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Behavioural of Accounting Policies: The International, Neuroaccounting and Generally Accepted Accounting Principles (GAAPs) Perspectives

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Abstract

This study looked at the behaviour of accounting practices from an international accounting, Neuroaccounting and the generally accepted accounting principles perspectives. The study adopted a thematic analysis approach for the empirical review, which was appropriate due to the numerous contributions by scholars on the behaviour of accounting policies. The research suggested that the selection of accounting practices by a company can be linked to an attempt to reduce costs of contracting, and that the distinct accounting practices employed by a reporting entity can have a notable effect on the comprehension of financial reports when studied through ratio analysis. It is important to remember the effect of changing accounting policies on the income statement and financial position, as it can have both direct and indirect effects on significant ratios, including return on capital employed and gearing. The findings of this study point to the fact that understanding accounting policies is important for effective business management. This study suggests that companies should provide more information about the evaluation of assets, including land and buildings, the depreciation policy, the system used to evaluate the worth of inventory, the liquidity rate based on cost flow assumptions (LIFO, FIFO, etc.), the treatment of overhead costs, the choice of temporal or closing rate method for translating foreign transactions, leases allocation and goodwill valuation in the statement of financial position. Additionally, it is recommended that top management be trained in neuroscience accounting, as this new discipline may completely change the future of accounting.

Keywords: GAAPs, accounting theory, neuroaccounting, accounting standards, accounting policy, behavioural of accounting policy

Introduction

Fernando (2023) [8] states that accounting is the practice of keeping records of financial transactions for a business. This includes summarizing, analyzing, and reporting the data to outside organizations, such as regulators and tax collectors. Accounting also involves creating financial statements, which provide a summary of a company's activity, finances, and cash flow over a certain period of time. Keeping accurate records of financial transactions is essential for any business, whether it's managed by a single bookkeeper or accountant at a small business or a finance department with multiple staff members at a larger organization. Management can use the reports generated from cost and managerial accounting to make informed decisions. Financial statements that break down a large company's activities, resources, and cash flow over a specific period are simplified versions of multiple financial transactions.

Completing a professional accounting designation requires dedication and hard work, as it involves a significant amount of study, passing examinations, and gaining a certain amount of experience in the field. (Godfrey, Hodgson, Holmes, & Tarca, 2006) [10].

History of accounting

Since ancient times, accounting has been a fundamental part of civilization. Documents of fiscal exchanges have been found in the regions of Mesopotamia, Egypt, and Babylon. The Roman Empire was well-known for its attention to detail in monitoring their finances. The accounting field began to emerge during the early 1800s. (Hassan & Marston, 2019) [11].

Luca Pacioli is widely credited for his influential role in the development of accounting and bookkeeping. As an Italian mathematician, he published a book on the double-entry system of bookkeeping in 1494. By 1880, accounting was a formally-recognized field, having been established by the

Institute of Chartered Accountants in England and Wales, who developed the systems that are still employed today. This was in part due to the Industrial Revolution, as merchants needed to keep records and safeguard against bankruptcy (Devlin, 2019) [6].

Alexander (2002) [1] affirmed that prior to the 1930s, accounting progressions focused on the need for a systematic development of theories. The ideas brought forward at this time aimed to develop foundational postulates and principles, broaden the scope of accounting by connecting to underlying disciplines such as economics, behavioural science, and measurement theory, transform accounting theory into a more abstract form and generate conceptual foundations for accounting. The strength of the recent advancements in the accounting field was mainly due to the research conducted by major accounting organizations and the contribution of accounting literature. The International Accounting Standards Board is dedicated to setting up standards for accounting that are based on principles.

Accounting Policy

A company's management team implements specific procedures, known as accounting policies, to create financial statements. These policies may incorporate various accounting methods, measurement systems, and disclosures. The selection of the correct accounting policies can be difficult due to certain fundamental concepts that may be in opposition to one another (Hassan & Marston, 2019) [11].

