Regulatory Approach to Formulate Accounting Theory: Literature Study of Developed Countries

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Keywords: Financial Accounting Standards; Regulatory Approach

Abstract: The purpose of Accounting is to provide user quantitative information, primarily on financial of an economic entity that is intended to be useful in decisions making for external and internal parties, among various other alternatives. The main purpose of accounting theory is to provide a basis for predicting and explaining accounting behavior and events. A different approach has been adopted by accounting researchers and academics to formulate accounting theory. The traditional approach being used for the formulation of accounting theory has applied one of the normative or descriptive methodologies, theoretical or non-theoretical approaches, deductive or inductive reasoning, and has a focus on the concept of "fairness", "social welfare", or "economic welfare". The traditional approach has developed into an eclectic approach and is now replaced by a more recent approach that stands out among them is a regulatory approach that can technically be considered as the embodiment of accounting standards. Accounting can be described as a business language. The development of Accounting Standards in Indonesia began in the period 1973-1984 by forming an Indonesian Accounting Principles Committee. By the end of 1994 the committee made an improvement of Indonesia's accounting principles. In order to apply the new accounting standard, by the end 1995 the Indonesian Accountants Association continue the improvement. Until the end of 2008 the number of IFRS adopted had only 10 IFRS standards from a total 33 standards, the Financial Accounting Standards continuing the improvement continuously, both completion and additions of new standards.

1 INTRODUCTION

Accounting has a conceptual theoretical framework that forms the basis of the implementation of its techniques, this conceptual basic framework consists of standards (techniques, principles) and practices that have been accepted by the public because of their usefulness and logic. There are different approaches to formulation accounting theory and one of them is the regulatory approach. The regulatory approach is the embodiment of accounting standards. This approach is based on the suggestion that accounting theory must be developed by first identifying account users and then finding out what information they need. The lack of consistency in what constitutes accounting theory, however, makes the results problematic.

It is recommended that this approach will enable us to assess current accounting practices and help guide the development of new procedures, thus satisfying the objectives of accounting theory (Hendriksen, 1994). If this user group is willing to express its response to a financial report, important materials will appear in the discussion and analysis of accounting standards that are valid or not yet regulated so that applicable accounting standards will be continuously up to date in accordance with the wishes of most of the users. Both of these groups have contributed to the formulation of accounting standards (Simanjuntak, 2018)

Financial Accounting Standards are provisions that regulate business entities to compile financial statements. Indonesia has its own accounting standards generally accepted in Indonesia. Accounting principles or standards that are generally used in Indonesia are compiled and issued by the Indonesian Institute of Accountants. The Indonesian Accountants Association is an accountant professional organization in Indonesia (Putra, 2018).

Simanjuntak, A., Purba, D., Muda, I. and Ginting, S.
Regulatory Approach to Formulate Accounting Theory: Literature Study of Developed Countries.
DOI: 10.5220/0009508811791184
In *Proceedings of the 1st Unimed International Conference on Economics Education and Social Science (UNICEES 2018)*, pages 1179-1184
ISBN: 978-989-758-432-9
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Accounting standards dominate the duties of accountants. These standards are constantly changing, deleted, and / or added both in the United States and in other countries. Standards provide practical and easy instructions related to the duties of accountants. Standards are generally accepted as company rules, followed by sanctions for non-compliance.

The history of accounting is an evolutionary study of what we think of accounting practices that occur and institutions involved in the accounting field itself. The history of the development of accounting is very important to learn to know the development of accounting from time to time to predict accounting developments in the future. Meanwhile in Indonesia, accounting practices were introduced in the Dutch colonial era by an organization called Amphioen Society based in Jakarta around the seventeenth century. This bookkeeping practice is named the Double Entry Bookkeeping system developed by Luca Pacioli. (Simanjuntak, 2018)

Accounting standards will constantly change and develop in accordance with the times and demands of society. Some reasons for the importance of standard accounting standards (Belkaoui, 1986) as follows:

1. Can present information about financial information, achievements, and activities of the company. In this case the information compiled must be based on common accounting standards which are expected to have clear, consistent, reliable and comparable characteristics.
2. Give guidelines and regulations to work for accountants so that they can carry out their duties carefully, independently, and can devote their expertise and honesty through the preparation of accounting reports after checking the accountant.
3. Providing a data base to the government about various information that is considered important in tax calculations, regulations about the company, planning and economic regulations, and increasing economic efficiency and other macro objectives.
4. Can attract severe experts and practitioners in the field of accounting theory and standards. In this case, the more standards that are issued, the more controversy and the more excited it is to debate, polemic and conduct research.

The formulation of the problem from this research is:

1. What is the Regulatory Approach to the Formulation of Accounting Theory in Indonesia?
2. How the Development of Accounting Standards in Indonesia?
3. How to compare the use of accounting standards in the European Union and in Indonesia?

