

Identity, Variety and Destiny in Accounting Education for a Social—Environmental and Liberal Arts Tradition

Ralph Palliam

American University of Kuwait
Kuwait

Abstract

When one considers that all profits are not made equally, philosophy, history, anthropology become pre-requisites for professional accounting and finance graduates. This allows for a complete understanding of an intimately related financial market that exerts tremendous influence on socio-economic conditions. A graduate from a liberal arts institution may be worth more than what his or her academic balance sheet shows. A liberal arts education teaches one how to think, how to analyze, how to read, how to write, how to develop a persuasive argument. Any liberal arts education, even vaguely defined becomes an intellectual antidote to the overwhelming flood of information and technological change. A liberal arts education teaches students to read and to reason; to learn something about the range of human expression; to consider the great literature and ideas of world civilizations; to recognize and construct arguments; and to have sensitivity towards others' thinking. It also makes possible a genuine kind of citizenship without which democracy and markets crumble. This study presents emerging trends in accounting as a growing discipline in liberal arts institutions whose mission is aligned with social goals.

Keywords: *accounting, accounting education, stewardship, social-environmental issues, liberal arts, accounting history.*

Introduction: accounting in the liberal arts tradition to build social consciousness

From a stewardship perspective, not everything that a corporation counts can be counted and not everything that a corporation counted counts. This is precisely what most corporate social scientists face particularly when it comes to as-

sessing and evaluating financial accounting records for corporate social responsibility. The globalization of businesses, the increasing complexities of business transactions, advances in information technology and the demand for timely accounting information are facilitating electronic commerce and communication at enormous social costs. Within this context one needs to consider the

challenges, relevance and usefulness of traditional accounting education that underscores profit as a bottom line. Finance and accounting professors at liberal arts institutions are frequently criticized by their professional organizations and associations for the specific theoretical and theatrical tools they teach and for the way they teach students to think about the world and approach socio-economic problems in the face of corporate success. Moreover, finance and accounting degrees from liberal arts institutions tend to scare parents and students too who worry about whether their investment in a college education will ever pay off. In essence, they are responding to a wave of human, social and cultural interest in matters of business and technology, globalization and innovation. Education entails, inter alia, an investment in human, social and cultural capital, the consequences of which ought to result in all endeavors of human advancement and human achievements that society morally approves of. Accounting therefore ought to be a qualitative and quantitative measurement and assessment of that human advancement and achievements. Raising critical consciousness about the way accounting data is narrated offers a way of considering the critical role liberal arts institutions in constructing and evaluating a corporation's transition towards socially acceptable development.

Klamer (2002) in accounting for social and cultural values considers the conceptualization of the goods that count with the concepts of capital, value and property. To those like Klamer (2002) who take welfare economics seriously will find anomalies in counting convention. There are strong suspicions that many companies are spending more en-

ergy counting than in undertaking rigorous assessments of their social environmental management systems. Moreover, as long as lions cannot count, the history of counting in the jungle is always going to favor the hunter. From a lion's point of view, reading, writing and arithmetic may not be as important as the ability to critically think out life-long survival strategies in a jungle. Coupling normative discourse about the relationships between accounting information in business and different societies enables one to identify opportunities for accounting as a subject and to engage in dialogue about those accounting activities that create a potential not only for economic success but also socially sustainable development. This is consistent with what Annisette (2006:399) in her seminal work - *People and periods untouched by accounting history: an ancient Yoruba practice* - suggests that "by taking accounting history research beyond the familiar settings of Europe and the West we create the potential for profound growth in our discipline".

Accountability and accounting have become terms with almost common meaning. Accounting describes an accounting system that is designed to truthfully and accurately detail the description of a corporation's financial result and position. The term, accountability refers to important elements of considering and judging the quality of the details described by accounting practices, policies and procedures of the corporation. In this regard Cooper and Owen (2007) contend that there is a significant degree of administrative reform, in terms of the increasing number of major companies proclaiming their social responsibility credentials, and backing up their claims by producing substantial environmental, social and

sustainability reports. Any exercise in accountability requires much more than standardized or normative accounting. In this regard Klammer (2002:454) laments: “ever since I began to consider the world of the arts from an economic perspective I have been dealing with the restrictions of the standard economic perspective. It was as if that perspective did not allow me to see things particular to that world”.

A historical survey of accounting commences with the contribution of Luca Pacioli who was widely considered the father of modern accounting suggest that he acquired an amazing knowledge of diverse technical subjects – religion, business, military science, mathematics, medicine, art, music, law and language. He accepted the popular belief in the inter-relatedness of these widely varying disciplines and in the special importance of those, such as mathematics and accounting, which exhibit harmony and balance (Vaughan, 2005). This view is further supported by the Institute of Accountants in Glasgow who once petitioned Queen Victoria for the grant of a Royal Charter in 1854. (As cited by Hall 2009:2). The Petition, which was signed by forty-nine accountants in the City of Glasgow suggests:

“That the profession of an Accountant has long existed in Scotland as a distinct profession of great respectability; that originally the number of those practicing it was few but that, for many years back, the number has been rapidly increasing, and the profession in Glasgow now embraces a numerous as well as highly respectable body of persons; that the business of an Accountant re-

quires, for the proper prosecution of it, considerable and varied attainments; that it is not confined to the department of the Actuary, which forms indeed only a branch of it, but that, while it comprehends all matters connected with arithmetical calculation, or involving investigation into figures, it also ranges over a much wider field, in which a considerable acquaintance with the general principles of law, and a knowledge in particular of the Law of Scotland, is quite indispensable; that Accountants are frequently employed by Courts of Law . . . to aid those Courts in their investigation of matters of Accounting, which involve, to a greater or less extent, points of law of more or less difficulty; that they act under such remits very much as the Masters in Chancery are understood to act in England.”