The Behavioural of accounting policy

The behavioural elements of accounting focus on understanding how both cognitive and emotional factors can affect decision-making in accounting. Selecting an appropriate accounting approach is a crucial choice that can have a major effect on an organization's accomplishment and monetary state. Choosing an inappropriate accounting policy can lead to incorrect financial information in reports. As there is not a universal set of accounting policies, it's important to be mindful of the principles of Prudence, Substance over form and Materiality when selecting any accounting policy (Raj, 2020) [10]. When selecting the appropriate accounting policies, Raj (2020) [18] suggests taking the following into consideration.

Substance over form

It is essential that all transactions and events are accurately accounted for and reported in a manner that reflects their true financial implications and not simply their legal structure.

Objectivity

It is essential that the accountant remains impartial when providing financial details. The person responsible for compiling financial statements should not be partial or attempt to lean towards a certain group of individuals who utilize financial records.

Fairness

Accounting information should be presented in an impartial manner, without favoring any particular group or sector of the population.

Materiality

Financial statements should include any information that is substantial enough to influence decisions made by the users

Prudence

There are a variety of questions that can arise during various transactions, so it is important to be cautious when creating financial statements. However, caution should not lead to the establishment of hidden reserves. Another issue that can arise is the use of different accounting methods in financial statements. This can have a major impact on the understanding and interpretation of the financial statements published, changing the way they are seen.

The valuation of assets, particularly with regard to land and buildings, may or may not take into account past history. This could affect the bottom line, either through depreciation costs or the formulation of the balance sheet.

The impact of a consistent depreciation policy on both profits and the value of assets can be anticipated: The way in which stock is valued can have an effect on income, asset worth, and liquidness ratio based on the cost flow assumptions (LIFO, FIFO) and how overhead is handled.

Long term contract assumptions

An example of a method used to recognize profit.

The valuation and elimination of goodwill from the financial records.

Determining how leases should be divided between operating and finance leases and the method of attributing financing costs to both the lessee and the lessor.

Investigating new ideas and accounting procedures to improve existing services: Exploring the possibility of capitalizing the expenses associated with development and establishing a policy for how any amortization should be handled.

Issues related to pension plans, including the kind of plan, the assessment of excess or deficiency, and how expenses and other expenses are distributed over accounting cycles.

The way foreign trading operations are translated can be determined by either the temporal or closing rate method.

The distinctions between subsidiary and affiliate businesses, the application of consolidation accounting, and the determination of fair values will all influence the figures reported in a company's financial records.

It is crucial to be aware of the accounting procedures used by the company when evaluating and understanding financial statements. This will allow the users to understand the effect of the accounting practices on the items on the balance sheet and income statement.

Raj (2020) [18] suggests that there is not a uniform list of accounting practices that are applicable to all businesses and contexts. The accounting policies that should be employed depend on the type of enterprise. Generally, it is up to the accountant to decide which accounting policy to use in certain areas where multiple options are available, and they are:

1. Valuation of Inventory
2. Method of Depreciation
3. Valuation of Investment
4. Treatment of Goodwill

Inventory and shares may be subject to different methods of valuation, such as LIFO, FI O, and weighted average. The method chosen by the company will be their accounting policy and may result in different values.

When deciding on accounting policies, companies take into account certain key factors. These policies are based on the following considerations.

Precise and accurate presentation

Accounting policies should be transparent in order to provide a clear picture of the accounts. Adjustments should be kept to a minimum, instead presenting the data honestly and simply. For example, when a company owns resources, these are considered assets. Initially, the assets are added to the expense list; later, their future potential is evaluated. To ensure accuracy, the company will create an inventory that includes expenses incurred on the asset within a given period, as well as the services used during this time. However, there is one limitation: it is impossible to precisely measure an asset's usefulness and the potential it still holds (Ram & Tapria, 2019) [19].

Conservatism

When selecting from accepted standards, a company's main focus should be on the strategies that have a more cautious approach to net income. Considering the unpredictability of business, it is always better to take a conservative approach to profits. Therefore, Conservatism plays a big role in accounting, as it requires expenses to be recognized quickly and revenues to be delayed for as long as possible. This helps to minimize the total reported earnings (Ram & Tapria, 2019) [19].

