

## Editorial

# Some reflections on accounting research and some (heavy?) statements and conclusions

Sérgio de Iudícibus<sup>1</sup> , Eliseu Martins<sup>2</sup> 

<sup>1</sup> Pontifícia Universidade Católica de São Paulo, São Paulo, São Paulo, Brazil  
<sup>2</sup> Universidade de São Paulo, São Paulo, São Paulo, Brazil.



<sup>1</sup>siudicibus@osite.com.br  
<sup>2</sup>prof.eliseu.martins@gmail.com

Allow us to reminisce, reflect, and express our modest opinions on accounting research, primarily drawing from a historical perspective, our experiences, and our personal insights rather than an endless stream of empirical studies and citations. On the other hand, please don't expect groundbreaking revelations, as we, the authors, have collectively authored at least a dozen prior works in this direction, either individually or in collaboration with other esteemed colleagues or solely by our own efforts. We request your special attention and humbly subject ourselves to the critiques of all who read our words. In fact, we would welcome your feedback, be it public or private, to either embolden us to continue or to realize that we have become outdated.

When it comes to current accounting research, and in fact, for many years now, we can provocatively consider at least two perspectives. In the first, which is extremely pessimistic, we observe that we have shifted from being thinkers and innovators, but not testers of our own theories, to primarily being confirmers of anything that can be statistically related, even without much concern for causality, only correlation. Whether governance causes profitability or profitability enables good governance doesn't matter. What matters are the five percent of correlation! (???). Whether the research is useful or not is secondary; what's important is econometric methodology, which seems to be the indicator of research quality. Nothing is created, and there is no conceptual discussion. It's sometimes stated that science isn't made with ideas alone! This is true, even though it's known that there are few chances of science without creativity.

In the second, extremely optimistic view, in recent times, we have transitioned from brilliant statisticians who produce empirical studies (which, at one extreme, surprise us with their conclusions, and at the other, confirm the expected) to those who, with scientific rigor and objectivity, allow us to investigate the consequences of past decisions and events. The usefulness of this perspective is evidenced by the demand from accounting standard-setting bodies (primarily IASB and FASB) for these works and their engagement with researchers, especially to seek analyses of the consequences of standards that are already in practice. That's excellent! It's something truly necessary, mandatory, and encouraging.

*Como Citar:*

Iudícibus, S. de, & Martins, E. Some Reflections on Accounting Research and Some (Heavy?) Statements and Conclusions. *Advances in Scientific and Applied Accounting*, 001–004/005. <https://doi.org/10.14392/asaa.2023160301>

However, even in this latter view, as in the former one, there are findings that can be disconcerting, more in one and less in the other, or sometimes in both: Utility often doesn't seem to be a concern for the accounting scientist. It seems that the accounting scientist must remain indifferent and neutral regarding this characteristic. The responsibility for addressing the issues identified also doesn't appear to lie with the researcher but with practitioners and standard-setters. The creation of ideas and proposals seems to be relegated to a lower level than scientific endeavor, the realm of those who lack the capacity for quantification. Theory seems to be mere mental speculation. Expressing one's own opinion sometimes appears to be a sin, with only citations permitted. There's an obsession with finding an existing theory to support the work, but the temptation to generate new theory is prohibited.

Much has been said about scientific revolutions often being accompanied by radicalism and extremism, and this is true in all areas of human knowledge. We see a bit of this in accounting research as well. Let's briefly review the history of the evolution of accounting study and research.

We are tired of knowing that Accounting was born approximately a millennium ago with its dual methodology, primarily aimed at asset control and performance measurement, in other words, mainly focused on meeting managerial needs—functions that, of course, continue to exist. It was born from practitioners who developed, tested, and improved it. Then, creditors began to meddle in it to secure their interests in many countries, while in others, investors became the center of attention. Initially, the focus was on performance evaluation and assessing the state of assets. More recently, its noble mission has expanded to producing information that helps forecast future cash flows, serving the needs of investors, creditors, and other stakeholders, while still addressing the entity's management needs. As a result, accounting information, originally primarily for internal (and later, tax) users, has become of paramount importance to these external users—perhaps more so than previously imaginable.