Consistent with the notion of accounting in a liberal arts tradition, Albrecht and Sack (2000), cite the 1986 findings of Bedford Committee of the American Accounting Association (AAA), which considered the future structure, content, and scope of accounting education in preparing for the expanding profession. Moreover, in recent years again, accounting and finance professors have issued impassioned calls for fundamental change in accounting education, with increased emphasis on developing communication, interpersonal and intellectual skills, and on broadening the knowledge base. According to Palliam and Shalhoub (2003), these calls have not been answered by the academic community with significant efforts to reinvent pedagogical techniques and restructure

the curriculum to address the perceived deficiencies in accounting graduates. They contend that should Albert Einstein or Sir Alexander Fleming come back from their graves, they would be amazed at the advancement and achievements that have been made in their respective fields. Moreover, should the forefathers of accounting education come back from their graves, they would be devastated at the extent to which the accounting profession and the vast curriculum have been diminished and poorly refined. In this regard Palliam and Shalhoub (2003) contends that accounting has not as yet fulfilled the wide expectations of the leaders of the profession. Perhaps it has fulfilled the narrow expectations of today's leaders whose sole intention is narrow definitions of prosperity, massive debt accumulation over toxic assets and the creation a false sense of achievement.

The unfortunate consequence is that accounting students have become evermore narrowly-educated. Graduates have become increasingly technically proficient, but less well-rounded in the tradition of a liberal arts education. Communication, interpersonal, critical-thinking, and professional skills, as well as general knowledge of cultures, history, and the arts and sciences, have noticeably been removed from an accounting curriculum. Moreover, the quantity of technical material covered has grown to a point where the depth of understanding regarding the issues and theories underlying memorized accounting rules has become very shallow. The question that society is seeking an answer for is: why did accounting profession fail to adequately respond to these calls for change for more than a century. A comprehensive strategy designed to

attack the devastation on all fronts is required. Hopefully, together with the works of researchers like Annisette (2006), *identity, variety and destiny in accounting education for a liberal arts tradition* will be seen as a foundation, so that one does not face crisis resulting from poor accounting policies and what needs to be considered are the prospects for meaningful changes in accounting education throughout the world. It therefore becomes apparent that due diligence in the accounting profession makes it necessary for a liberal arts education since the proliferation of statements of financial accounting standards has had the insidious effect of pushing the accounting curriculum in an ever more technical and ever less business-stakeholder oriented direction. The curriculum has become devoted to teaching students the technical rules, conventions of conformance and concentration on formal accounting rules, with correspondingly less focus on essential business and social issues.

A brief historical survey of accounting

According to accounting historians Giroux (2007), Brown (1905) and Annisette (2006) accounting is as old as civilization. Should accounting be considered a function of elaborate and extensive human trading activities, elaborate rules and procedure for proper recording purposes are required. However, these rules should best articulate the narratives of the trading activity that drive the conduct of markets and society. The development of accounting may have driven the evolution of commerce, since it may have been through the use of more precise accounting methods that modern business was able to grow, flourish and

respond to the needs of the business stakeholders. The history of accounting throws light on economic and business history generally, and may help one better predict what is on the horizon as the pace of global business evolution escalates. Like most other professions, the accounting profession has a rich history which is usually discussed in terms of one seminal event, the invention and dissemination of the double-entry book-keeping processes. According to Anni-sette (2006), such a narrow view overlooks a long evolution of accounting systems. A detailed historical survey helps one to identify the phenomenal thought processes that are associated with the history of accounting which is indeed an entertaining one. Moreover, the original writing and the use of numbers and counting in accounting makes accounting history an area of interest and within this confine one can pursue socially responsible recording, reporting, interpretation and analysis. In this regard five areas of history have been identified: accounting from clay to paper; early recordings for government; accounting renaissance; and the accounting profession joined for common purpose.

Accounting – from clay to paper

An extensive survey by accounting historians, Chatfield and Vangermeersch (1996), Previtts and Merino (1979) and Giroux (2007) reveals that the early civilization in Assyria, Chaldaeia-Babylonia and Sumeria were flourishing in the Mesopotamian Valley where some of the oldest known records in commerce were produced. These authors contend that the area between the Tigris and Euphrates Rivers, within the borders of Iraq, was a valley that was a rich area for

agriculture as a result of frequent floodings. Consequently, as farmers prospered, service businesses and small industries developed in the communities in and around the Mesopotamian Valley. It is not surprising that the cities of Babylon and Ninevah became the centers for regional commerce. Babylonian was the language of business and politics throughout the Near East. In this regard banking firms in Mesopotamia employed standard measures of gold and silver, and extended limited credit to some transactions. Alexander (2002) views the Mesopotamian scribes to the accountants of today. Their duties were identical, but even more extensive. In addition to writing up the transaction, the scribes ensured that the agreements complied with the detailed code requirements for commercial transactions. During this time places of worship, palaces and private firms employed large numbers of scribes, and it was considered a prestigious profession. In a typical transaction of the time, the parties might seek out the scribes at the gates to the city. They would describe their agreement to the scribe, who would take from his supply a small quantity of clay, specially prepared, on which to record the transaction. During this period papyrus was scarce and expensive.

