-progress beyond simple list-making in its thousands of years of existence.

M.Com (2004) therefore vehemently argued that the force which gave impetus for the development of modern accounting is the introduction of money as a means of exchange. Glautier and Underdown (1986) attributes the circulation of money and it used as a common standard of measurement to the sixth century BC. By and large, the invention of money underscores the evolution of the concept of “money measurement” as an accounting principle. Money has proven the most convenient standard measure of all business transaction. It is now purely a matter of principle to exclude any business transaction that does not lend itself to quantification in money in accounting records and reports.

Though the invention of money agreeable provided a basis for convenient expression and recording of business transactions, there are pertinent problems concerning its role in accounting measurement. For example; with the phenomenon of inflation, the stable and constant value of money principles are not tenable. If this is the case, accounting reports does not possess any predictive quality hence relevance particularly to the investor and creditor groups whose decision concerns more on the future than the business past. More so; with the exclusion of transactions that are not quantifiable in monetary terms from financial reports, but which in fact impacts the business, the reports are no less than a true and faire reflection of affairs hence relevance in decision making.

3.3.2 The Invention of Arabic Numerals

Prior to the invention of the Arabic numerals, tokens and clay ball (bollae) was used by the Italian merchants around 300 BC to keep record of goods shipped. The tokens numbering in hundreds were shaped differently to represent varying items shipped (Christine, 2008). This form of record keeping was not very convenient especially when trade activities increased. Hendriksen and Van Breda (2001) stated the Arabic numerals to originate from the Arabs. Arabic scholars and some Europeans who lived among the Arabs are noted to have spread the Arabic system of numerals to Europe.

According to Christine (2008), the Italians borrowed from the Arabic numbers and the Arabic basis of math that existed at the time to develop their own detailed accounting system. M. Com (2004) maintains that the adoption of Arabic numerals by the Italians instead of the Roman numerals is what had propelled the expansion of the concept underlying accounting today. Muhammad (2009a) had argue the emergence of the Arabic system of numerals as significantly shaping accounting practice on the fact that it permitted the expression and recording of accounting items in figures and numbers. Indeed, the invention of numerals by the Arabs made it possible for business transactions to be reduced into numbers for the purpose of recording in accounts.

Specifically, the Arabic numerals possess some characteristics that rapidly contributed to accounting development than would have done the Roman numeral system. The Roman numerals stop at one thousand, above which the combination presents difficulty in terms of understanding. In the same vein, the Roman numerals has no absolute zero “0” value which further aggravate the combination of numbers. Furthermore, the Arabic numerals have a decimal point (place value) which the Roman numerals lack. The features of an absolute zero and place value possess by the Arabic numerals makes possible the expression of business transactions more accurately, precise representation of numerals and performing mathematical operations in accounting. Sukoharsono (1998) vehemently argued that the use of zero standing for nothing and for the symbol of tens, hundreds etc facilitated calculation of complex sums in accounting amounts. There is no gain emphasizing that accounting as the language of business must in every respect be capable of quantifying transactions accurately and in a manner that is easily understandable to its wide users.

3.3.3 The Italian Renaissance

The Italian renaissance which stretched the period thirteenth to fifteenth centuries have had tremendous impact on accounting development. Modern accounting has its origin in the Italian Renaissance (Zan, 1994). When trade by Italian merchants increased, a need arose for proper record keeping for effective delivery and sales of goods as well as monitoring business progress. Borrowing from the Arabic numerals and Arabic basis of math at the time, the Italian developed their own detail accounting system (Christine, 2008). Perhaps, this was the invention of the “Italian Method” which metamorphosed into the present day double-entry bookkeeping. The work of Luca Pacioli a Turkish Monk and mathematician who specialized in algebra published in 1494 entitled “Summa de Arithmetica, Geometrica, Proportioni et Proportionalita” translated “Everything about Arithemetic, Geometry and Proportions” in which a section was devoted to double-entry bookkeeping brought a new dimension that anchor modern accounting.

