Accounting and Philosophy: The Construction of Social Reality Framework

Emad M. Elkhashen [a,c1], and Collins G. Ntim[b]

[a]Department of Accountancy
Faculty of Commerce
Cairo University
Cairo, Egypt

[b]Department of Accounting
Centre for Research in Accounting, Accountability and Governance
Southampton Business School
University of Southampton
Southampton, UK

[c]Department of Accountancy, Finance and Economics
University of Huddersfield Business School
University of Huddersfield
Huddersfield, UK

[1]Corresponding author: Department of Accountancy, Faculty of Commerce, Cairo University, Cairo, Egypt, 12613. E-mail: Emad.Elkhashen@foc.cu.edu.eg. Tel: +201009191668.

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Abstract

Accounting scandals and their severe consequences shed light on the ambiguity of accounting. This paper attempts to explore philosophical roots of accounting in an attempt to remove, or at least mitigate, this ambiguity. The study employs Searle's social construction framework (1995) as an approach to achieve this aim. It is argued that the main problem of accounting is its failure to faithfully represent economic reality. The evaluation of recent developments in accounting suggests that although these attempts are a step towards reaching a better representation of economic reality, they are insufficient. A great deal of accounting ambiguity still exists, and thus future accounting scandals are likely. It is therefore suggested that a deeper understanding of the philosophical aspects of accounting should be taken into consideration by the setters of accounting standards.

Keywords: *accounting ambiguity; Searle's construction of social reality; representational faithfulness; accounting standards.*

Research paper type: Viewpoint

1. Introduction

The link between accounting and philosophy is arguably considered as an ambiguous one. There is a hesitation of using the term "philosophy" by scholars in the context of accounting due to the limited number of studies that address this link (Buys, 2008). Even in the past, there have been arguments against the idea of linking accounting to a philosophical approach (Husband, 1954). The term "Philosophy" can be defined as "*the questioning of basic*

fundamental concepts and the need to embrace a meaningful understanding of a particular field" (Burke, 2007, p. 476). This could arguably mean that accounting, as a field of knowledge, can be underpinned by a philosophical approach. In this regard, Cluskey, Ehlen, and Rivers (2007) investigated whether accounting is underpinned by an overarching theory. They reported that although scholars know that an accounting theory exists, they rarely illustrate it or even define it. In contrast, McKernan (2007) argues that accounting has no philosophical presupposition and that the difference between the desirable objective accounts and the distorted ones is primarily attributed to the practice. However, the practice shows that the ambiguity of accounting might be considered as one of the major factors that led to accounting scandals. In this sense, Bayou, Reinstein, and Williams (2011) argue that all accounting scandals are linked directly or indirectly to untruthful and misleading accounting. Similarly, Macintosh (2006; 2009) argues that accounting and financial reporting are inaccurate as well as they provide unfaithful information. Further, he criticises accountants for their pretence in expressing the truth. This is based on his view of accounting language, which he sees as a tool used in building the "truth" rather than being a transparent tool. Furthermore, Williams (2014) argues that accounting numbers are not precise due to being operational, not quantities, numbers, thus, can lead to accounting crises.

These scandals have had severe social consequences, including loss of investments and of employees' jobs. This has often led to public outrage that usually questions the role of accounting in society and whether it can faithfully represent economic reality. In this regard, Magnan and Markarian (2011) found that accounting suffers from weaknesses in its structural foundation as well as in its application, most importantly it fails to measure the impact of risk-taking alternatives on the financial statements, thus its potential weakness in expressing economic performance. Accordingly, the setters of accounting standards have come increasingly under the spotlight.

The Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) are considered as the creators of accounting standards. Macintosh (2006) describes them as creators of a certain social reality. In response to scandals and the continual criticism of accounting, both bodies have attempted since 2001 to improve the ability of accounting to faithfully represent economic reality.