The purpose of this study is:

1. To find out the Regulatory Approach for the Formulation of Accounting Theory in Indonesia.
2. To find out the development of accounting standards in Indonesia.
3. To find out the comparison of the use of accounting standards in the European Union and in Indonesia.

2 DISCUSSION

2.1 Accounting Standards

Accounting standards are concepts, principles, methods, techniques, and others that are deliberately chosen on the basis of a conceptual framework by the standard drafting body (or authorized) to be applied in an environment or country and set forth in the form of official documents to achieve the objectives of the country's financial reporting.(Suwardjono, 2005)

Accounting standards are official statements issued by the competent body regarding the concepts, principles and methods set out as the main guidelines for accounting practices. Accounting standards are an important problem in the profession and all report users have an interest in them. Therefore, the mechanism for preparing accounting standard standards must be arranged in such a way that it can provide satisfaction to all interested parties to the financial statements. This accounting standard will constantly change and develop according to the development and demands of the community. There are four reasons why accounting standards are made (Belkaoui, 2006):

1. The standard provides information about the financial position, work and organization of a company to users of accounting information. This information is considered clear, consistent, reliable and comparable.
2. Standards provide guidelines and rules of action for public accountants that enable them to apply caution and audit company reports and prove the validity of these reports.
3. Standards provide databases to the government regarding various variables that are considered very important in the implementation of taxation, corporate regulation, economic planning and regulation, as well as increasing efficiency and other social goals.
4. Standards foster interest in principles and theories for those who have attention in accounting disciplines.

2.2 The Nature of Accounting Standards

The nature of accounting standards dominates the duties of an accountant. These standards are constantly changing, deleted, and / or added both in developed countries and developing countries. Standards provide practical and easy instructions related to the duties of accountants.

2.3 Purpose of Making Accounting Standards

There are several reasons why standards must be made, among others, namely:

1. Standards provide information about the financial position, performance, and organization of a company to users of accounting information.
2. Standards provide guidelines and rules of action for public accountants that enable them to apply the principle of prudence and freedom in "selling" their expertise and integrity in auditing company reports and proving the validity of these reports.
3. Standards provide databases to the government regarding various variables that are considered very important in the implementation of taxation, company regulation, economic planning and regulation, and increasing economic efficiency and other social goals.
4. Standards foster interest in principles and theories for those who have attention in accounting disciplines.

2.4 Purpose of Setting Accounting Standards

A standard may be beneficial for one party, but it can also harm the other party. This is a form of social choice. This choice encourages standard compilers to adopt the process of politicians in order to obtain accommodation. If social welfare is used as a criterion in accepting a standard, a serious question arises that relates to the legitimacy of the membership of a standard drafting board that is not through election. This question determines the approach to justice in accounting policy.

2.5 Entities with an Interest in Accounting Standards

Entities with an interest in Accounting Standards are(Belkaoui, 2006):

1. Individual and public accounting office
2. American Institute of Certified Public Accountants (AICPA)
3. American Accounting Association (AAA).
4. Financial Accounting Standards Boards (FASB).
5. Securities and Exchange Commission (SEC).
6. Other Professional Organizations.
7. Users of Financial Statements.

2.6 Legitimacy of the Process of Preparing Accounting Standards

Legitimacy of the Process of Preparing Accounting Standards is (Belkaoui, 2006):

1. Pessimistic Prognosis
   The legitimacy of the standard setting process is sometimes associated with its ability to create an optimal accounting system, that is, a system whose expectation of return to a user who applies an optimal decision strategy is greater than or equal to a similar return from another alternative system.
2. Optimistic Prognosis
   Cushing provides an optimistic prognosis regarding the large number of responsibilities of optimal accounting principles, provided that assumptions from heterogeneous users and underlying assumptions paradox Arrow are not used (abandoned).

Bromwich offers the possibility of a partial accounting standard; standard for one or more accounting problems, which are made isolated from standards or other accounting problems.

Chamber chose to exclude economics that Demski described as impossible. The Chamber proposes an idea that assumes the existence of norms or standards that apply to certain situations. measurements with close values.

2.7 Approach in Standard Determination

Determination of standards is a social choice so that an essay standard may be beneficial to certain parties and harm others. Most issues related to political accountability are sensitive due to them:

1. The need for accounting standards arises when there is conflict;
2. Accounting information can affect the level of prosperity of its use.

