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The events and behavioural approaches in accounting

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Abstract

The individual's behaviour is influenced by information in two ways: through information use when acting as a recipient through information inductance when acting as stated by Prakash and Rappaport. An individual's anticipating the consequences of his or her communication might lead him or her – before any information is communicated and, hence, even before any consequences arise – to choose to alter the information, or his or her behaviour, or even his or her objectives. This is the process of information inductance. The probabilistic judgement

approach, sometimes known as the Bayesian approach, focuses first on a comparison of intuitive probability judgements and the normative model. The normative model for probability revision, known as Bayes' Theorem, is used as the descriptive model of human information processing, where H_1 and H_2 are the alternative hypothesis and D is the datum. Bayes' Theorem, the a posteriori probability form of Bayes' Theorem states that: where H_1 and H_2 are the alternative hypothesis and D is the datum.

Keywords: Financial Statement, Behavioural Approaches

1. Introduction

New approaches in accounting theory among the new approaches, we may distinguish: the events approach the behavioural approach the human information processing approach the predictive approach the positive approach each of these approaches has generated new methodologies and interest, and has employed unique ways of looking at accounting problems.

The nature of the events approach. The events approach was first explicitly stated after a divergence of opinion among the members of the Committee of the American Accounting Association, which issued a Statement of Basic Accounting Theory in 1966. A majority of the Committee members favoured the value approach to accounting. The value school also called the use-need school, considers that needs of users are known sufficiently to allow the deduction of an accounting theory that provides optimal input to the specified decision models.

2. Literature review

The normative events theory of accounting has been tentatively summarised as follows: 'In order for interested persons to better forecast the future of social organizations, the most relevant attributes of the crucial events which affect the organization are aggregated for periodic publication free of inferential.

The objective of the normative events theory of accounting is to maximize the forecasting accuracy of accounting reports by focusing on the most relevant attributes of events crucial to the users. The theory calls for: An explicit taxonomy of real events, which the accountant is to report more effective classification schemes, with particular reference to labels that make it possible to associate observations of particular events with other related events the structuring of an events-based accounting information system.

Conventional accounting model weaknesses. The conventional accounting model, based on the value approach, suffers from the following weaknesses: its dimensions are limited its classification schemes are not always appropriate its aggregation level for information is high its degree of integration with the other functional areas of an enterprise is too restricted.

The events approach suggests that the purpose of accounting is 'to provide information about relevant economic events that might be useful in a variety of decision models'. The characteristics of an event may be directly observed and are of economic significance to the user. Given the number of characteristics and the number of events susceptible to observation that might be relevant to the decision models of all types of users, the events approach suggests a tremendous expansion of the accounting data presented in financial reports.

Financial statements In the value approach the income statement is perceived as an indicator of the financial performance of the firm for a given period the statement of cash flows is perceived as an expression of the changes in cash In the events approach: the income statement is perceived as a direct communication of the operating events that occur during a given period.

3. Method

Qualitative approach in systematic review is used to synthesize (summarizing) the results of research that are qualitative descriptive. Synthesizing method (summarizing). The results of this qualitative research are called techniques to perform data integration to obtain data new theory or concept or level of understanding more in-depth and comprehensive (Perry & Hammond, 2002).

4. Result and discussion

Events-based accounting information systems

One way to meet the objective of the normative events theory is to integrate it with database approaches to information management that assume an enterprise creates a centrally managed database for sharing among a wide range of users with highly diverse needs Such accounting systems include: hierarchical models network models relational models entity-relationship models REA accounting models.

The hierarchical model

The hierarchical model is based on the idea of an events-accounting information system that allows users to make enquiries of a database The components of such a system include: a mass database that contains a record of all events in some generalised format a user-defined structure that provides each user with his or her own conceptual structure (and aggregation levels) of the events user-defined functions, or operations, for manipulating the data.

The network model

The network model is based on the concept of multidimensional accounting presented by Ijiri, and Charnes, Colantoni & Cooper The network model uses as input the initially unstructured database and a collection of queries or data requests to develop a hierarchical data structure that will minimise the number of records to be accessed to answer the desired set of queries.

The entity-relationship model assumes that an accounting system is most naturally modelled in a database environment as a collection of real-world entities and relationships among those entities This model basically replaced the traditional chart of accounts and double-entry bookkeeping procedures by viewing entity-relationship in the form of entity tables and relationship tables.

The events approach offers certain advantages and certain limitations The advantages predominantly take the form of efforts to provide information about relevant economic events that might be useful to a variety of decision models As a result, more information may be available to users who can then use their own utility function to determine the nature and level of aggregation of the information they need to make their particular decisions.

The usefulness of the events approach may depend on one or more of the following five factors: the psychological 'type' of the decision maker information overload, which may result from the attempt to measure the relevant characteristics of all crucial events affecting the firm an adequate criterion for the choice of the crucial events has not been developed. Measuring all the characteristics of an events approach may

prove to be difficult, given the state of the art of accounting more research may be needed to examine the impact of different design approaches to the events approach theory, such as the hierarchical, network, relational, entity-relationship and REA models.

