Accounting theory godfrey pdf

Companies, especially companies, have a series of relationships with harmonious and competitive interests. Owners and stakeholders in the company rely on managers and executives - also known as agents - to see that their interests are served. The agency's theory focuses on the nature of stakeholders - agency relationships include where they are effective and where potential conflicts of interest and ethics lie. Accounting theory, on the other hand, is a system of principles, rules and assumptions governing the accounting profession. Although some aspects touch on accounting theory on how to serve clients and owners, it has little in common with agency theory. The agency's theory states that company owners or shareholders hire executives, managers, and employees to serve their interests. In essence, owners delegate a certain amount of control and direction over their company's operations to agents whose work is dedicated to the success of their company, which is often defined as maximizing profits. Owners try to align their interests with those of top managers through high salaries, bonuses, share, stock options and other incentives. However, the agency's theory says that there is always some conflict between the personal interests of the agent and those of its principal. Although some theories disagree about whether debt holders are counted as principals, most of the agency's theoretical definitions acknowledge that debt holders are stakeholders whose interests sometimes clash with shareholders - and therefore, agents as well. Debt holders usually want companies to pay their debts fully and as quickly as possible. They believe profits and success should go to service debt before companies pursue new risks and aggressive growth. However, shareholders are most concerned with the profits and efforts that will advance the success of their company. This can create conflicts between two financially interested parties, which sometimes puts agents in the middle. Loyola University teaches its accounting students that accounting theory is, a set of concepts and assumptions and related principles that explain and guide the actions of accountants in identifying, measuring, and communicating economic information. In fact, accounting theories are not a single unified principle or even a short set of them – but a large set of laws, rules, principles, assumptions and practices that have become standard for financial reporting both in the United States and globally. This includes the ethical and accuracy concepts necessary to produce honest documents that reflect the financial status of organizations and individuals. Business and accounting leaders and experts place conceptual frameworks, accounting laws, concepts, models hypotheses, and theories under the umbrella of accounting theory. Since accounting is more of a practice than a science, elements of theories change and adapt to the needs and circumstances of the times. Therefore, accountants must take continuing education courses to stay a following and ensure they do their work in accordance with legal and social mandates. Elements of accounting theory can be found as far as the ancient civilizations of Mesopotamia and Egypt. At the time of the Roman Empire, financial data was widely used, and the government kept detailed financial records. The definition of accounting theory is quite simple. This is a set of assumptions, frameworks and methodologies used in the study and application of financial reporting principles. Since business and the economy often change or flux, accounting theories, along with government regulations applicable to financial institutions, must adapt, to some extent, to the times. Although the accounting element can be found much earlier, in 1494, Luca Pacioli created the accounting system as we know and use today. This Italian mathematician, who is said to have taught mathematics to Leonardo DaVinci, started the so-called double entry accounting system. He also introduced the use of ledbooks, journals and bookkeeping, key elements of modern accounting. Pacioli is known to be the first to use balance sheets and income reports. Two chapters he wrote about bookkeeping, known as De Computis et Scripturis (Reckoning and Writing) and now known as the 'Venetian Method, changed the whole way accounting is viewed and used. So even though businesses and governments had recorded business information long before venice, Pacioli was the first to describe the debit and credit systems in journals and led ledbooks that are still the basis of today's accounting system. With the advent of the Industrial Revolution in the 1700s, a more advanced cost accounting system became necessary. The company creates large groups that are not part of the company's management but have an interest in the company's results. They are the first shareholders and bondholders to provide external financing. For the first time, accounting became a profession, first in the UK and then in the US. And in 1887, 31 accountants created the American Association of Public Accountants. Ten years later, the first standardized test for accountants was administered. In 1896, the first CPA was licensed. The history and development of accounting theory took a new turn after the Great Depression, which led, in 1934, to the establishment of the Securities and Exchange Commission. The SEC was created to help the American public regain confidence in the United States stock market after the 1929 stock market crash. Once the SEC is established, all publicly traded companies are required to file reports certified by accountants. This need for and prestige accountants. The Stock Market crash of 1929 and the subsequent Great Depression were caused, in part, by shady financial reporting practices by some publicly traded companies. To help set America on the right path, the federal government began working with professional accounting groups to set standards and practices for consistent and accurate financial reporting. This came to be known as Generally Accepted Accounting Principles or GAAP. The Securities Act of 1933 and the Securities Exchange Act of 1934 are the two main pieces of legislation that led to the establishment of GAAP. These standards have evolved based on changing economic climate and setting best practices. The two main organizations in the accounting profession are The American Institute of Certified Public Accountants, founded in 1887. It set accounting standards until 1973 when the Financial Accounting Standards Board was established. By the end of the 20th century, the accounting industry was growing and growing. Large accounting firms expand their services beyond traditional audit functions and add many forms of consulting. However, this expansion sometimes leads to unsafe places. As accountancy responsibilities grow beyond the financial watchdog, some accounting firms are embedded in corporate scandals. Arguably, the biggest scandal was the Enron scandal in 2001. This has a broad impact on the accounting industry. Arthur Andersen, one of the top U.S. accounting firms, went bankrupt as a result of Enron. And the Sarbanes-Oxley Act tightens restrictions on consultancy opportunities for accountants. However, the accounting scandal resulted in more jobs for accountants, which is a paradox of the profession. Demand for accounting services continued to boom throughout the early part of the 21st century. There may be a difference between accounting theory and practice. While accounting procedures areformed, accounting theory is more qualitative. It is used as a guide for effective accounting and financial reporting, and that guide should be more flexible than the formula allowed. An important aspect of accounting theory is usability. All financial statements must provide important information that can be used to make informed business decisions. It also means that accounting theory should be able to produce effective financial information, even when the legal environment is changing. Accounting theory also states that all accounting information must be relevant, reliable, comparable and consistent. This means that all financial statements must be accurate. They must also comply with GAAP as this ensures the preparation of financial statements will be consistent and comparable to the company's past finances, as well as the finances of other companies. The four main assumptions guide accounting financial professionals. First, is that the business is separate from its owner. The second confirms the belief that a company will not go bankrupt but will continue to exist. Third, all financial statements must be prepared with dollar amounts and not with other figures such as unit production. Finally, all financial statements must be prepared monthly or annually. As with almost all professions, technology has a huge impact on accounting. A recent survey by The Age's Accountancy asked 250 accountants and bookkeemen what the future would be for the profession. Three things were predicted by those surveyed: First, that automation would take over tasks such as entering data, creating electronic documents and generating receipts; second, the cloud will change the way professionals store data, collaborate, and collect information; third, new developments in accounting software will have an impact. While it may sound like this dire prediction will be lost to the profession, 89 percent of accountants surveyed said technological advances were a real positive for the accounting profession and would create new opportunities for them. Seventy-five percent said the technology they had started using already made their job easier or freed up time for them to concentrate on adding further value to clients. For example, they can now spend more time analyzing accounts and providing business advice. As a result, this means the skills used by accountants will never become futile or obsolete. Those in the profession must continue to maintain their skills as well as follow new skills that new tools can need. As an accountant, it is important to keep up to date with accounting technology and ensure you can adapt. The human brain and its analytical power as seen in accounting today, and in the foreseeable future, are considered a necessity by business owners around the world. Worldwide.