Moreover, Previtts and Merino (1979) found that during this era which lasted until around five hundred years before the birth of Christ, Sumeria was a theocracy whose rulers held most land and animals in trust for their gods, and this gave impetus to their record-keeping efforts. Furthermore the legal codes that evolved penalized the failure to honor transactions. Consistent with this Alexander (2002) indicates that the renowned Code of Hammurabi required that an

agent selling goods for a merchant give the merchant a price quotation under seal or face invalidation of a questioned agreement which was recorded on clay. The moistened clay was molded into a size and shape adequate to contain the terms of the agreement. The scribes recorded the names of the contracting parties, the goods and money exchanged and any other promises made. The parties then "signed" their names to the tablet by impressing their respective seals. A manifestation of mass illiteracy required one to carry one's signature around one's neck in the form of stone amulets engraved with a mark and upon death one were buried with it. Often the seals included the owner's name and religious symbols, such as the picture and name of the gods worshipped by the owner.

After transactions were recorded, the scribe would dry the tablet in the sun or in an oven for important transactions which needed a more permanent record. Sometimes a clay layer about as thick as a pie crust was fashioned and wrapped around the tablet like an envelope. For extra security, the whole transaction would be rewritten on this outer crust, in effect making a carbon copy of the original. Attempted alterations of the envelope could be detected by comparing it with its contents, and the original could not be altered without cracking off and destroying the outer shell (Previtts and Merino, 1979).

Governmental accounting in ancient Egypt also developed in a fashion similar to those associated with the Mesopotamians. The use of papyrus rather than clay tablets allowed more detailed records to be made more easily. Extensive records were kept, particularly for the

network of royal storehouses within which the tax payments were kept. Egyptian bookkeepers associated with each storehouse kept meticulous records, which were checked by an elaborate internal verification system. These early accountants had good reason to be honest and accurate, because irregularities disclosed by royal audits were punishable by fine, mutilation or death. Although such records were important, Palliam and Shalhoub (2003) maintain that ancient Egyptian accounting never progressed beyond simple list-making in its thousands of years of existence. Perhaps more than any other factors, illiteracy and the lack of coined money appear to have hindered the development of accounting. Moreover, the meticulous paper driven Arab World can be attributed to the work of the Egyptians.

Since the Egyptians at that time treated gold and silver not as units of fungible value, but rather as mere articles of exchange. The inability to describe all goods in terms of a single valuation measure made accumulation and summation difficult and the development of a cohesive accounting system practically impossible. According to Alexander (2002) Pre-Christian China used accounting chiefly as a means of evaluating the efficiency of governmental programs and the civil servants who administered them. A level of sophistication was achieved during the Chao Dynasty which was not surpassed in China until after the introduction of double entry processes in the 19 century. In the 5th century B.C., Greece used public accountants to allow its citizenry to maintain real authority and control over their government's finances. Members of the Athens Popular Assembly legislated on financial matters and controlled receipt

and expenditure of public monies through the oversight of 10 state accountants, chosen by lot. One of the most important Greek contributions to accountancy was its introduction of coined money about 600 B.C. Widespread use of coinage took time, as did its impact on the evolution of accounting. Banking in ancient Greece appeared to have been more developed than in prior societies. Bankers kept account books, changed and loaned money, and even arranged for cash transfers for citizens through affiliate banks in distant cities.

The Association of Chartered Accountants in the United States also considers Alexander's (2002) historical survey as an authority on the historical development of accounting. The Association contends that government and banking accounts in ancient Rome evolved from records traditionally kept by the heads of families, wherein daily entry of household receipts and payments were kept in an *adversaria* or daybook, and monthly postings were made to a cashbook known as a *codex accepti et expensi*. These household expenses were important in Rome because citizens were required to submit regular statements of assets and liabilities, used as a basis for taxation and even determination of civil rights. Elaborate systems of checks and balances were maintained in Rome for governmental receipts and disbursements by the *quaestors*, who managed the treasury, paid the army and supervised governmental books. *Quaestors* in ancient Rome were magistrates who were responsible chiefly for financial administration. Public accounts were regularly examined by an audit staff, and *quaestors* were required to account to their successors and the Roman senate

upon leaving office. The transition from republic to empire was, at least in part, to control Roman fiscal operations and to raise more revenues for the ongoing wars of conquest. While the facade of republicanism was maintained, the empire concentrated real fiscal and political power in the emperor. Julius Caesar personally supervised the Roman treasury, and Augustus completely overhauled treasury operations during his reign. Amongst Roman accounting innovations were the use of an annual budgets, which attempted to coordinate the Empire's diverse financial enterprises, limited expenditures to the amount of estimated revenues and levied taxes in a manner which took into consideration its citizens' ability to pay. The thousand years between the fall of the Roman Empire and the publication of Luca Pacioli's Treatise widely viewed as a period of accounting stagnation, and medieval practices outside Italy are often ignored in historical summaries. Accounting historian Chatfield and Vangermeersch (1996) observed, medieval agency accounting, laid the foundations for the doctrines of stewardship and conservatism, and the medieval era created the conditions for the rapid advance in accounting technology that occurred during the Renaissance.

Early recordings for government - domesday

Giroux (2007) in tracing the historical evolution of accounting, notes that accounting under the Roman Empire was prescribed by the centralized legal codes of the time. Medieval bookkeeping was localized and centered on the specialized institutions of the feudal manor. The systems of exchequer and manor necessitated numerous delegations of author-

ity over property from the owners to actual possessors and users. The central task of accounting during this era was to allow the government or property owners to monitor those in the lower portions of the socio-economic pyramid.