Many of these efforts have focused on reaching convergence in order to produce a single conceptual framework for accounting standards. As a result, two refined chapters of this framework were published in 2010. Further, fair value accounting has been introduced, attempting to provide a better representation of economic reality. Furthermore, the gradual move towards principle- rather than rule-based accounting standards appears to have reduced exceptions and management discretion in the financial reporting process (Lee, 2006). Despite these efforts, in the financial crisis of 2007/2008, accounting systems received much criticism for their inability to faithfully represent economic reality. This study, therefore, attempts to explore philosophical roots of accounting by applying Searle's social construction framework (1995). This might help in understanding the reasons behind accounting failures and thereby offer opportunities for accounting regulators to improve accounting effectiveness.

The remainder of this paper is organised as follows. Section two discusses the objective of accounting, and section three considers constructing social reality into accounting. Accounting ambiguity in reflecting economic reality is illustrated in section four, followed by analysis of real cases of this ambiguity in section five. Section six identifies the main recent developments in accounting, followed by a critical analysis of these developments based on the construction of social reality in section seven. Finally, section eight presents the conclusions of this study, including its implications, limitations and possible areas for future research.

2. The objective of accounting: is it effectively achieved?

Financial reports are the main product of accounting. They provide historical information to users about the financial performance of a firm over a certain period (Damant, 2006), in order to help different stakeholders in decision-making process. These include shareholders, potential investors, lenders, state authorities, employees and all other parties who may have interests in the corporation. In this sense, IASB (2010) stresses capital providers as the main users for whom financial information is provided.

Therefore, a major role of accounting standard setters is to identify the relevant information to be disclosed and the extent of disclosure (Buys, 2008). In addition, "reliability" had been introduced as a fundamental qualitative characteristic of accounting information (IASB, 2010). This arguably encouraged stakeholders to depend largely on the financial reports. Nevertheless, accounting scandals, which continued to occur, led to severe losses to shareholders and other stakeholders, such as the scandals of Enron, WorldCom, Parmalat, Satyam, and the Royal Bank of Scotland (Mallin, 2013). These have brought into question the usefulness of accounting information and whether it is able to sufficiently perform its planned role. Moreover, its value in decision making itself has been questioned, as to whether it should be the main aim of financial reporting (Buys, 2008).

Despite the fact that the IASB has highlighted "decision usefulness" as a major aim of financial reporting (IASB, 2010), there has been much debate around whether to report financial results as they are, or to direct the financial reporting process in favour of the decision usefulness objective. The trade-off, therefore, is between preparing financial reports in a way that reflects the true results, even if this does not much help in decision making, or to direct financial reporting towards decision usefulness even if this may lead to providing biased and inaccurate information (Buys, 2008). The former case is based on Searle's (1995) framework that the true value exists. However, this idea has concerns regarding the exact meaning of "true

result", and also regarding how this true result can be measured (Buys, 2008). Whereas the latter case, decision usefulness, is based on reducing the state of uncertainty about firms' operations. However, there is no agreement on what kind of data can be considered as most useful (Moore, 2009). In this sense, Alexander (2015) argues that IFRS standards provide one particular reality that is mainly produced to satisfy finance provider needs, whereas other users of accounts may not find what they require. Accordingly, decision-usefulness orientation in accounting is arguably considered as a recognition of its disability to faithfully represent the economic reality (McKernan, 2007). In addition, the increase of disclosure that firms make outside the traditional financial statements questions the accounting ability to measuring and reporting firm performance (Christie, Dyck, Morrill, & Stewart, 2013).

In contrast, Baker and Schaltegger (2015), based on a pragmatic view, defend "decision usefulness" objective as they argue that the truth value of a statement depends on how useful it is, where it can provide users with better engagement with the world. However, Williams and Ravenscroft (2015) refute this view, arguing that given the complexity and unpredictability of global economy, it is very difficult to identify which items of accounting data have more productive value than others, especially decision usefulness feature is not an inherent feature of any of accounting datum. Moreover, Bay (2018) argues that accounting outputs themselves are not provided in an interpretable way to intended users. This arguably suggests that there is ambiguity associated with the role of accounting as well as with the way it can be effective.