Italian accounting historians like Zan (1994) argue that Luca Pacioli should rather be seen as the first successful publicist of the double-entry method than regarded as “father”. This argument is based on the fact that the Italian method in use prior to Pacioli work reflected the double-entry technique. Salisu (2011), Buckstein (n.d), De Santis (2007), Guvemli and Guvemli (2010) and Glautier and Underdown (1986) all have agreed with the fact that the double-entry was in use by the Italian before Pacioli’s work. Maughan (2011) and Glautier and Underdown (1986) however maintain Pacioli’s 1494 work gave impetus into modern accounting, if not for anything, but the fact that it was well documented and explained. It was during the Italian Renaissance that accounting terminologies like “debit” and “credit” evolved. Pacioli’s work particularly gave a sense to terms such as debit, credit, assets, liabilities, income, expenses, balancing of account and trial balance in the context they are applied in modern day accounting.

Tracing the contribution of the Italian to accounting development, Zan (1994) describes the period 1491 to 1586 as the double-entry handbook diffusion state and the period 1586 to 1696 as the development and enlargement of double-entry literature. While the former period (1491-1586) focused on the art of bookkeeping, terminologies, record keeping process and account balancing of the mercantile organizations only, the later period (1586-1696) saw a move to the preparation of financial statements. The period's sixteenth and seventeenth centuries according to Zan (1994) were periods of accounting literature without theory (i.e., logical explanation) of the mechanics of double-entry book keeping. This dearth period as noted extended into the first forty years of the eighteenth century. Despite the little contribution made by Italians to accounting development from the second-half of the seventeenth to the beginning of the nineteenth century, Zan (1994) maintain accounting thought did underwent some interesting and important development in that period.

In essence, the major influence of the Italian Renaissance on accounting development was the evolution of the double-entry bookkeeping. As rightly observed by Christine (2008), the practice of double-entry bookkeeping was so accurate and useful that it survived the test of time and became the standard of accounting today.

3.3.4 The Industrial Revolution

The industrial revolution, 1750 to 1830 (Buckstein, n.d) also greatly influenced the development of accounting. This period saw the growth of large-scale production enterprises. It was a period in Great Britain when subsistence agriculture was transcend with industry accompanied by replacement of manual production methods with mechanical methods, skilled labor, specialization and division of labor. With the growth of large production companies, a need for larger capital arose, leading to increase in the number of financial institutions (banks).

The industrial revolution posed managerial challenges. As documented by Muhammad (2009b), the industrial revolution brought about massive production. This arouse a need for detail information for management of companies to accurately ascertain production costs, guide inventory valuation, price finished goods as well as better control cost. The lengthening of production time period particularly had effects that contributed to shape accounting. This necessitated the evolving of appropriate costing techniques for costing of work-in-progress (WIP), finished goods, and raw materials. The efforts to address these managerial challenges and equip management of companies adequately to discharge their responsibilities efficiently led to the birth of management and cost accounting. The mechanization of production processes also means extensive utilization of fixed assets by companies. The increased use of fixed assets exerted a similar increase in production cost. To fairly determine periodic operating activity and provide for the replacement of fixed assets, depreciation accounting became necessary.

It is instructive from the above that the industrial revolution impacted on accounting particularly in the development of management accounting. As noted by Glautier and Underdown (1986), the development of management accounting which is concern with decision affecting the future, was an indication of the ability and capacity of accounting to develop and meet changing socio-economic needs.

3.3.5 The Growth of Corporations

The growth of large corporations was a product of the industrial revolution. However, events that followed the rise of these corporations impacted accounting in no small measure that warrants its consideration as a distinct social change. Moreover, it was not only in Europe where industrial revolution had its roots that large corporations grew.

The growth of large-scale businesses that emerged during the industrial revolution in Europe created on the one hand need for large capital and on the other more expert management team. According to Glautier and Underdown (1986), the need for large capital altered the method by which businesses were financed. This saw the advent of Joint Stock Companies. Similarly, the growth of large corporations like railroad and manufacturing companies in the United States between 1900 and 1929 had the same demand. Capital markets then developed in response of the demand to meet the huge capital needs of the companies. This then led to yet another important development in accounting history; the rise of investors. With capital markets, investors could take up stockholding in these corporations by subscribing to their shares. Upon the rise of investors, the objective of accounting been provision of information to only owners shifted to that of providing information to assist investors make sound decisions about the companies they invested in. The doctrine of stewardship was then intensified as the need to provide information to appropriately guide investors increased. This greater demand for disclosure marked the separation of management accounting from financial accounting reporting. Put differently, it led to the birth of financial accounting reporting externally.