It is widely reported (Bachrach 1988) that when William the Conqueror invaded England, he took possession of all property in the name of the king. In 1086 a survey was conducted of all real estate and the taxes due on them, known as the Domesday Book. According to Alexander (2002), the oldest surviving accounting record in the English language is considered the Pipe Roll, or the Great Roll of the Exchequer, which provides an annual description of rents, fines and taxes due the then King of England. Compiled from valuations in the Domesday Book and from statements of sheriffs and others collecting for the royal treasury, the Pipe Roll was the final record whereupon various county sheriffs were called before the Exchequer at Westminster to pay about half of the total annual assessments his county owed.

Much of the current bureaucracy in recording transactions associated with government accounting can be attributed to this period. Lest one forgets debit comes from the Italian “debito” which comes from the Latin “debita” and “debeo” which means: Owed to the proprietor or an asset of the proprietor and credit comes from the Italian “credito” which comes from the Latin “credo” which means: Trust or belief (in the proprietor) or owed by the proprietor.

Accounting renaissance

A literature review as published by the

Association of Chartered Accountants in the United States suggests that the Italians of the Renaissance (14th - 16th century) are widely acknowledged to be the fathers of modern accounting and they elevated trade and commerce to new levels, and actively sought better methods of determining their profits. Although Arabic numerals were introduced long before, it was during this period that the Italians became the first to use them regularly in tracking business accounts – an improvement over Roman numerals the importance of which cannot be overstated. It is noted that they kept extensive business records, as the use of capital and credit on a large scale developed (Alexander 2002). The evolutionary trend toward double entry book-keeping was underway. Luca Pacioli was considered a true Renaissance man, with wide knowledge of literature, art, mathematics, business and the sciences, at a time when few could even read. Leonardo da Vinci helped prepare the drawings for Pacioli's 1497 work, *Divina Proportione*. In turn, Pacioli is reputed to have calculated for da Vinci the quantity of bronze needed for the artist's huge statue of Duke Lodovico Sforza of Milan (Alexander 2002). Pacioli's *De Computis* begins with some basic instruction for commerce. The successful merchant, declares Pacioli, needs three things: adequate or sufficient cash or credit, good bookkeepers and an accounting system which allows one to view one's finances at a glance. Before commencing business, one should prepare an inventory listing all business and personal assets and debts. This inventory must be completed within one day, and property should be appraised at current market values and arranged according to mobility and value, with cash and other valuables listed first since they are most

easily lost. Alexander (2002) considers the memorandum, or memorial, as Pacioli's equivalent of a daybook, for the recording, in chronological order, of business transactions as they occurred. The transaction could be entered in any of the various monetary units then in use in the Italian city-states of the time, with conversion to a common currency for double entry left for later. The journal became the book of the merchant's private account. Entries consisted of a narrative debit, credit and explanation in one continuous paragraph. The journal had only one column, which was not totaled. There were no compound entries. The first 16 chapters of *De Computis* describe this basic system of books and accounts, while the remaining 20 are devoted to specialized accounting issues of merchants. These include bank deposits and withdrawals, brokered purchases, drafts, barter transactions, joint venture trading, expense disbursements and closing and balancing books.

The trial balance (*summa summarium*) is the end of Pacioli's accounting cycle. Debit amounts from the old ledger are listed on the left side of the balance sheet and credits on the right. If the two totals are equal, the ledger is considered balanced. If not, says Pacioli according to Giroux (2007), that would indicate a mistake in one's ledger, which mistake one will have to look for diligently with the industry and intelligence. It is most surprising how little bookkeeping methods have changed since Pacioli. Both the sequence of events in the accounting cycle and the special procedures he described in *De Computis* are familiar to modern accountants. The primary differences between current bookkeeping practices and the Method of Venice are additions and refinements brought about

by the needs of a larger scale of business operations. The small proprietorships of 15th century Italy had no need for specialized journals, subsidiary ledgers, control accounts, formal audit systems, cost accounting or budgeting. Some omissions, such as the failure to touch on accruals and deferrals, probably occurred because Pacioli felt they were too advanced. The numerous details of bookkeeping techniques set forth by Pacioli were followed in texts and the profession over the last four centuries according to Hatfield (1916).

In summary while Pacioli is often called the "Father of Accounting," he did not invent the system. Instead, he simply described a method used by merchants in Venice during the Italian Renaissance period. His system included most of the accounting cycle as it is known today. He described the use journals and ledgers, and he warned that a person should not go to sleep at night until the debits and credits were equal. His ledger included assets (including receivables and inventories), liabilities, capital, income, and expense accounts. He demonstrated year-end closing entries and proposed that a trial balance be used to prove a balanced ledger. Moreover, his treatise alludes to a wide range of topics from accounting ethics to cost accounting.

The establishment of the accounting profession – joined for common purpose

Both the early and modern accounting profession owe much of its origin to Scotland. It is in Scotland that the chartered accountancy as a profession originated, and it is in Scotland one finds the oldest existing societies of public accountants according to Willmott (1986)

who traces the growth of the profession in the United Kingdom. In Edinburgh accounting was for long associated with the profession of law, so that one frequently finds the designation of *writer* applied in one place to the same individual who is in another designated as an *accountant*. There are several instances of members of the Society of Writers to the Signet, the leading Solicitors' Society in Scotland, practicing as accountants. Moreover, until comparatively recent times, much accountant's work was done in solicitor's offices. Again, to a certain extent in Edinburgh, but to a greater extent in the more commercial city of Glasgow, the designation of accountant was, in early times, confused with that of merchant, a term of much wider significance then than now.