Profit Maximization

This technique encourages the acceleration of reported earni ngs, meaning that revenues should be reported as soon as possible and expenses should be delayed for as long as possible. This type of accounting practice can result in a more favorable report and display the growth of a firm (Ram & Tapria, 2019) [19].

Income Smoothing

Income Smoothing is a criterion for selecting accounting policies which seeks to reduce earnings fluctuations and the associated risks of invested shares. This policy encourages analysis of earnings and smoothing of net income, revenues and expenses in order to raise profits and reduce risks. In other words, it works to make the flow of income easier and more secure. (Ram & Tapria, 2019) [19].

A business needs to adhere to certain rules when deciding w hich policies to implement and when to discard them. Generally, one set of policies is established as a permanent set, while a second set is created to cover other needs (Kvaal & Nobes, 2015) [16].

Though a company may have separate financial and income tax reports, these practices are permissible under the law. Government authorities require that reports pertaining to a business be clear and comprehensible, in order to be open to examination. Furthermore, financial statements should accurately reflect the company's owned assets and not conceal any existing liabilities that could potentially cause issues in the future.

The accounting principle of consistency states that an organization must keep the same accounting practices after they have been selected. Kvaal & Nobes (2015) [16] believe a switch in accounting methods should only be done in some circumstances, such as if the original methods are no longer consistent with current accounting regulations or if better ones are available:

1. It is required by statute
2. It is required to comply with ASs
3. If the change in accounting policy will bring about a better presentation of the financial report.

When a change is made to an accounting policy, it must be reported in the company's financial reports. For instance, this could involve disclosing the alteration in the company's financial statements. Examples are given below:

1. Olatutire Ltd. revised their accountancy practices for calculating the value of inventories, which included production costs. This change caused the inventory value to go up, and subsequently raised the company's profits by ₦20 million.
2. Beginning from 1st January 2022, Olonite & Shittu Ltd. changed their depreciation method to the book written down value from the straight line method. This prompted the recomputation of depreciation from the date the asset was acquired, resulting in an additional depreciation charge of ₦10,000. This adjustment decreased the firm's profit after tax by ₦100.

Materials and Methods

Conceptual Framework

This paper outlines the concept of a conceptual framework and its importance for researchers. It explains how it guides researchers in understanding and properly using abstract concepts, as well as avoiding any confusion or misunderstanding. The two concepts discussed in this paper are Behavioural and Accounting Policy.

1. **Behavioural Accounting:** Behavioural accounting is a field of accounting that focuses on how people respond to accounting-related phenomena. It considers the attitudes and behaviours of individuals when faced with an accounting issue, which dictates the action they take in making decisions. Investigating the behavioural aspects of accounting involves exploring how people make decisions, how they interact, and how they influence organizations, markets, and the wider community. This field of accounting examines elements like human cognitive behaviour, the caliber of judgment, the difficulties created by those who provide and use accounting information, and the decision-making capabilities of those who generate and take advantage of accounting information. Behavioural accounting is an area of research that examines the impact of accounting data on behaviour, management control (budgeting involvement, non-financial metrics, management, and balanced scorecards), auditing (discussions between auditors and clients, conclusions and choices), and ethics (ethical decision-making, ethical alignment and justifying unethical behaviour) (Baldi, 2017) [4].
2. **Accounting Policies:** A company must adhere to certain accounting principles in order to create financial

statements, and the policies and procedures used to do so can vary depending on the requirements. These policies and procedures involve the methods, measurement systems, and guidelines for how the information is presented and disclosed.

Theoretical framework

Several foundational theories have been employed to explain Accounting Policy behaviour. This research project is grounded in three socio-accounting theories, namely the Theory of Reasoned Action, Normative Accounting Theory, and Positive Accounting Theory, in order to validate behaviour and accounting policy.