In determining standards there are two approaches, namely:

1. Representative Faithfulness.
2. Economic Consequences.

Two approaches that can be used in determining accounting standards are:

1. Free Market Approach
   This approach is based on the assumption that accounting information is an economic commodity similar to other goods or services. Thus accounting information will be influenced by the strength of demand and supply.
2. Regulatory Approach
   This approach argues that market failure or information is asymmetrical in relation to quantias and quality. Supporters of this approach believe that market failure can be seen in the following factors:
3. Regulatory Theory

The existence of a crisis in determining standards has led to the emergence of accounting regulation policies. Therefore the demand for a policy or standard such as this is driven by the crisis that emerges, the standard determinant responds by providing the policy. (Belkaoui, 1986) said that regulation is generally assumed to be designed and operated for the sake of existing industrial interests.

There are two regulatory theories in the industry, namely:
1. Public Interest Theory
2. Interset Group Therory.

The public interest theory holds that regulation is needed in response to public demand for inefficient and unfair market practices. While the theory of group interest holds that regulation is provided in response to requests from certain groups to maximize their income.

2.8 Strategy for Establishing Accounting Standards for Developing Countries

Developing countries have accounting systems that are relatively inadequate and less reliable and institutes are generally new and untested. The standard setting process in developing countries does not follow a unique and appropriate strategy for each country. There are four types of strategies that can be identified:

1. Evolutionary Approach;

An evolutionary approach consists of an isolationist approach to making standards in which developing countries develop their own standards without interference or outside influence.

2. Development through the transfer of accounting technology;

Development through the transfer of accounting technology can result from the operations and activities of international accounting firms, multinational companies, and academics practicing in developing countries or various international agreements and cooperative agreements that request the exchange of information and technology.

3. Application of international accounting standards;

Use of International Accounting Standards. A strategy that is also available to developing countries is to join the International Accounting Standards Committee (IASC) or the previously identified international standards body and apply the overall provisions.

4. The development of accounting standards is based on an analysis of accounting principles and practices in developed countries against the background of the underlying investment.

2.9 Financial Accounting Standards

Financial Accounting Standards are Financial Accounting Standard Statements and Interpretations of Financial Accounting Standards issued by the Standards Board of the Indonesian Institute of Accountants and the Sharia Standards Board of the Indonesian Accountants Association and regulations of the capital market regulator for entities under their supervision.

Financial Accounting Standards are the results of the formulation of the Indonesian Accounting Principles Committee in 1994 replacing the Indonesian Accounting Principles in 1984. SAK in Indonesia is an application of several existing accounting standards such as International Accounting Standards (IAS), International Financial Accounting Standards (IFRS), Accounting Standards Entity Finance Without Public Accountability, Generally Accepted Accounting Principles (GAAP). In addition there are also Statements of Islamic Financial Accounting Standards and also Government Accounting Standards.

In addition to the uniformity of financial statements, accounting standards are also needed to facilitate the preparation of financial statements, facilitate auditors and facilitate financial report readers to interpret and compare the financial statements of different entities. In Indonesia the Financial Accounting Standards applied will be based on IFRS in 2012. International Financial Reporting Standard (IFRS) is an international financial reporting standard issued by the International Accounting Standards Board (IASB), an independent organization registered in America but based in London, England (Sitorus and Ardiati, 2014).

Fewer differences between Financial Accounting Standards in Indonesia and IFRS can provide benefits to stakeholders in Indonesia. Companies that have public accountability, regulators that seek to create the necessary infrastructure, especially in capital market transactions, and users of financial statement information can use the Financial Accounting Standards as a guide in improving the quality of information produced in financial statements.

The preparation and revocation of the Financial Accounting Standards must follow the due process procedure stipulated in the Organizational Regulation of the Indonesian Accountants Association. The process includes: identification of issues; issue consultation with the Financial Accounting Standards Consultative Council (if needed); doing limited research; discussion of Financial Accounting Standard material; ratification and publication of exposure drafts; conducting public hearings; implementation of limited hearing (if needed); discussion of public input; and ratification of Financial Accounting Standards. While the preparation of technical bulletins and annual improvements is not required to follow the entire stages of the due process procedure(Indonesia, 2018).

3 PROBLEM ANALYSIS

3.1. Development of Accounting Standards in Indonesia

In 1973-1984, the Indonesian Accounting Association formed the Indonesian Accounting Principles Committee to set accounting standards, which became known as the Indonesian Accounting Principles.

In 1984-1994, the Indonesian Accounting Principles Committee fundamentally revised the Indonesian Accounting Principles of 1973 and then published the Indonesian Accounting Principles in 1984. Towards the end of 1994, the Indonesian Principles of Accounting began to make major revisions to the Indonesian Accounting Principles by announcing additional accounting standards and issuing interpretation of the standard. The revision resulted in 35 statements of financial accounting standards, most of which were harmonized with the IAS issued by the IASB.