The challenging question remains: how much of this evolution was due to accounting practitioners, and how much was due to researchers? Or perhaps, how much is attributed to those who were both practitioners and researchers simultaneously? After all, in all areas of knowledge, there is a wealth of research outside academia in the real world. This research might not always meet the most rigorous methodological standards, but it stems from the quest to find solutions to practical situations. It may originate from the inquisitive nature of professionals, but it

still represents a valuable accumulation of knowledge. This accumulation is essentially the primary aim of research. It was this amalgamation of practice and creativity that has brought us to where we are today.

The very founders of the double-entry accounting methodology, when transitioning from cash flow to the configuration of assets, liabilities, revenues, and expenses based on the accrual basis, did nothing more than think (which is also a form of research, something that many seem to have forgotten), test, rethink, retest, and so on. Initially, all of this happened exclusively in the practical realm.

The use of information by external users necessitated the standardization of accounting practices, which led to the phase just prior to the current one, characterized mainly from the second half of the 19th century by normative research. In this phase, all thought and effort were dedicated to creating accounting standards (legal, sub-legal, or customary, depending on the legal culture) based on the practical experience of norm setters themselves, along with simulations and arguments that reinforced the opinions of proposers in the field of Financial Accounting. All of this was done to facilitate understanding of an entity's financial position and its changes. Initially, academia was primarily focused on disseminating existing knowledge.

However, within academia, researchers interested in generating new ideas and propositions for practical purposes began to emerge. This included uses both within and outside the entity. There was always a strong connection to practice. A powerful symbiosis developed between practitioners and normative academic researchers. Virtually all major topics were developed within this methodology. Here are a few examples, without any intention of being all-encompassing:

- definitions of assets, liabilities, revenues, and expenses, all increasingly adhering to the accrual basis, originally arising from practice and further refined through the adoption of conceptual frameworks,
- the remarkable development of consolidated financial statements, emerging from the need to solve problems arising from fraud and later reinforced by theoretical frameworks, including the fantastic a) creation of the economic entity concept to complement the legal entity concept and b) substitution of the legal ownership concept with the control concept in defining and recognizing balance sheet and income statement elements (now, of course, in cash flows as well),

- handling the effects of inflation (we practiced this extensively in Brazil, but the lawmakers preferred - and unfortunately, we didn't resist enough - to return to the phase of accounting for true numbers in nominal terms, which are false in real value terms. Interestingly, such a conceptually important topic is almost entirely forgotten in the academic world),

- the development of the fair value concept (expanding from the old market value) from its intuitive application to foreign currency assets and liabilities, followed by creative application to gold mining and subsequent extension to mineral, plant, and animal assets, to certain financial instruments, and more recently to investment properties etc.,

- differentiation between income and comprehensive income, with nearly fierce academic conceptual debates between operational income and the all-inclusive concept,

- development of the value-added statement, in Europe and Brazil,

- evolution (or involution in some aspects?) of the accounting for lease contracts,

- creation of artificial expenses (is this good or bad?) as in certain cases of stock options (contrary to the accounting theory that profit and cash must necessarily equalize over time),

- development of accounting for complex financial instruments,

- more specific accounting, such as for public service concessions, insurance, mining, biological activities, etc.

(Not to mention Managerial Accounting when it comes to cost allocation methods, for example.)

Again, the question arises: how much of this development is due to the evolution dictated by practitioners and standard setters based on their knowledge and experience, and how much to pure academic research? In fact, in most cases (with exceptions, of course), situations that originated in practical life and were later developed in the academic world. The treatment of accounting in inflation is a typical case; it originated from practical problems of converting financial statements from local currency to foreign currency (translation), and then the technique was further developed more academically for cases of currencies with the same name but varying purchasing

power over time (price level accounting). But what's important is that strong development occurred through the combined efforts of practitioners and academic researchers. These researchers were very focused on analyzing practical issues, participating in the conceptual creation of changes, providing conceptual foundations for these changes, and also generating original ideas.