The nature of the behavioural approach

Most traditional approaches accounting theory construction have failed to consider user behaviour in particular and behavioural assumptions in general The behavioural approach to accounting theory formulation emphasises the relevance to decision-making of the information being communicated, and of the individual and group behaviour caused by the information being communicated The behavioural approach to accounting theory formulation is concerned with human behaviour as it relates to accounting information and problems.

Behavioural accounting

Although relatively new, the behavioural approach has generated enthusiasm and a new impetus in accounting research that focuses on the behavioural structure within which accountants function A new multidisciplinary area in the field of accounting has been conveniently labelled 'behavioural accounting' The basic objective of behavioural accounting is to explain and predict behaviour in all possible accounting contexts. A more recent and exhaustive attempt by Dyckman, Gibbins and Swieringa illustrates the nature of studies of the behavioural effects of accounting information We may divide these studies into five general classes: adequacy of disclosure usefulness of financial statement data attitudes about corporate reporting practices materiality judgements decision effects of alternative accounting procedures.

Adequacy of disclosure

Three approaches were used to examine the adequacy of disclosure: the first examined the patterns of use of data from the viewpoint of resolving controversial issues concerning the inclusion of certain information the second examined the perceptions and attitudes of different interest groups the third examined the extent to which different information items were disclosed in annual reports and the determinants of any significant differences in the adequacy of financial disclosure among companies. The research on disclosure adequacy and use showed: general acceptance of the adequacy among financial statements recognition that the differences in disclosure adequacy among financial statements are due to such variables as company size, profitability, and size and listing status of the auditing firm.

The usefulness of financial statement data

Two approaches were used to examine the usefulness of financial statement data: the first examined the relative importance of the investment analysis of different information items to both users and preparers of financial information the second examined the relevance of financial statements to decision-making, based on laboratory communication of financial statement data in terms of readability and meaning to users in general. The overall conclusions of these studies were that: some consensus exists between users and preparers regarding the relative importance of the information items disclosed in financial statements users do not rely solely on financial statements when making their decisions.

Attitudes about corporate reporting practices

Two approaches were used to examine attitudes about corporate reporting practices: the first examined preferences for alternative accounting techniques; the second examined attitudes about general reporting issues, such as how much information should be available, how much information is available, and the importance of certain items. These research items showed the extent to which some accounting techniques proposed by the authoritative bodies are accepted, and also brought to light some attitudinal differences among professional groups concerning reporting issues.

Two approaches were used to examine materiality judgements: the first examined the main factors determining the collection, classification and summarisation of accounting data; the second focused on what items people consider to be material, and sought to determine the degree of difference in accounting data that is required before the difference is perceived as material. These studies indicated that several factors appear to affect materiality judgements, and that these judgements differ among individuals.

Linguistic effects of accounting data and techniques

Linguistics and accounting have many similarities. Belkaoui argues that accounting is a language and that according to the Sapir-Whorf hypothesis its lexical characteristics and grammatical rules will affect both the linguistic and the non-linguistic behaviour of users. Four propositions derived from the linguistic relativity paradigm to conceptually integrate the research findings of the impact of accounting information on the user's behaviour, are as follows: users who make certain lexical distinctions in accounting are enabled to talk and/or solve problems that cannot be solved by users who do not; users who make certain lexical distinctions in accounting are enabled to perform tasks more rapidly or more completely than those who do not.

Functional and data fixation

Functional fixation originated as a concept in psychology, arising from an investigation of the impact of past experience on human behaviour. Dunker introduced the concept of the functional fixation to illustrate the negative role of past experiences. He investigated the hypothesis that an individual's prior use of an object in a function dissimilar to that required in a present problem would serve to inhibit the discovery of an appropriate, novel use for the object.

Concepts of functional and data fixation in accounting

Various hypotheses exist for both the functional and data fixation results in accounting studies, namely: The conditioning hypotheses: It may be that the subjects of experiments, mostly accounting students, have been conditioned to react to some form of accounting outputs and have failed to adjust their decision processes in response to a 'well-disclosed' accounting change. Prospect theory and framing hypothesis: Framing occurs because the wording of a question has the potential to alter a subject's response. Primary versus recency ego involvement: In matters of ego involvement with an accounting technique just learned, subjects will give importance to what is perceived as relevant, significant or meaningful.

5. Conclusion

Financial statements In the value approach the income statement is perceived as an indicator of the financial performance of the firm for a given period; the statement of cash flows is perceived as an expression of the changes in cash. In the events approach: the income statement is perceived

as a direct communication of the operating events that occur during a given period. The statement of cash flows is better perceived as an expression of financial and investment events; in other words, an event's relevance rather than its output on cash flow determines the reporting of an event in the statement of cash flow.

The probabilistic judgement approach, sometimes known as the Bayesian approach, focuses first on a comparison of intuitive probability judgements and the normative model. The normative model for probability revision, known as Bayes' Theorem, is used as the descriptive model of human information processing. Where H_1 and H_2 are the alternative hypothesis and D is the datum, Bayes' Theorem. The a posteriori probability form of Bayes' Theorem states that: where H_1 and H_2 are the alternative hypothesis and D is the datum.

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