In Great Britain, the need for investor's protection led to the enactment of the Joint stock Companies Act 1844 and later the Limited Liability Act 1855. The Acts made information disclosure mandatory in the form of annual profit and loss account and balance sheet. More formal practices and regulations as well as professional standards began to be evolved. Particularly of note here was the statutory audit of financial statements of companies by an independent accounting professional to certify that the statements show a true and fair view of the company affairs so as to give more credence to the statements. This development was not only to serve investors (shareholders) but other parties like creditors, government among others who also had varying interests in the companies.

Another development relating to the growth of corporations that contributed in shaping accounting was the introduction of income tax on companies by the government to compensate for the effects their operations had on the environment. With the introduction of income tax, more emphasis was placed on income measurement. The development of standards for determining income taxes became a considerable thing for financial statements preparation to assist proper tax collection. In Nigeria there are varying tax status including Company Income Tax Act, Petroleum Profit Tax Act, Personal Income Tax Act, Value Added Tax Act, Capital Gains Tax Act etc governing the taxation of different incomes and expenditures. It could be said therefore that the growth of corporations had remarkable impact on accounting development in the areas of financial accounting reporting and taxation.

3.3.6 The Stock Market Crash of 1929 and Great Depression of the 1930s

Buckstein (n.d) explain the 1930s Great Depression as an aftermath of the 1929 stock market crash which was induced by rampant speculation in stocks. Securities were said to be bought on credit without recourse to the real underlying value of the stock. Malkiel (1985) as cited in Muhammad (2009a) put the lost suffered by stockholders resulting from the stock market crash at not less than $15 billion. According to Giroux (1999) the 1929 crash and subsequent Great Depression revealed problems with capital markets, business practices and considerable deficiencies in accounting practices.

Upon the stock market crash, shareholders investors began to question the adequacy of accounting and reporting practices in assessing investments. Accounting practices were suspicious of been responsible for poor investment decisions. The widely diversified accounting practices upon which companies were preparing their financial statements was seen then as a factor that mislead existing and prospective investor's investment decisions. Uniformity in financial reporting were lacking in areas like depreciation during the period. The wide spread dissatisfaction with accounting reports saw serious efforts made by the government, the New York Stock Exchange (NYSE) and accounting profession in the United States to improve accounting (Kieso and Weygandt, 1995). These efforts resulted to the adoption of a set of accounting concepts, standards, and procedures which is now regarded as Generally Accepted Accounting Principles (GAAPs).

Specifically, the American Institute of Certified Public Accountants (AICPA) established in 1887 constituted a special committee known as the Committee on Accounting Procedure (CAP) in 1930 with the responsibility to work in conjunction with the NYSE on matters of common interest to investors, accountants, and the exchanges. In the period 1939 to 1959, the CAP issued a total of fifty-one Accounting Research Bulletins. The committee (CAP) was dissolved in 1959 and the Accounting Principles Board (APB) established in the same year charge with more specific task on development of accounting theory (standards). In 1973, the APB was replaced by the Financial Accounting Standards Board (FASB) which is in existence till date.

Other efforts in the US to correct past market excesses and failures of the stock market crash were the promulgation of the Securities Act in 1933 and the Securities Exchange Commission (SEC) Act in 1934. The SEC particularly was conferred with powers to prescribe the form and content of financial information that were filed with it. According to Buckstein (n.d), these Acts informed market regulation and required public companies to a “full and fair” disclosure of financial information before making a stock offering. Whereas, listed companies on the NYSE were hitherto independently audited, the securities Act made independent audits mandatory for all companies wishing to raise money on the capital markets. Similarly, it was due to the crash that regulation such as the Glass Steagas Act was passed in 1933. This Act separated banking from investment banking. There was therefore Banking Act and Insurance Act. The insurance Act regulated the Federal Deposit Corporation which was established to provide insurance for bank deposits.

As argued by Giroux (1999), the highly regulation of accounting as witness today stemmed directly from response to the perceived markets and accounting abuses of the 1929 stock market crash and the Great Depression. It is also been a factor that leads to increased demand for auditing services (Wolk, Tearney and Dodd, 2001). The anomalies is what actually fronted the promulgation of government status, establishment of accounting bodies to improve the quality of financial reporting and regulate the conduct of professional accountants (auditors) who express opinion on financial statements.

