"Most of the Loop-holes in accounting are due to its lack of theoretical base" . Critically evaluate this statement and provide examples to illustrate your arguments.

Accounting is the process of identifying, measuring and communicating financial information about an entity to permit informed judgements and decisions by users of financial information. In short accountants are communicators and accountancy is the art of communicating financial information about an entity to users such as shareholders, managers and the government.

Accounting is a method that is used by companies to report on their performances. Accounting is also seen as an intellectual discipline and a profession. Accountants have a vital place in society as they look after the global functions of a business. It is said that there will be chaos if there were no accountants, also the salary of accountants indicate their importance.

Accounting profession has been around for 150 years (lecture 2 notes), it has been socially constructed (made for people by people) to keep records of business accounts, but over time society had changed and business became larger therefore more complex in transaction. It was necessary like other professions like medical, clerics and teachers to have some kind of theoretical knowledge backing them up. (Lecture 2 notes). At the early stage of accounting profession there were many scandals, reason being that they were no rules or framework written up.

The true and fair view in accounting is produced in all published accounts. The true and fair view appears to be an opinion in which accountants are supposed to follow the true and fair view. The true and fair is difficult to define but can be considered as presentation of accounts which are produced ethically, free from bias and within the accounting standards. The true and fair view is produced to make information true and fair but has many problems in interpreting it.

As financial reporting is not a single activity carried out by one person or organisation, due to its lack of rules there was a risk or inconsistency which makes it difficult for the users (manager, investors) to make a decision. It was quickly recognised that there needs to be uniformity in reporting. They were two main approaches to achieve this uniformity, Inductive and deductive.
"*The proper concepts are needed to formulate a good theory, but we need a good theory to arrive at proper concepts… The better our concepts, the better the theory we can formulate with them, and in turn, the better the conc ept available for the next, improved theory*". (Kaplan, 1964, Chandler)

A framework can help us to explain why accountants do things in a certain way and can also answer questions or attempt to explain such things like true and fair view, which accountants themselves are not sure of, even though it forms the backbone of all published accounts.

Conceptual framework "seeks to identify the nature, subject, purpose and broad content of general-purpose financial reporting and the qualitative characteristics that financial information should possess" (Deegan, 2005, p.1184).

Conceptual framework is a set of theoretical ideas and has three main purposes, 1.Providing the basic objectives and users. 2. Defining the key terms and 3.Establishing fundamental concepts.

America was amongst the first to define a conceptual framework. The financial Accounting Standards Bard (FASB) in the USA stated in its scope and implications of the conceptual framework project 1967 that:

> "A conceptual framework is a constitution, a coherent system of interrelated objectives and fundamentals that can lead to consistent standard and that prescribes the nature, functions and limits of financial accounting and financial statements". (Barry & Jamie, 2002, page 144)

It was later down the line that professor MacVe from UK reviewed the idea of conceptual framework in the early 1980s and implemented it, and had concluded that it was impossible to obtain a conceptual framework but the attempt to do so would help us to organise and understand what we do. (Lecture 2 notes)
Following this USA had progressed in developing a conceptual framework but UK refused to participate as it too time consuming and costly. Eventually in the early 1990s UK set up their own project and published Statement of Pr inciples.
ASB were criticised heavily on the grounds that they had focussed more on the balance sheet than the profit and loss account.
Unfortunately the SOP was rejected as they had found out that it was not good enough, some argued that it had it had lack in defining key concept and more questions had arose. The SOP was once again published in 1999 containing an introduction and eight chapters.

1 The Objective of Financial Statements.
2 The Reporting Entity.
3 The Qualitative Characteristics of Financial Information.
4 The Elements of Financial Statements.
5 Recognition in Financial Statements.
6 Measurement in Financial Statements.
7 Presentation of Financial Information.
8 Accounting for Interests in Other Entities.

The Statement of principles had established the general way of thinking which reduces the risk of inconsistency in financial reporting. This was the primary aim of a framework but still many doors are still open for leeway.

The Corporate report was published by ASC in 1975, the ai m of the report was to 're-examine the scope and aims of published financial reports in the light of modern needs and conditions' (Elliot, 2002, P.148). It had attempted to establish a set of working concepts as a basis for financial reporting, to identify the users of this report and what information is appropriate in their interest.
The corporate report was then taken into research in 1988 by the ICAS to improve it for the users by making it more understandable, less daunting in presentation, cutting down the technical jargon to make it more readable.

SSAP2 were widely regarded as the basic of the Statement of Standard Accounting Practice (SSAP) and were seen as conventions which underpin accounting. It dealt with how to report on the treatments proposed by the other SSAPs. The SSAP2 were

drawn up in 1971 and it was designed to provide guidance on the disclosure of accounting principles. SSAP2 had also influenced the development of the Companies act 1985, which it still being use till present. Companies act had incorporated the four definitions of the concepts from SSAP2. The four fundamental accounting concepts are going concern, accruals, consistency and prudence. As SSAP2 was drawn up before anyone thought of conceptual framework, it is safe to say they didn't attempt on an agreed framework. However SSAP2 are now reviewed under the FRS18 in 2000.
FRS18 had attempted to give clear distinction is between accounting conventions. The main being an attempt to define true and fair view as well as a number of basic definitions such as What is an Asset?
FRS18 has a good attempt to deal with providing rules in order to form uniformity.

Professor David Solomon produced Guidelines for financial reporting standards in 1989. In his report he argued for a move from historical cost accounting to one based on value to the business. He also argues that "accounting is held to be akin to journalism in that we are presumed able to find and extract pure, uncorrupted, neutral facts". (Tinker, page 298). But tinker argues that Solomon's theories are problematic. The true and fair view is very hard to understand and interpret and therefore can be very problematic. Morgan states that accountants are subjective constructors of reality presenting and representing the situations in limited and one sided ways. Solomon's report received a number of critical responses but also received support from the future shape of financial reports.

Accounting is a long way from closing the loop holes, and the even longer way from completing the Conceptual framework. The profession are always going to be behind one step from completing the framework and business are always growing and becoming more complex.
The development of conceptual framework is helpful in some ways but unhelpful in other ways. It is helpful in reducing scandals and protecting the users of accounts. It is probably unhelpful to managers who have to follow the strict guidelines i.e some managers may be unhappy with the disclosure of inefficient areas. Professor Mcvae says " that it was impossible to obtain a conceptual framework but that attempt to do so would help us to organise and understand what we do". Accounting has accomplished its purpose, which was to deal with the change in society and to undertake the loopholes and scandals that were taking place in accounting.

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