3. Accounting and philosophical frameworks

Literature shows a number of attempts to link accounting to philosophical frameworks. According to Searle (1995), a real world exists "out there", and statements are considered "true" based on how things are in the real world. However, it is argued that the real world does not identify which sentences are deemed to be true and which are not (Akmal, Syed & Shaikh, 2012; Rorty, 1989). In addition, Akmal et al. (2012) argue that truth is created by humans using

language, which in turn is created by humans; thus, truth cannot exist separately from the human mind. Therefore, social reality is created through the interaction between people, which results in social properties that turn into facts and then become part of societies' roles and legislations (Mattessich, 2003).

Economic reality, as part of social reality, is sometimes seen as being vague. This is due to the ambiguity related to: first, the exact meaning of the term "economic"; and second, the way economic reality can be meaningful independently from other kinds of realities (Williams, 2006). In this sense, it is arguably believed that economic reality has its roots in accounting since accounting can reflect unbiased representation of economic reality (Maali & Jaara, 2014). However, accounting for economic reality itself is arguably ambiguous because economic reality is considered as a branch of social reality that is established by humans and is dependent on human observation (Lee, 2006).

Accordingly, the ontological approach to accounting, as part of economic reality, presumes that there is an economic reality "out there" and that accounting reflects it; whereas the epistemological approach assumes that the IASB and the FASB are considered as an objective way of extracting this economic reality (Akmal et al., 2012). However, Lee (2006) argues that there is subjectivity inherent in the human observation that is considered as the means of constructing social reality. Therefore, he criticises accounting standards setters for confidently using terms like "faithful representation" and "reliability".

Similarly, Akmal et al. (2012) report that neither accounting vocabularies nor its standards exist "out there", waiting for accounting bodies to recognise them. Rather, accounting standard setters make these standards using accounting language. This is arguably reflected in the continued changes in accounting language, vocabularies, and standards, which prove that what is deemed to be truth regarding accounting is only what accounting standard setters deem to be truth. For example, historical cost used to be the sole basis of financial

reports, but this has recently been partially replaced in certain cases by fair value basis, producing different numbers. In this sense, Lee (2013) argues that the current state of modern accounting remains subject to significant change. Thus, the truth in accounting changes according to the changes of the standard setters' thinking. This is consistent with the philosophical framework that considers that truth is made by the real world.

This can be illustrated by an example provided by Williams (2006). It begins with a fundamental equation in accounting, which is "Net Income = Revenues – Expenses". It can be recognised that both "Revenues" and "Expenses", and therefore "Net income", are not "out there" according to Searle's (1995) concept of the objective natural world. Therefore, revenues, expenses and net income are human-made constructs and can be deemed as real only from the social point of view and not from the natural worldview. According to FASB and IASB, "Net income" belongs to companies. However, the net income of a company means the net income of its owners. Given that an expense to one party is, at the same time, a revenue for another party, the equation could be reformulated as follows: "Shareholders' income = Revenues – (Creditors' income + Suppliers' income + …. + Positive externalities – Negative externalities)". The last two elements constitute "Net benefits to commons that include the real world of nature" (Williams, 2006).

This analysis indicates that the previous equation of accounting illustrates a set of complicated economic realities, and thereby leads to a conclusion that accounting reality is a zero-sum reality and that one reality cannot be independent of other realities (Williams, 2006). This view supports Manicas (1993) who argues that many accounting objects, like income, do not exist independently; rather, their existence depends on the accounting rules and standards, which are made and refined by humans. Therefore, these accounting objects are socially constructed. This is also consistent with the argument of Mattessich (2003) whose onion model of reality argues that reality has many layers, including physical, chemical, biological and

social reality. He, then, indicates that accounting objects such as income and capital are real only on the social level since the accounting was invented.