Directly after its formation the Edinburgh Society deliberated upon a distinctive title for its members, and resolved to adopt the name of chartered accountant. The Glasgow Institute also adopted the same title and so did the Aberdeen Society. It naturally took some time before the new name became familiar to the public and in 1880 the same designation was adopted by the English Institute and it soon became a recognized term in former English colonies (Willmott 1986). By the middle of the 19th century, England became highly prosperous as a result of the Industrial Revolution. It became the leading producer of coal, iron and cotton textiles. Consequently, a demand for accountants became apparent. Moreover, large amounts of British capital were flowing to the rapidly growing industries in the United States. Scottish and British accountants traveled to the United States to audit these investments, and a number of them stayed on and to set up practice in

America. Several existing American accounting firms trace their origins to one or more of these visiting Scottish or British chartered accountants (Willmott 1986).

Accounting practice today and in the future

A historical survey (Previts and Merino 1979; Willmott 1986; and Alexander 2002) suggests that the start of the twentieth century saw enormous economic growth. This was a result of industrialization overtaking agriculture in financial importance. This period of growth also saw its share of financial scandals. Overcapitalization and stock speculation caused financial panics during the latter part of the nineteenth century. Labor unions developed in response to corporate exploitation of workers. In the early century, Theodore Roosevelt supported the use of government power to control the growing industrial monopolies and the price increases at that time. The Roosevelt administration helped persuade Congress to establish the Department of Commerce and Labor to gather the facts needed to establish a uniform system of accounting. This is the first instance of accounting being used as an instrument of federal regulation. Unlike the British, who used the balance sheet in an effort to monitor management's use of stockholders' monies, American corporations of the early twentieth century had no comparable history of losses from stock speculation. Rather, American balance sheets were drafted mainly with bankers in mind. Bankers usually emphasize and consider a company's liquidity more than earning power.

Business practices began changing drastically as the United States went through

an inventory depression in 1920 when wholesale prices fell to around 40 percent. Cash flow slowed, loans defaulted and credit became less available to corporations. In response, businesses sought financing from sources less tied to their current cash flow. The offering of corporate stock issues became a leading method of financing expansion. As stockholders, rather than bankers, became the primary users of financial statements, the income statement began to take center stage over the balance sheet. Other factors, such as the rise of income taxation and cost accounting, also shifted the focus to revenues and expenses.

At the turn of the century, Brown (1905) lists four types of funds statements in use -those that summarized changes in cash, in current assets, in working capital and overall financial activities. After securing acceptance for accounting curricula in universities, early accountants began to advocate an expansion of university education to realize the goals of broader, more conceptual programs. Most practitioners considered mastery of the technical procedures of auditing and accounting to be most effectively learned through practical experience; the role of education was to develop analytical ability. Accounting, they believed, required a wide range of knowledge and minds trained to think analytically and constructively. They supported a broad program emphasizing theory and philosophy and were disappointed when the evidence accumulated that accounting educators tended to emphasize the narrow, technical training. It was the university accounting educators who moved from the theoretical approach and turned to the procedural orientation. The accountants believed in the concept of a

broad, general and liberal education. The accounting educators were influenced by John Dewey and his followers, who stressed practicality and relevance. Unfortunately, progressive education became interpreted to mean a kind of vocation with little sympathy or use for so-called liberal arts. Practitioners were deeply disappointed with the trends in the university business schools they had done so much to foster. Despite practitioners' concerns, the trend away from a liberal education toward technical training continued throughout the latter part twentieth century. As time passed, the magnitude and complexity of the required common body of knowledge expanded at an exponential rate. Income tax legislation was passed and the Securities Exchange Commission was created. The Financial Accounting Standards Board promulgated a large number of technical and accounting rules. This knowledge explosion compounded a classic three-way educational dilemma: breadth of education; depth of learning and technical coverage.

Education programs are designed to covering an ever-increasing body of accounting rules rather than developing a full understanding of underlying accounting principles, on which intelligent rule-making ultimately depends. Thus, at the end of an education in accounting, the student has an exposure to a wide array of seemingly isolated rules but lacks an overview of the purpose and the economically universal domain of accounting. As the common body of accounting knowledge expanded, educators responded by adding specialized accounting courses (Previts and Merino 1979). Unfortunately, this further reduced the liberal education component in accounting programs, which practitio-

ners had felt was too sparse from the beginning. Thus, the breadth of education was further narrowed. Depth was sacrificed, as well.

Variety in accounting education – all profits are not made equally

Revenues are the bottom line of profits. An often-debated contention is that, within GAAP, agents have the power, to a certain degree, to manipulate revenues and reported company income. The manipulation is not always in the direction of higher income. Agents prefer to report earnings that follow a smooth, regular, upward path and dislike to report declines, and at the same time prefer to avoid increases that vary wildly from year to year. The extent to which earnings are manipulated has long been of interest to analysts, researchers and investment professionals. Levitt (1998:12) widely publicized accounting problems at a number of companies were in danger of undermining United States capital markets. One of the processes Levitt alluded to was earnings management - an effort among the issuers of financial reports (managements and boards of directors, who have the authority to specify the contents of the reports) "to satisfy consensus earnings estimates and project a smooth earnings path". Concerns were recently expressed suggesting that agents' expectations to satisfy earnings expectations may be the overriding common sense business practices. There is a gradual and noticeable erosion in the quality of financial reporting.