It is worth noting that while credit must be given to the fact that the Italian and particularly Pacioli’s work gave the first impetus to recording transactions in chronological order as the occurred thereby doing away with the use of tokens and clay tablets and clearly gave meaning aiding understanding of modern basic accounting terminologies; the industrial revolution, growth of corporation and the stock market crash and great depression also pave way to accounting development. However, no efforts were made by contributors including individuals and professional accounting bodies and institutions to explain these ideas with explicitly sound theory. The primitive accounting found in the medieval periods and the challenges encompassed in the criticism of accounting to appropriately guide decisions exhibited in the stock market crash and great depression provided avenue for which sound theories would had probably been developed for the profession. Unfortunately, efforts were geared at simply overcoming the deficiencies of accounting at the time, without theoretical framework explored beyond principles and conventions. There is little doubt that it is when there is system failure or a system is faced with challenges that appropriate theories and alternatives are best evolved to explain the situation. This short coming might probably be seen as a factor apart from environmental differences and changing times that accounts for the poor theoretical framework in accounting today.

3.3.7 The Advent of the Computer

The invention of the computer also has had tremendous impact on accounting development. Maughan (2011) posits that not until the invention of the computer did accounting got a real shakeup. According to Maughan (2011), modern methods of accounting made possible by the computer have rendered many traditional accounting jobs and techniques obsolete. Imeokparia (2006) states that the computer was first used to process business application with punched cards used for data storage and batch processing in the mid 1950s. Punch cards were later replaced with tape drivers and real time online systems processing as the computer gained versatility. Uremadu (1998) pointed that accounting and control methods of many business concerns have been revolutionized in recent years by Electronic Data Processing (EDP). Specifically, the computer has influence accounting in the areas of pay rolling, invoicing and billing, production control, management accounting and statistics, stock control, bank accounting, airline and hotel reservation and processing accuracy.

From the accounting practitioner stand point, Bhaskar and Williams (1984) maintain computer to have extensive use in word processing, payroll, budgeting, cash flow and financial modeling and tax computation. Advancement in computer began influencing areas of accounting like auditing with the development of Generalized Audit Software (GAS). This facilitated audit function through verification of results of processing like test of arithmetic accuracy, comparing files and summarizing data (Imeokparia, 2006). GAS was in the 1970s replaced with more generalized audit software programs like ACL and IDEA in the 1980s. These later programs could handle parallel works using specific audit language. Indeed, developments in computer has had similar development in accounting in the area of accounting softwares such as the introduction of Electronic Spreadsheet, Pacioli 2000 for windows, Peach tree complete accounting, Quick books etc.

In a study on the impact of Information Technology (IT) on internal audit function, Imeokparia (2006) found a significant relationship between IT and internal auditor's functions and effectiveness in Nigeria businesses. This shows that the computer has greatly influenced accounting tasks and has influenced it positively too. Robb (1994) writing on "Information technology (IT) and Accountancy Profession" concluded that IT has done much to support accountancy in practical business of preparing accounts and operating money control systems. Giroux (1999) noted that computers have efficiently crunched the repetitive transactions of accounts receivable and payable, inventories and payrolls. With the computer, the scope of accounting work, processing speed, number of persons involved in accounting task, cost of information, the nature and goals of the auditor's certification and quality of decisions deriving from the use of accounting information according to Anao (1998) have witness changes and are expected to be further influenced as more developments occasion the computer in the future. On what future developments in computer may impinge on accounting development, Anao (1998, p. 26) sum it thus:

> …there will then probably be no books of accounts as we know them today, but simply diskettes, no journalisation or ledger posting; no debits or credits to accounts but simply listing and tallies; no cheques but electronic transfers or credits; no published Annual Reports in booklet forms but simply fixed sheets containing tables and diagrams; probably no Annual General Meetings but simply Video conferences with shareholders voting by electronic signals after they shall have read on their video screen the year's Reports and Accounts, etc, etc, etc".

There is no gain saying that most of these anticipated changes have come into play.

It is worth noting that while the computer has greatly influence accounting, available literature tend to show that accountants have left computer experts to dominantly develop and control the corporate use of the computer (Robb, 1994). In Nigeria, especially with regard to IT audit, there are indications of not well-developed systems compare to other countries of the world (Imeokparia, 2006). This only reinforces the fact that Nigeria is still a developing nation. Similarly, it is not without saying that the computer has posed daunting challenges to accounting especially in the area of computer fraud. This was first witness during the 1970s when a management Billion Dollar bubble was perpetuated in Equity Funding Corporation in America. Reported cases of computer associated frauds in the banking industry in Nigeria and other parts of the world are assuming unprecedented scales both in terms of amount involved and frequency of occurrence. However, the challenge pose by the computer in the area of fraud has interestingly led to new dimensions in accounting like forensic accounting. To conclude, the invention of the computer had impacted on accounting development especially in the development of accounting softwares.