On the other hand, McKernan (2007), based on antirepresentationalist philosophy approach of Davidson (1994), defends the objectivity in accounting and argues that objectivity can be founded through intersubjectivity and that accounting as a social practice does not have strong links with a philosophical believes. This is supported by Moore (2009) that true and fair accounting systems can be attained in a relative but not absolute way, due to having concepts in accounting such as emptiness, signlessness, and aimlessness. Whereas, Bayou et al. (2011), employing temporality of truth of McCumber (2005), argue that the reliability and the comprehensiveness of the narrative that accounting provides about a firm's past constitute the truthfulness in accounting.

Accordingly, the question arises, whether the setters of accounting standards and conceptual accounting frameworks are dealing with accounting from a philosophical perspective. To answer this question, it is important first to shed light on the ambiguity of accounting and to illustrate some real cases showing this ambiguity.

4. Accounting ambiguity in reflecting economic reality

Representational faithfulness can be defined as the correspondence between a measurement and the phenomena it represents (IASB, 2005). This means that accounting data should correspond to the events that this data represents. In accounting, economic resources and obligations are the phenomena that accounting data represents, together with economic events that affect these resources and obligations (IASB, 2005).

Financial reports attempt to represent economic reality (ICAS, 1988). However, it has been argued that some methods of accounting measurement distort economic reality (Lee, 2006). For example, using historical cost measurement in recording assets in a firm's financial

statements may distort the economic value of these assets and provide an inaccurate view of the firm's financial position.

In addition, in order to obtain a faithful representation, accounting measurements should not be affected by cultural, historical or any other values (McSweeney, 1997). However, a stream of studies has revealed that accounting systems and measurements are strongly influenced by national and cultural factors (Kuchta & Sukpen, 2011; McSweeney, 1997). For example, Hofstede's cultural factors, including uncertainty avoidance, power distance, individualism, and masculinity, were found to have an influence on accounting systems and measurements, resulting in the creation of specific trends in practice (Kuchta & Sukpen, 2011). This means that the same accounting phenomenon is expressed differently from country to another, depending on national and cultural factors. This is supported by Albu, Albu, and Alexander (2014) that concluded that countries are not homogenous in their accounting practice. This arguably contradicts the core of faithful representation and also shows the failure of accounting in independently reflecting economic reality.

In addition, some accounting measurements include a great deal of judgment, questioning their truthful representation of economic reality. For example, firms have to make a judgment about the expected bad debts for a certain period to create an expense (allowance for doubtful debts) that appears in the income statement as an expense (FASB, 1985). Similarly, depreciation, which affects both the income statement and the statement of financial position, requires a judgment of the future economic benefits of the associated asset (FASB, 1985). This kind of judgment could arguably be considered as a contradiction with the representational faithfulness characteristic.

However, it is significant that FASB admitted that there are some exceptions to "faithful representation" characteristic. This includes judging a phenomenon in order to indicate whether it is worth being presented on a materiality basis and whether it is too costly to be addressed

on a cost-benefit analysis basis (FASB, 1980; McSweeney, 1997). Another example of exceptions is when the faithful representation is infeasible (FASB, 1980). Examples of this are trademarks and patents that are listed among a firm's assets. It is argued that it is very difficult, even by using advanced models, to estimate the exact economic benefits that such assets will bring in the future. Therefore, this could be considered as a retreat admitted by FASB in terms of assuring the faithfulness of accounting in representing economic reality. In this sense, McSweeney (1997) reports that judgment-free accounting cannot be reached. Whereas, Hines (1991) calls for rejecting the assumption of representational faithfulness. She argues that this rejection could liberate society from such inaccurate vocabularies. This is supported by Manicas (1993) who argues that this rejection could lead to eliminating false consciousness. Only truth makes people feel they are being guided by reality itself (Frankfurt, 2006).

On the other hand, others argue in favour of representational faithfulness. For example, Fish (1994) and Collins (1992) argue that rejecting it would lead to more ambiguity and also to losing focus. This contradiction of thinking regarding the suitability of the representational faithfulness assumption of accounting adds to confusion and ambiguity. This conclusion is supported by Macintosh (2006) who reports that there is a representation crisis in accounting.