It therefore becomes difficult to hold the line on good practices when agents operate in the gray area between legitimacy and outright fraud. A gray area is

where (GAAP) is perverted; where managers cut corners; and, where earnings reports reflect the desires of management rather than the underlying financial performance of the company. Palliam and Shalhoub (2003) consider an eloquent definition of earnings management which basically occurs when agents use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers. Several aspects of this definition merit discussion.

Firstly, what are the many judgemental ways that agents can exercise in financial reporting consistent with GAAP? Judgment is required to estimate numerous future economic events such as expected lives and salvage values of long-term assets, obligations for pension benefits and other post-employment benefits, deferred taxes, and losses from bad debts and asset impairments. Agents must also choose among acceptable accounting methods for reporting the same economic transactions, such as the straight-line or accelerated depreciation methods or the LIFO, FIFO, or weighted-average inventory valuation methods. In addition, agents must exercise judgment in working capital management (such as inventory levels, the timing of inventory shipments or purchases, and receivable policies), which affects cost allocations and net revenues. Agents must also choose to make or defer expenditures, such as research and development, advertising, or maintenance. Finally, they must decide how to structure corporate transactions. For example, business combinations can be structured

to qualify for pooling or purchase accounting, lease contracts can be structured so that lease obligations are on or off-balance sheet, and equity investments can be structured to avoid or require consolidation.

A second point to note is that the definition frames the objective of earnings management as being to mislead principals or stakeholders about the underlying economic performance of the company. This can arise if agents believe that (at least some) stakeholders do not undo earnings management. It can also occur if agents have access to information that is not available to outside stakeholders so that earnings management is unlikely to be transparent to outsiders. Stakeholders are then likely to anticipate (and tolerate) a certain amount of earnings management and manipulation.

Thirdly, agents can also use accounting judgment to make financial reports more informative for users. This can arise if certain accounting choices or estimates are perceived to be credible signals of a firm's financial performance. For example, if auditing is effective, managers' estimates of net receivables will be viewed as a credible forecast of cash collections. In addition, managers can use reporting judgment to make financial reports more informative by overcoming limitations to current accounting standards. Until recently some successful research and development firms created limited partnerships, which permitted them to effectively capitalize research and development outlays that otherwise would have been expensed. The decision to use accounting judgment to make financial reports more informative for users also falls within the definition of earnings management.

Finally, the use of judgment in financial reporting has enormous costs which include, the potential misallocation of resources that arise from earnings management. It undermines the capital market and ultimately the cost of capital. Benefits could include potential improvements in agents' credible communication of private information to external stakeholders, improving in resource allocation decisions. Agents have no such reservations about trying to achieve stability of income reporting (also known as *smoothing*). This is a fundamental goal of traditional financial reporting. Their wish for stability of income reporting far exceeds their desire for higher reported income. An example is the way companies have accepted income tax allocation, which both lowers and stabilizes reported income.

Accounting standard setters start their discussion from needs of users or objectives of financial statements. Cultural, social, economic, and political factors have considerable effects on the information different financial statements provide. However, these factors are not similar. Socio-cultural principles are suggestive of a variety of implications for governance and accounting. Reflecting upon cultural aspects one needs to engage into the notion of accounting for the social environment. In western countries with regard to basic principles of economy the most important users of financial statements are investors and creditors. Thus, other groups such as government, social authorities, and people are secondary. The theoretical concepts of accounting in the Anglo-American model are self-evident statements or axioms that represent the nature of accounting entities operating in free economy characterized by private

ownership of property. The concept of basic principles of economy in accounting standard setting has been mostly ignored in spite of its potential to provide a more systematic appreciation of the standard setting process. In the west there is a tendency to amass wealth as an economic activity.

Having identified that the history of accounting finds its roots in and around modern Iraq, and drawing from the historical development of accounting in Iraq and Egypt, it would be ideal to discuss key principles of relevance and delineate what is necessary for accounting in different settings. It would be necessary to view the variety of accounting in the Islamic and Western world. Before one explains the basic principles of Islamic economy, the basic principles of economics from an Islamic view need to be considered. Then some of the salient features of basic principles of Islamic economy and their effect on accounting standards setting should be considered. According to Sadr (1994,51-55), the Islamic economy is composed of three basic components, according to which its theoretical content is defined. Thus it is distinguished from other economic theories in terms of the broad lines of these components, which are: The principle of multi-faceted ownership; the principle of economic freedom within a defined limit; and the principle of social justice.

Islam differs essentially from capitalism and socialism in the nature of the principle of ownership, which it acknowledges. Capitalist society believes in the private individual form of ownership, namely private ownership. It allows individuals private ownership of different kinds of wealth in the country according to their activities and circumstances. It

only recognizes public ownership when required by social necessity and when experience demonstrated the need for nationalization of this or that utility. Socialism society is completely contrary to that. Common ownership is the general principal which it is applied to every kind of wealth. Appendix 1 presents the differences together with the destiny of accounting.