Theory of reasoned action (TRA)

In 1967, Martin Fishbein and Icek Ajzen created the Theory of Reasoned Action (TRA) in order to explore the relationship between attitudes and behavior, and to make predictions about individuals' behavior based on their attitudes and intentions. It is theorized that people will choose to participate in certain activities based on the anticipated outcomes they anticipate from doing so. This idea was derived from studies in social and accounting psychology, models of persuasion, and attitude theories.

There was a perceived correlation between one's outlook and conduct (the A-B relationship), although some maintained that attitude theories were not dependable in predicting human behaviour. Fishbein and Ajzen later developed the Theory of Planned Behaviour (TPB) and Reasoned Action Approach (RAA) to refine and expand upon the TRA, addressing any issues with the A-B relationship. Currently, the concept is utilized in the fields of communication research and journalism as an effective resource for comprehending (Gillmore et al, 2002) [9].

Normative Accounting Theory

A normative theory is a type of theory which is focused on achieving a specific goal. It is not a representation of the current state of affairs, but rather a representation of what should be. These theories are prescriptive, providing guidelines on how things should be, rather than describing how they are. Normative theories can be identified by their goal-oriented nature and by their use of deduction. (Inanga & Schneider 2005) [13].

Positive accounting theory

The combination of discontentment with normative theory, plus the access to empirical data and the acceptance of economic arguments in the accounting field, caused a shift to a new form of empiricism, often referred to as positive theory. This theory is used to describe and predict accounting practices. An example of this is the bonus plan hypothesis, which suggests that executives are inclined to maximize profits even if it means harming shareholders, due to the bonus they receive based on reported accounting earnings (Ram & Tapria, 2019) [19].

For the purpose of the paper, the Theory of Reasoned Action (TRA) will be adopted.

Empirical review

Ogungbade and Oyerogba (2020) [17] conducted a study to assess the influence of corporate culture on Management Accounting Practices (MAPs). A total of 514 manufacturing companies were surveyed through a structured questionnaire, from which 220 responses were received. Seven aspects of firm culture - innovation/risk orientation culture, people orientation culture, outcome orientation culture, aggressive culture, stability culture, team-based culture, and attention to detail culture were analyzed and logistic regression was used for analysis. Results of the study revealed that team-based, detail-oriented and stable cultures had a major effect on the selection of management accounting practices; however, the other cultural dimensions were not supported statistically. The study concluded that attention to detail culture and team-based culture can restrict the use of modern management accounting practices, and that managers should exercise caution when utilizing these cultures. Consequently, it is suggested that Nigerian manufacturing firms should be cognizant of their culture and its influence on MAPs, and cultivate a culture that allows them to embrace modern MAPs and benefit from the associated advantages.

Chang, Liu, and Ryan (2021) [5] conducted a research study on the accounting policy decisions made by banks during the financial crisis. This period of time was characterized by a need to manage earnings or regulatory capital. The research was based on the application of the fair value option (FVO) of SFAS No. 159, which provided various options and suggestions that could be leveraged. The researchers examined the reasons that banks had for deciding to adopt the FVO and provided evidence on the differences, if any, between those that adopted the standard in the first quarter of 2007 (early adopters) and those that adopted it in the first quarter of 2008 (regular adopters). The Research suggested that those who had experience with managing financial information were more likely to take advantage of FVO, and those with less resources were more likely to use FVO in a different way than those with more resources. The research illustrated that regular adopters of SFAS No.159 tended to make FVO selections that were consistent with the purpose of the standard. Furthermore, they explored why early and regular adopters chose the FVO for particular financial instruments, and established that early adopters' decisions for AFS securities and debt were based on taking advantage of a situation, while regular adopters' decisions concerning loans held for sale demonstrated their compliance with the standard's purpose of resolving accounting discrepancies for economic hedges.

Fekete et al. (2010) [7] performed a study to analyze the accounting strategies of small and medium-sized businesses (SMEs) and the elements that have an impact on these decisions. To gather the data, a questionnaire was administered in which participants were questioned about the significance of different aspects when selecting an accounting framework. The results of the principal component analysis indicated that taxes was the main determinant of accounting policy decisions, while the consideration of true and fair view (TFV) was the least influential. This finding was in line with previous research, though it posed the query of whether the academic concept of TFV is meaningful to practitioners.