Based on the above discussion, it can be concluded that without the representational faithfulness of the phenomenon that is being represented (real-world economic phenomenon) accounting information might be inaccurate and unreliable and thus misleading in decision-making process. This in turns might have severe consequences. These are discussed in the following section by real cases.

5. Accounting ambiguity: real cases

Recent decades have witnessed a number of accounting scandals, including those involving giant corporations like Enron and WorldCom. In both cases, their reputable auditors confirmed in the last audit report before the failure that their financial reports, which showed

net profits, were fairly representing their economic activities according to accounting standards (Cullinan, 2004).

Enron, which was one of the most profitable companies in the US, reported profits of $979m in December 2000 then dramatically collapsed just ten months later (Mallin, 2013). Managerial fraud was discovered to be the main reason behind this collapse. In this case, some aspects of economic reality were intentionally hidden in order not to be represented in financial reports. This was done by Enron's top management through establishing special purpose entities to which to transfer losses in order to hide the company's poor performance (Mallin, 2013). This was not considered as a violation of accounting standards. However, it did show the extent to which accounting regulations were unhelpful in representing the true economic reality.

The WorldCom accounting scandal is another example of the failure of accounting measurements to reflect economic reality. It was discovered that the company recorded $3.8bn of expenses between 1999 and 2002 as a capital investment (Tran, 2002). Therefore, instead of being deducted from revenue, these expenses were listed among the company's assets. This led to an exaggeration of its revenue by $3.8bn, achieved through exploiting some flexibility of accounting measurements. This questions the way accounting depicts economic reality.

Such scandals, in which economic reality is not represented faithfully, have severe consequences for society, as shareholders lose their investments, employees lose their jobs, lenders lose their loans, and the local and international communities in which the firm operates suffer from negative impacts (Mallin, 2013). This encourages accounting regulators to improve the ability of accounting to reflect economic reality. It also became necessary because of the increased need of investors for a faithful representation of economic reality as a result of globalisation and the prevalence of cross-border investments.

6. Recent developments in accounting and economic reality

As a direct response to these accounting scandals, together with the criticism of accounting ambiguity, the US government passed the Sarbanes-Oxley Act in 2002. This government intervention in the accounting profession is argued to be a result of the failure of the accounting profession to regulate itself in a way that faithfully represents economic reality. The Act put in place regulations aim mainly to strengthen corporate governance systems, in the expectation of preventing further accounting scandals. The Act also urged the Security Exchange Commission (SEC) to evaluate the possibility and suitability of producing principle-based accounting standards (section 108) in order to replace rule-based ones, where rule-based standards have been criticized for long for being vague and for being unhelpful in reaching objective decisions (Penno, 2008). This was an attempt to reduce exceptions and management discretion in the financial reporting process and to harmonise accounting standards internationally.

In addition, FASB started a project to evaluate the feasibility of Principle-Based Accounting Standards (PBAS). Specifically, FASB's proposals focused on producing neutral standards that have the desirable characteristics of accounting information (FASB, 2002; Lee, 2006). The core of these proposals was to limit exceptions, seeking more realistic representation of economic reality (FASB, 2002). FASB further stated that inherent professional judgment should clearly express the economic core of the relevant events and transactions. It proposed developing a conceptual framework against which accounting standards could be produced. The proposed development was related to accounting measurements as well as the trade-off between reporting quality and conceptual inconsistencies (Lee, 2006). In addition, the American Accounting Association (AAA) supported the proposals of FASB and made a number of recommendations. These included developing the objective of accounting to put more focus on representing economic reality (AAA, 2003 cited in Lee, 2006).