However, all this research, when pure in the academic world, within this normative line focused on analyzing or "finding" a better way of accounting (identification, measurement, recognition, and disclosure) than another. Until a certain time, there was virtually no subsequent empirical research to ensure the achievement of the desired objectives, or to identify user needs. There was a lot of idea generation or refinement (in Brazil, we emphasize the full disclosure of financial statements, in which we, the authors, were deeply involved, and the Gecon model, economic management of companies, by the late Professor Armando Catelli). Many of these ideas were put into practice, but there was very little empirical confirmation of their real utility worldwide. There was a lot of "guesswork," it's true, with a lot of nonsense and a lot of brilliance side by side. Often, there was significant creativity, but there was a major deficiency in terms of rare or no empirical research into the actual utility of these ideas.

Until the second half of the last century, finally, at long last, empirical research began to emerge in the field of accounting! It was a significant recent revolution in accounting research. Hallelujah!

But what have we seen in recent decades? The pendulum has swung excessively to the other side in the academic world. Practitioners and standard-setters continue to generate new ideas and practices. Among standard-setters, some researchers are more closely linked to practice. However, what about pure academic researchers? Have they created something new in conceptual terms? Have they, through their extensive empirical research, produced well-founded documents suggesting modifications to the accounting being practiced, the elimination of rules, or the creation of new alternatives?

For example, what academic research supported the conceptual revolution in accounting for executory contracts? The International Financial Reporting Standards (IFRS) Conceptual Framework itself prohibits the recognition of contracts where both parties have not yet fulfilled their obligations and do not yet have complete rights to the goods or services contracted. In today's accounting, nobody records a contract for the purchase

of goods (even in the case of a 30-year raw material supply contract, as we know) or services to be received in the future, or the construction of a new property, or the future receipt of a bank loan, and so on. However, a few years ago, we started recognizing executory lease contracts as assets and liabilities. To the best of our knowledge, this conceptual change was heavily driven by standard-setters, not the academic world. (We, the older generation, remember that executory contracts were once used in accounting, including in Brazilian accounting, with the use of Clearing Accounts, still in use in the national financial system, but for internal control and as a source of information for some disclosures, but let's leave that point aside.) In other words, there was a significant revolution in the presentation of financial statements and results for some companies with the new standard, with virtually no (as far as we know) academic research involvement.

The thousands of academic research studies ended up focusing exclusively on the world of empirical findings; it's this exclusivity that has concerned us for some time, not the methodology of empiricism. It's the overemphasis on this aspect, the deviation of so much academic effort into an area that is absolutely necessary but at the expense of creativity, theory, conception, and imagination. We also regret, because of this, a significant disconnect between the world of practitioners and the academic world.

We are strong advocates of useful empirical research (here Eliseu is saying: introduced in Brazil largely by co-author Ludícibus). We have nothing against it, quite the opposite. But not only that! We have abandoned

conceptual research, significantly restricted opportunities for generating new ideas, and left the field of creation exclusively to standard-setting bodies. (Fortunately, there have been academic researchers within these bodies, but the majority is always practitioners. Even so, it is easy to see that more theory is discussed there than in academia!) We have limited our own field of action in the academic world and placed ourselves merely in a position of followers of what creative practitioners and standard-setters produce.

As we mentioned, scientific revolutions often come with radicalism, and this happened in our field. Academic research shifted from being excessively normative to being excessively empirical. We need a new revolution to make both approaches coexist. We should learn from many other sciences: there are those who create and those who prove. Those who prove demonstrate the benefits and flaws of the creators, and those who analyze these flaws come up with new proposed solutions to be tested and so on. (What would happen to Physics if there were only theorists or only empiricists?) Furthermore, we need to maintain a strong number of academic researchers working in the practical world or alongside it because it's evident that this combination has brought us here and continues to drive us forward, and nothing seems to indicate a better path for the future.

More involvement with the practical world and much greater integration between theoretical, normative, and empirical research.