3.3.8 The Influence of Inflation

The introduction of money in accounting as the common measurement unit had significantly influence accounting development. However, Robb (1994) notes inflation as distorting the role of money as a representation of value in business wealth and income measurement. Wolk, Tearney and Dodd (2001) argued inflation as the single greatest problem that had faced accounting theory. Inflation has had influences on accounting development as does money.

The phenomena of inflation that swept the globe beginning in the 1980s mounted pressure on the traditional reporting system base on historical cost. According to Kirkman (1975), traditional accounting methods as they evolved over the years proved to be reasonably satisfactory during period of relatively stable prices. But the phenomena of inflation move accountants to critically have thought on the adequacy of traditional methods which in many respects are based on assumption of price-level stability. In the face of high inflation, historical cost financial statement were seen not to satisfy the “true and fair view” criteria hence reliance by users especially investors.

In response, the AAA and ACIPA in 1951 issued a statement on “price level changes and financial statements”. This statement required historical cost accounting statements to be supplemented by a restatement in units of general purchasing power (Wolk, Tearney and Dodd, 2001). There are indications of some corporations restating their financial statement to reflect inflation during the Great Depression. One of the earliest accounting standard issued on the subject of inflation was in 1969 entitle “Financial Statements Restated for General Price-level Changes” by the Accounting Principles Board (Kirkman, 1975). By the 1970s when inflation was at the highest peak, the SEC issued ASR 190 that required about 1000 of the biggest corporations in the US to provide supplementary information base on replacement cost. The FASB was also in a process of reviewing a draft proposal on the matter (Wikipedia, 2011). The International Accounting Standard (IAS) No. 29 specifically requires corporate financial statements to be adjusted for changes in purchasing power using price index.

It is deducible from the foregoing that adjustments in historical financial statements became necessary in the wake of inflation hence development of inflation accounting. There are now models developed for purposes of conversion of historical cost to current values. The issue of inflation accounting especially in developing countries like Nigeria with high level of inflation has become more crucial. It is pertinent to state that the accounting profession has seemed reluctant in adopting the current cost method in financial reporting. Muhammad (2009a) advanced the reason of this reluctance on the acclaimed greater objectivity and verifiability of the historical method. But only time will tell whether historical accounting will continue as the basis of financial reporting, if truthfulness, fairness, relevance, and usefulness are any important parameters that accounting information should possess.

3.3.9 The Influence of Globalization

Prior to the 1990s and particularly following the increase in trade and commerce with huge capital flight across international boundaries, the operation of firms were confirm within their originating country. When the barriers to trade in the areas of a common unit of measurement, language were eventually broken with the introduction of money as a means of exchange, and use of IT in communication, there has been monumental growth in multinational companies. The world became reduced to a global village.

Globalization has influenced the evolution of international accounting as a branch of accounting. It has occasioned the adoption of common currency at the regional and sub-regional levels, for example, the Euro, ECOWAS currency under way etc. International reporting standard have also been evolved in response to the wind of globalization. There are now international accounting standard setting bodies like IASB apart from the local bodies. This have all had a significant influence on the content and preparation of consolidated accounts by multinationals and accounting practice at the global level in general.

3.3.10 The Influence of Accounting Standards Setting Bodies

Accounting standards setting bodies evolved as a result of the need to achieve uniformity in financial reporting and generally regulate accounting practice thereby ensure that financial statements provide comprehensive, useful and dependable information to users for decision making. In virtually every country of the world, a body exists that develops and issues standards to be adopted by companies in financial reporting. These standards are mandatory to be complied with by companies. In Nigeria, the Nigeria Accounting Standard Board (NASB) now known as the Financial Reporting Council (FRC) was established in September, 1982 at the instance and sponsorship of the Institute of Chartered Accountants of Nigeria (ICAN). This was in realization of the need for local accounting standards that would take into cognizance the customs, laws, level of economic development and other peculiarities of the nation (Dandago, 2009). Indeed, accounting reflects environmental peculiarities therefore it was important for IASs to be reviewed to suit the Nigerian situation hence NASB.