The joint efforts of FASB and IASB resulted in replacing “reliability” with “representational faithfulness” in an attempt that can enhance the ability of accounting information in reflecting the economic reality (Erb & Pelger, 2015). In addition, the efforts resulted in introducing a set of international accounting standards produced by IASB. These standards, known as International Financial Accounting Standards (IFRS), are revised on a regular basis. They were adopted by the European Union from January 2005, followed by other countries. By January 2018, IFRS had been adopted by 150 jurisdictions and supported by a number of international organisations including the World Bank, the International Monetary Fund (IMF), G20, the International Federation of Accountants (IFAC) and Basel Committee (IASB, 2018).

The cooperation between FASB and IASB further resulted in other achievements. For example, they issued a discussion paper for public comment in 2006, followed by an exposure draft in 2008, which led eventually to introducing two chapters of a refined conceptual framework (IASB, 2010). These chapters focus on the objectives of financial reporting and the qualitative characteristics that lend usefulness to financial information. In January 2016, “Disclosure” was added to the FASB agenda (FASB, 2016). These efforts generally contribute to the development of accounting to reflect economic reality. A clear example of this was the call for a discussion paper, issued in 2013, for reducing alternatives of measurement (IASB, 2013).

7. Critical analysis of recent accounting developments based on the construction of social reality framework

Based on the presentation of recent developments in accounting, it can be concluded that there have been significant developments in how accounting expresses economic reality. Particularly, producing a single conceptual framework, shifting towards principle-based accounting standards, the convergence of FASB and IASB and, arguably more significantly,

moving from historical cost accounting to fair value accounting. Sundgren (2013) considers this move as one of the most important developments in accounting in the recent decades, for its direct effect on how accounting represents economic reality.

Accounting measurement is always an area of much debate, including the historical cost basis, which simply recognises an asset value through the amount of money spent on obtaining it, and which is widely considered as an objective method of valuation (Buys, 2008). The main criticism of the historical cost basis is its failure to reflect the true value of an asset in the years following its acquisition, and thereby, its failure in representing economic reality. For example, if a firm bought land ten years ago for £1m but its market value is now £3m, on the historical cost basis, the firm has to recognise this land in its balance sheet as £1m, not £3m, because £1m was the cost incurred in acquiring the asset. This basis, therefore, clearly does not reflect the true financial position of the firm and in turns does not reflect economic reality.

On the other hand, the fair value basis means recognising an asset or settling a liability based on its exchangeable value between independent, knowledgeable and willing parties, based on the estimated market value or mathematical models (Buys, 2008; Reis & Stocken, 2007). Fair value basis is regulated by IFRS 13, as a hierarchy consisting of three levels, with level one at the top and having first priority. This level is based on the quoted prices in an active market for identical assets and liabilities. For example, this level can be applied for shares, whose value can be recognised through their market price in the stock market at the date of the statement of financial position of each company. If there is no an active market for an identical asset or liability, then level two is applied. This level has three sub-levels: the first is based on the quoted prices for similar assets or liabilities in the active market; the second on the quoted price for identical or similar assets or liabilities; and the third on observable input prices such as price per square metre for a building. Finally, level three, which has the lowest priority, uses

unobservable inputs such as calculating the expected future cash flows for an asset (IASB, 2011).

Evaluating these levels on the basis of reflecting economic reality shows that the first level could be considered as a reasonable measurement for economic reality. However, even this level is subject to criticism. For example, it can be argued that it is not necessarily that the share market price is the fair value reflecting the economic reality of a company's shares: speculation by big players in the stock market could affect its fair value. Another example is when there is an imperfect market, such as at the time of the financial crisis of 2007/2008, when market prices tended to reflect the buyers' lack of liquidity rather than fair prices (Allen & Carletti, 2008). Nevertheless, it can be argued that level one faithfully represents economic reality in most cases.