In 1994-2004, there was a change in Qibla from US GAAP to IFRS, this was demonstrated since 1994, it has become a policy of the Financial Accounting Standards Committee to use the International Accounting Standards as a basis for establishing Indonesian financial accounting standards. And in 1995, IAI made a major revision to implement new accounting standards, most of which were consistent with IAS. Some standards adopted from US GAAP and others are self-made.

In the 2006-2008 period, IFRS Phase 1 convergence, from 1995 to 2010, the Financial Accounting Standards book continued to be revised continuously, both in the form of improvements and additions to new standards. The revision process was carried out six times on 1 October 1995, 1 June 1999, 1 April 2002, 1 October 2004, 1 June 2006, 1 September 2007, and version 1 July 2009. In 2006 at the congress of the Indonesian Institute of Accountants X in Jakarta it was determined that full IFRS convergence would be completed in 2008. The target at that time was to be fully compliant with all IFRS standards in 2008. But on the way it was not easy. Until the end of 2008 the number of IFRS adopted had only reached 10 IFRS standards out of a total of 33 standards.

3.2. Use of Accounting Standards in Advanced Countries and in Developing Countries

The adoption of accounting standards in this case IFRS has been carried out in several countries, including in the European Union, which requires all listed companies to prepare consolidated financial statements in accordance with IFRS, while in the UK standards resembling IFRS are needed to avoid problems with registered companies not listed on the stock exchange and IFRS is considered a challenge, which ultimately welcomes IFRS to reduce differences between accounting standards in the UK and IFRS.

1. England

   Financial accounting standards in the UK are corporate law and the accounting profession. The activities of companies established in the United Kingdom are broadly governed by a deed referred to as company law.

   Financial Reporting

   United Kingdom financial reporting is among the most comprehensive in the world.

   Accounting Measurement

   The UK allows both the acquisition and merger methods to record accounting for business combinations.
2. Netherlands

   Regulations in the Netherlands remained liberal until 1970. The law was part of a large program of changes in the field of corporate law and was introduced in part to reflect the harmonization of corporate law within the European Union that occurred.

   Financial Reporting

   Mandatory financial statements must be prepared in Dutch, but in English, French and German can be accepted.

   Accounting Measurement

   Dutch accounting measurements have flexibility, this can be seen by allowing the use of present value for tangible assets such as inventory and depreciated assets.
3. Germany

Before 1998, Germany did not have the function of establishing financial accounting standards as understood in English-speaking countries. The German Accounting Standards Committee (GASC) or in German (Deutches Rechnungslegungs Standard Committee or DRSC) was established shortly thereafter and was immediately recognized by the

Ministry as the authority in setting standards in Germany.

Broadly speaking, accounting in Germany is similar to systems in the United Kingdom and the United States. However, it is important to note that the GASB standard is a mandatory recommendation that only applies to consolidated financial statements. The GASB was formed to develop a German standard that complies with international accounting standards. In 2003 the GASB implemented a new strategy and aligned its work program with the IASB's efforts to achieve convergence of accounting standards globally.

Financial Reporting

In the Accounting Act of 1985 determine the provisions of accounting, auditing and financial reporting that vary according to company size.

Accounting Measurement

The German Accounting Standards (GAS) are more stringent when compared to Handelsgesetzbuch (HGB) in the case of consolidated financial statements, applying GAS 4, the revaluation method must be used.

4 CONCLUSION

1. Regulatory Approach to the Formulation of Accounting Theory in Indonesia

The regulatory approach used for the establishment and implementation of existing standards turns out to be based on broad principles and can be contrasted with comparisons between the pros and cons of relevant theories, and then chosen on the basis of standard drafting bodies.

2. Development of Accounting Standards in Indonesia

The development of Indonesian Accounting Standards began in the period 1973-1984 by forming an Indonesian Accounting Principles committee. Towards the end of 1994 the committee made a major revision of Indonesia's accounting principles by producing 35 Statement of Financial Accounting Standards. In the 1995 period the Indonesian Accountants Association then revised it again to apply the new accounting standard. From 1995 to 2010, the Financial Accounting Standards book has been continuously revised, both in the form of improvements and additions to new standards. And in 2006 at the congress it was determined that full IFRS convergence would be completed in 2008. The target was full compliance with all IFRS standards in 2008. Until the end of 2008 the number of IFRS adopted had only reached 10 IFRS standards out of a total of 33 standards.

3. Use of Accounting Standards in the European Union and in Indonesia

In the European Union countries have now adopted the use of IFRS starting from 2005, even though the decision to adopt the use of accounting standards has been proposed since 2002. While accounting standards in Indonesia are currently not fully adopted (full adoption) International Financial Reporting Standard (IFRS) . Current accounting standards in Indonesia refer to (United Stated Generally Accepted Accounting Standard (US-GAAP), but in some articles have adopted harmonization IFRS

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