Destiny: the pursuit of truth and common good accounting

The recent financial crisis has made it clear that the future of accounting is up for grabs. Accountants have become a group of people who simply could not handle being the bearer of bad tidings. The furthest accountants went in delivering the worse news was to prepare stakeholders for bad news. In exploring the causes for the current economic decline and their implications for modes of regulating advanced capitalist economies, the death knell for *laissez-faire* accounting is being signaled. As different countries and regions attempt to manage the transition to newer forms of economic systems, one needs to ascertain what accounting models work best to weather the current economic upheaval. Going back to the basics of building the infrastructure of trust and industry as practiced by historical forefathers of accounting may provide a more meaningful solution. “*You shall not steal, nor deal falsely, nor lie to one another.*” False accomplishments and achievements among leadership create what one calls narcissistic value. Stakeholders’ attitude wavers erratically between three different images of accounting leadership. The first is based on dependence and a recognition that stakeholders as a

whole rely on the accounting function for financial security and a lifestyle that both agents and principals have grown used to. The second is grounded in hope and focuses on the energy and creativity that a group of motivated accountants endowed with social, human and cultural capital can bring to bear on a problem. The third is dominated by a sense of fear, vulnerability and suspicion particularly in uncertain times. The notion of "common good" accounting entails primarily of having the social systems, institutions, and environments on which people depend to work in a manner that benefits all people. An example of particular common good or parts of the common good would include an accessible flourishing accounting system which has a powerful impact on the well-being of all members of society. Virtually every socio-economic problem in one way or another is linked to how well an accounting system is functioning. Common good accounting does not just happen. The common denominator of establishing and maintaining the common good accounting requires trust and industry. Gandhi in his first ever public speech in South Africa to Indian merchants alluded to observing truthfulness in business. He awakened the merchants to a sense of duty. The need for and the responsibility of being truthful was greater in a foreign land because the conduct of a few was the measure of that of the millions of their fellow countrymen. Likewise, bringing any form of disrespect to the accounting profession constitutes a sense of shamefulness collectively shared by people.

Students perceive accountants work with numbers, not people, and there is one right answer to every accounting question. This perception is consistent with

the type of examinations that fail to test writing and interpersonal skills. Accounting professors have rarely required students to apply such skills in accounting courses. Term papers disappeared in favor of more lectures and problems, while multiple-choice examinations gradually displaced essays. The student should come to understand man himself, his history, the philosophies by which he lives, the language by which he communicates and the arts and sciences which enrich his existence.

It is certainly not wrong for cynics to rate accounting rather than entrepreneurship as the key driver of wealth generation and that accounting has become more a key and fundamental pillar of an economic system in any free and democratic society. There has always been a call for market forces to be embedded into a globally enhanced and more coordinated regulatory framework. At least two decades have been devoted by academics and practitioners criticizing accounting education as being too narrow and too technical to properly prepare entrants for the rapidly changing and expanding profession. There were urgent calls for a broader, more liberal accounting education. Early academics believed accounting required a wide range of knowledge and minds trained to think analytically and critically. However, accounting programs through the years have largely emphasized technical training at the expense of the broad, liberal education that was intended by the founding practitioners who sponsored the first university schools of business. Forward-looking accountants cum academics have for many years been deeply disappointed with the narrow focus of accounting programs and with the rules-based, procedural approach of account-

ing courses. These criticisms of accounting education sound remarkably similar to recent concerns. The intensity and urgency of current mandates for change may be a result of years of frustration.

Table 1 presents a summary of the identity, variety and destiny of accounting. The identity is reflected as the Anglo-American model. Variety is shown in terms of an Islamic model. Destiny is shown as a proposed model. With spe-

cific reference to economic approach, the term macro means something very large in span. The macro dimension of accounting entails relationships among agents within the enterprise and principals in society. Supra is a pre-fix meaning above or over. The supra-macro dimension of accounting focuses on matters above and over every transaction recording and financial reporting process.

Table 1. Comparison of Accounting Elements between the British-American Model with an Islamic Accounting Model and a Proposed Model

ELEMENTS	ANGLO-AMERICAN MODEL	AN ISLAMIC MODEL	DESTINY (A PROPOSED MODEL)
Economic Approach	Micro	Macro	Supra-Macro
Primary Users	Investors and Creditors	State, Management	Labor and Consuming public
Accounting Policy	Goal Oriented	Value Oriented	Common Good Oriented
Asset Valuation	Historical Cost Price	Current Exit Price	Responsible Market Value
Income Determination	Revenue-Expense Approach	Asset-Liability Approach	Incorporation of Cashflows
Time Value Money	Yes	No	Yes
Time Period	Yes	Yes	Yes
Primary Focus	Income Statement	Balance Sheet	Cashflows
Theoretical Concept	Entity Theory	Proprietary Theory	Stakeholder Theory
Going Concern Postulate	Based on Income	Based on Islamic Law	Laws of Succession
Fixed Interest	Yes	No	Variable
Legalistic Orientation	Common Law	Religious Law	Laws relating to common good
Accounting Rules	Technical	Ethical	Moral and Ethical
Accounting Ethics	Professional Ethics	Religious Ethics	Good citizenship
Stock Exchange	Yes	Yes	Yes
Market Bonds	Yes	Yes with request condition	Yes
Accounting Approach	Value Approach	Event Approach	Interdisciplinary