Notable impact of the NASB could be seen in the areas of a compliance change in financial statement preparation by Nigerian companies. Upon the establishment of the board, companies were henceforth required to comply strictly with the provisions of relevant Statement of Accounting Standards (SASs) issued by the board. It was a matter of law to do so. The only exception existed on subject matters in which the board had no issued standard. In the instance therefore companies were to follow the provisions of the relevant IASs. In other words, as noted by Dandago (2009), the provisions of SAS superseded those of IAS. The superiority, authoritativeness and legal binding of SASs issued by the board were reinforced by the grant of autonomy via the enactment of NASB Act No. 22 in 2003.

The reorganization of the board in the later years in terms of composition (membership) also had tremendous influence on accounting in the country. Muhammad (2009) noted that the diverse bodies, agencies and institutions constituting the board and expansion of the board membership to include accounting bodies like Institute of Chartered Taxation of Nigeria (ICTN), Association of National Accountants of Nigeria (ANAN) has an influence in the area of monitoring of compliance with standards issued by the board. This is apart from the tendency of developing more sound and relevant standards.

While the NASB is saddled with the objective and powers to develop and issue accounting standards in Nigeria, one of its specific objectives states it is to “review, from time to time, the standards developed by the Board in the light of changes in the social, economic and political environment” (Dandago, 1998, p. 138). This clearly reflects the recognition of the influence of social changes on accounting practice. In discharging its mandate therefore since the establishment of the board, it has issued a total of thirty standards on varying subjects on accounting. This excludes exposure drafts receiving attention at varying stages. Changing needs had in fact led the board to replace SAS 12 (Accounting for Deferred Taxes) with SAS 19 (Accounting for Taxes); similarly SAS 8 (Accounting for Employees Retirement Benefits) needs review following the introduction of the contributory pension scheme. By and large, SASs issued by the board has no small impact on the content and format of presentation of financial statements by companies in the company.

Strict compliance with these standards is however an issue. Studies conducted on compliance level with local and international standards shows that a gap exists between what is required and what companies do. For instance; in their study on level of compliance with the requirements of statement of accounting standards No. 16 by insurance companies listed on the Nigerian stock exchange, Kantudu and Tanko (2008) using the qualitative grading system found that a gap exist between what insurance companies do and what is required of them by SAS 16. The level of compliance found was 76.9%. Studies on compliance with SASs by commercial banks in Nigeria by Kurawa (2009) also established a gap in the level of compliance. Kurawa (2009) assessed compliance with the provision of SAS 2 by banks during a period of 5 years (1999-2004). The study was based on a sample of 10 banks out of the 25 commercial banks that met the CBN N25 billion minimum capitalization. Based on a develop compliance index and regression statistics, the analysis showed 71% compliance level which fall within the semi-strong form. The results of other hypothesis tests lead the study to conclude that Nigeria commercial banks do not practice quality financial reporting (QFR).

In another study; Setyadi, Tower and Brown (2008) examined the extent of Indonesian companies' compliance with the country's regulations on inventory, fixed assets and depreciation as well as the potential factors that explain the level of compliance. A total of 160 Indonesian listed companies' annual reports for the year 2006 were studied. The analysis also did not show total compliance; 71.63% for inventory, 51.13% for fixed assets and 99.69% depreciation compliance. With specific reference to compliance with the International Financial Reporting Standards (IFRS), Al Mutawaa (2010) investigated the extent of compliance with the standards by Kuwaiti listed companies and the factors associated with the level of compliance. From the population of 121 nonfinancial companies, the study sampled 48 companies and developed a disclosure index consisting of 101 disclosure items representing 12 IASs. The qualitative grading system, multiple regression and correlation statistics were utilized in the analysis of data. The analysis revealed an overall average compliance level of 69% of the disclosure requirements tested.

It is pertinent therefore to observe that, though accounting standards setting bodies have influence the manner financial statements are prepared and made compliance mandatory, the gap that exists in terms of compliance leaves much to be desired. Moreso, changing times makes some of these standards absolute therefore requires continuous review if the information thereof must be relevant and useful.