However, in levels two and three, where an active market for the identical assets or liabilities is absent, subjectivity starts to play a role. Examples of this subjectivity begin with the interpretation of "similar" assets or liabilities. Another example is calculating the expected future cash flows of an asset internally without depending on any market. This subjectivity could be exploited and used in manipulation. For example, Dechow, Myers, and Shakespeare (2010) found evidence that fair value can be used as a way of engaging earnings management. Laux and Leuz (2009) add that fair value valuation leads to volatility in markets. Indeed, fair value accounting, among other factors, was blamed for the occurrence of the financial crisis of 2007/2008 (Fahnestock & Bostwick, 2011). It can thus be argued that fair value basis is generally a move towards better representation of economic reality but suffers from its inherent subjectivity.

Another crucial area of improvement in accounting is the joint efforts of FASB and IASB towards reaching congruence and producing a single conceptual framework. This led eventually to producing a set of international standards and revised chapters of a single

conceptual framework. These correspond to the increasing demands of investors for comparable financial information.

However, the question arises as to whether a single set of standards fits all countries regardless of the differences between them regarding cultural, economic and political factors, which have an impact on accounting practices and values (Lee, 2006; Fechner & Kilgore, 1994). For example, there are clear differences in financial reporting systems between the US and the UK. The former is known to be so strict and to abide literally by the rules, with severe sanctions in cases of violation, whereas the latter is known for its approach of recognising the spirit of the rules, bending them if sufficient justification is provided (Alexander & Archer, 2003; Lee, 2006).

The further question is, do the differences between developed and developing countries allow the latter to adopt the same set of standards adopted by the former? If not, does the adoption of different accounting standards and practices depend on every country's circumstances? If so, this would arguably contradict the main role of accounting, reflecting economic reality, which should be independent of the circumstances. Returning to Searle, a statement is true according to its reflection of how things are in the world, independently of the statement (Searle, 1995). Therefore, financial reports should tell the same things in different countries, as long as they represent the same economic events and transactions regardless of the surrounding circumstances. This discussion shows that ambiguity in accounting still exists and that ways are needed by which accounting can faithfully represent economic reality.

8. Conclusion

This paper has shed light on links between accounting and philosophical frameworks. In particular, drawing on Searle's framework of social reality (1995), this paper explored philosophical roots of accounting to evaluate whether it can faithfully represent economic reality. Based on Searle's framework (1995), the setters of accounting standards (FASB and

IASB), admit that there is a real world of facts and that this world can be represented. Nevertheless, the main problem faced by accounting is how to represent this world faithfully. The failure of accounting systems to reflect economic reality has arguably resulted in severe social consequences. For example, the collapse of giant companies like Enron and WorldCom negatively affected many parts of society: investors, creditors, employees and related local and international communities.

Efforts have been made to improve the correspondence between accounting and the economic phenomena that it represents. These efforts have centered on basing these standards on principles that reduce exceptions and management intervention, particularly in financial reporting. Moving to the fair value accounting is probably the most significant development in accounting recently. A close second is arguably the convergence of FASB and IASB leading to the production of a single conceptual framework in accounting, in order to make financial information comparable across companies worldwide and across time.

However, an analysis of these trends has shown that, despite their usefulness in general, they remain the subject of much debate. For example, the fair values basis, which may be considered as the most important improvement regarding the representation of economic reality, implies a great deal of human intervention. Moreover, achieving convergence, which helps in the comparability, is criticised because it does not take into consideration the differences between countries.

Therefore, these improvements might be considered as just a step in improving the ability of accounting to represent economic reality, as a consideration of philosophical frameworks is arguably required by accounting setters. This is in order to clarify the current ambiguous link between accounting and philosophy, as well as to clearly identify the objectives of accounting and how these objectives can be effectively achieved.

The results of this study can be used by the setters of accounting standards, through considering the philosophical aspects of accounting, as the study highlighted the ambiguity that exists in accounting and the importance of removing it. The results can also be used by scholars, who are encouraged to build on them and conduct further work in this area.

In this paper, a single philosophical approach was employed, and this can be considered as the main limitation of the study. Therefore, future research will attempt to establish a link between other philosophical approaches and accounting, in order to reach a better understanding. In-depth and intensive studies linking accounting to the construction of a social reality approach, supported by interviews with accounting standard setters, are also encouraged.

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