Conclusion

Individuals entering the accounting profession require a broad liberal arts cultural background which should give them an appreciation of their responsibilities to society, the profession and the state. On a cultural dimension there must be a knowledge foundation of the broad field of business and economics and superimposed on the technical training in their chosen field. This plan of accounting education must be coupled with recognition of its interrelatedness with supra-macro issues. This entails having a sufficiently broad knowledge of the so-called arts and sciences to give one a proper appreciation of present-day civilization. Moreover, one should know the major scientific facts about the world one lives in and should have an appreciation of the richer fruits of civilization, usually known as the fine art or liberal arts. This viewpoint has been consistently expressed by leading practitioners and academics. The students should come to appreciate the humanities, including art and literature, and to understand the major concepts of mathematics, physical and biological sciences, and the social sciences. Such study should contribute to the development of individuals not only endowed with intellectual capital but also social, human and cultural capital. The accountant of the future must be a man of broad educational background like the predecessors of the renaissance period. In their numerous and divergent efforts to change accounting education, accounting professors might do well to consider the original intent of a university degree and how far one has strayed from that objective. Calls for a major shift away from technical training towards a more well rounded, traditional education that de-

velops higher thinking and communication skills, should be consistently expressed. The factors that impede changes include students, practitioners and accounting professors as a group favoring technical education and they fail to truly recognize the value of a liberal education. To correct the deficiencies, an entire educational process must be reengineered and an education for common good should be considered.

References

- Albrecht, W. S., and Sack, R. J. (2000) "Accounting Education: Charting the Course through a Perilous Future, *Accounting Education Series*, Vol. 16.
- Alexander, J.R. (2002) *History of Accounting*, NETGAIN, Association of Chartered Accountants, New York.
- Annisette, M., (2006) "People and periods untouched by accounting history: an ancient Yoruba practice", *Accounting History*, Vol. 11, No. 4, 399-417.
- Bachrach, B.S. (1988) "Albion: A Quarterly Journal Concerned with British Studies", Vol. 20, No. 3, pp. 450 (Autumn 1988).
- Bebbington, J. (2001). "Sustainable development: A review of the international development, business and accounting literature", *Accounting Forum*, Vol. 25, No.2, 128-157.
- Bedford, N. M., and Shenkir, W.G. (1987). "Reorienting Accounting Education", *Journal of Accountancy*, (August), pp. 84-91.
- Brown, R. (1905) *A History of Accounting and Accountants*: Beard Books.

- Carroll, A. B. (1979) "A three dimensional model of corporate performance", *Academy of Management Review*, Vol. 4, No. 4, 497-505.
- Chatfield, M., and Vangermeersch, R. (1996) *History of Accounting: An International Encyclopedia*. New York: Garland.
- Fairclough, N. (1992) *Discourse and social change*. Cambridge, UK: Polity Press.
- Freeman, R. E. (1984) *Strategic management: A stakeholder approach*. London: Pitman.
- Gray, R. (2001) "Thirty years of social accounting, reporting and auditing: What (if anything) have we learnt?", *Business Ethics: A European Review* Vol. 10, No. 1, page 915.
- (2002) "The social accounting project and Accounting, Organizations and Society: Privileging engagement, imaginings, new accountings and pragmatism over critique?", *Accounting, Organizations and Society*, Vol. 27, 687-708.
- , Owen, D., and Adams, C. (1996) *Accounting and accountability: Changes and challenges incorporate social and environmental reporting*. London: Prentice Hall.
- Giroux, G. (2007) *Accounting History* (<http://acct.tamu.edu/giroux/history.html>)
- Hatfield, H. R. (1916) *Modern Accounting*. New York: Appleton.
- Hall, S. (2009) *The history of Accounting*, <http://faculty.tamucc.edu/shall/homepage/history.doc>
- Jensen, M. & Meckling, W. (1976) "Theory of the firm: managerial behavior, agency costs and ownership structure", *Journal of Financial Economics*, Vol. 3, pp. 305-360.
- Institute of Management Accountants, (1994) *What Corporate America Wants in Entry-Level Accountants*. Montvale, NJ: IMA.
- Langenderfer, H. Q. (1987) "Accounting Education's History: A 100-Year Search for Identity", *Journal of Accountancy*, (May), pp. 302-331.
- Lehman, C. and Tinker, T. (1987) "The 'real' cultural significance of accounts", *Accounting, Organizations and Society*, Vol.12, No. 5, 503-522.
- Levitt, A. (1998) "The importance of high quality accounting standards". *Accounting Horizons* Vol. 12, No. 1, pp. 79-82.
- Logsdon, J. M. & Wood, D. J. (2002) "Business Citizenship: From Domestic to Global Level of Analysis". *Business Ethics Quarterly*, Vol. 12 No. 2, 155-187.
- Palliam, R., and Shalhoub, Z. (2003) "The phenomenology of earnings management within the confines of agency theory", *International Journal of Value-based Management*, Vol. 16 No.1, pp.75-88.
- Previts, G. J., and Merino; B.D. (1979), *A History of Accounting in America: An Historical Interpretation of the Cultural Significance of Accounting*. New York: Ronald Press.
- Ramirez, C. (2001) "Understanding social closure in its cultural context: accounting practitioners in France", *Accounting, Organizations and Society*, Vol. 26, pp. 391-418.
- Sadr, Muhammad .B. (1994) *Our Economic 2nd Edition*, Tehran, Iran.
- Taheri, M. R. (2000) "The basic

- principles of Islamic Economy and their effects on accounting standards-setting", *International Institute of Business and Finance*.
- Vaughan R. S. (2005) *The roaring nineties: accounting history comes of age* *Accounting Historians Journal*.
- Willmott, H. (1986) "Organising the profession: A theoretical and historical examination of the development of the major accountancy bodies in the UK", *Accounting, Organizations and Society*, Vol. 11, No. 6, pp. 555-80.