3.4 Challenges Imposed on Accounting by Social Changes

Osisioma (1998) had once noted that time passage (and to add socio-economic or political events) presents new challenges, new hopes and new aspirations to accounting. Social changes discussed in this paper had posed a number of challenges to the accounting profession. One of the challenges is in the development of regulatory institutions and accounting standards setting bodies with clear-cut, non-conflicting functional roles. Several Acts have overtime been developed and replaced by another and accounting bodies altered in membership and experience conflict over powers and functions. An example of conflict was witness between the American Institute of Accountants (AIA) formed in 1916 and the American Society of Certified Public Accountants formed in 1921. Wolk, Tearney and Dodd (2001) noted the rivalry between these two accounting organizations as been quite heated. It was the pressure of the New York State Society that resolved this rivalry in the combination of the two in 1936 with the name AIA maintained. Even in Nigeria, the cut-throat rivalry between the many accounting professional bodies is a case in point. Probable, it was this rivalry that necessitated the reorganization of the NASB to include more accounting bodies into its membership.

Another challenge is the exerted effect on what the objective of accounting really is. This is instructive in the shift from the objective of profitability and liquidity concerns to stewardship reporting and the present emphasis on social welfare reporting. Determining what the objective of accounting is or is supposed to be has been problematic. Similarly, there has been a challenge of competence for practice. Apart from the vastness of knowledge and skills required in the main domain of accounting and accounting standards, expertise in computer appreciation and analytical ability has posed a daunting challenge for professional practice. To sum it all, is the challenge of professional practice at the international level. One must as a requirement pass qualifying examination, undergo the requisite training to belong to accounting bodies like Association of Certified Chartered Accountants (ACCA) to practice professionally in most countries of the world.

The development of international accounting standards have been another area of challenge. Inspite the similarities in the economic environment of the countries of the world, there are certain differences. This differences have been acknowledged by Kantudu (2009), Wolk, Tearney and Dodd (2001) among several authors. The development of International Financial Reporting Standards (IFRSs) which most countries of the world have consented and are consenting to can be seen in the light of social change; globalization.

4. Conclusion and Recommendations

This paper has examined ten accounting social change agents and how each impacted accounting development. It is the specific findings of the paper from the critical review of literature undertaken that; the use of money as the common measurement unit excludes important non quantifiable monetary transactions from financial statement and challenged by inflation; there is little truthfulness, fairness, relevance and usefulness of accounting reports for future decision making purposes especially by investors and creditors. Accounting as a profession lacks universal theoretical framework to explain and rationalized its practices in spite the opportunity offered from challenges imposed by social changes to do so over the ages. Also, a gap exists between what the accounting standard setting bodies stipulates as standards and what companies do. Furthermore; it was discovered that social changes had impacted greatly on accounting development, and as rightly observed by Gluatier and Underdown (1986), social changes that will arise in the future will still have much influence to dictate as to what accounting will be.

In conclusion, it could be said that the force of social change has greatly shaped what today constitute accounting principles, procedures and practices. It has greatly altered and expanded the objective and scope of accounting. It has significantly impinged the content and presentation of financial statements and the attitude and conduct of accounting professionals in discharging the accounting task. It is also observable that most of the major developments in accounting occurred in Europe and the United States. Scott (2009) stated the reason behind this to the fact that these places were where the major economic developments were experienced in the eighteenth and twentieth centuries respectively.

This paper, therefore, recommends that companies should more objectively report as notes to the accounts any non financial transaction that is known to impact on their performance so as to add relevance and usefulness to the information disclosed for decision making. Great thinkers in the accounting profession and accounting institutions should as a matter of urgency take upon themselves the task to evolve sound universal theories to explain the practice of accounting. It should be understood that every theory is based on assumptions and no one theory is perfect, our noble profession of accounting cannot continue without theory due to the limitation of differences in environment and changing needs of users in the present globalized world. Time is ripe to take the bull by the horn! The NASB now the Financial Reporting Council (FRC) and indeed every accounting standard setting body in the different countries of the world should persuade companies to fully comply with issued standards in the preparation and presentation of financial statements. Perhaps, since there is no legal backing to compliance with standards issued by accounting standards setting bodies in most countries including Nigeria; the Securities and Exchange Commission (SEC) could play a role through close monitoring and adoption of stringent punitive measures on companies that fail to fully comply with accounting standards. Finally, this paper call on accounting standards setting bodies, accounting professional bodies and accountants in general; at the international and local levels, to be more aware of the changing nature of accounting in the light of social changes hence respond appropriately in order that accounting may better serve the needs of users and the society in general.

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