The research conducted by Badulescu, Muhammad, Mumtaz, and Soharwardi (2021) [3] applied institutional theory to examine the factors influencing the establishment of accounting practices and their influence on corporate performance in Pakistan. Data was obtained from 455 respondents, and 21 semi-structured interviews were conducted with a practical approach. The outcomes demonstrated that a number of institutional elements, such as the accounting regulatory framework, political elements, economic elements, cultural elements, and state-specific elements, were all involved in the progression of accounting practices following the country's independence. Additionally, this study illustrated that the advancement of accounting practices had a distinctive effect on company performance. This article could be beneficial for those making policy decisions in Pakistan by connecting accounting practices and policies to the International Accounting Standard Board's rules. Additionally, the study can help businesses enhance their results by applying international accounting standards. Lastly, this research fills a void in international accounting standards by studying the part of various factors in forming accounting practices and their impact on firm performance.

John and Andrea (2021) [15] carried out a study in Nigeria to look into how accounting practices affect corporate performance. The two aims of the research were to evaluate the effect of accounting standards on the return on assets of Nigerian companies concerning inventory and receivables disclosure. An ex-post facto research design was utilized, with secondary data obtained from the CBN statistical bulletin and financial statements. The two null hypotheses were tested using a random panel regression model, and it was found that accounting procedures in inventory disclosure and receivables disclosure have a significant effect on the return on assets of Nigerian enterprises. As a result, the report suggests that businesses should adhere to existing accounting standards to promote the comparability of accounting data, keep consistency in the implementation of accounting policies to prevent unethical management practices, and be held accountable for not adhering to accepted standards. In addition, the government should introduce regulatory regulations to ensure that businesses fulfill their accounting duties responsibly.

Ali and Ahmed (2015) [2] stated that the investment opportunity set plays a significant role. Companies that have more investment opportunities were observed to implement accounting policies that increase their income. However, they noticed that Indonesian companies behave differently in comparison to other companies in the Asia Pacific region, as they prefer accounting policies that reduce their income. Additionally, the research demonstrated that the investment opportunity set is negatively correlated with income increasing accounting policies.

Behavioural issues often come up in the context of communication, rather than the more traditional accounting topics such as data-processing methods. Behavioural accounting research looks at how recipients of accounting information respond to different kinds of information, as accounting communications are meant to shape behaviour (Hofstedt & Kinard, 1970) [12].

The paper adopted the thematic analysis of the empirical review methodology in drawing conclusions. This method is applicable because there are different submissions by scholars on the behavioural of accounting policies.

Results

Thematic analysis

In this section, the empirical studies in section two were analysed to get a theme. The following literatures were considered: Ogungbade and Oyerogba (2020) [17], Chang, Liu and Ryan (2021) [5], Fekete et al. (2010) [7], Badulescu, Muhammad, Mumtaz, and Soharwardi's (2021) [3], John and Andrea (2021) [15], Ali and Ahmed (2015) [2] and Hofstedt and Kinard (1970) [15].

Table 1: Thematic Analysis of the Literatures Reviewed

S/n	Literatures	Theme (trend)	Correlated	Not Correlated
1.	Ogungbade & Oyerogba (2020) [17].	Firm’s Behavioural Impact Accounting Policy?	✓	
2.	Chang, Liu & Ryan (2021) [5]	Firm’s Behavioural Impact Accounting Policy?	✓	
3.	Fekete et al. (2010) [7].	Firm’s Behavioural Impact Accounting Policy?	✓	
4.	Badulescu, Muhammad, Mumtaz, & Soharwardi's (2021) [3]	Firm’s Behavioural Impact Accounting Policy?	✓	
5.	Andrea (2021) [15]	Firm’s Behavioural Impact Accounting Policy?	✓	
6.	Ali & Ahmed (2015) [2]	Firm’s Behavioural Impact Accounting Policy?		✓
7.	Hofstedt & Kinard (1970) [12]	Firm’s Behavioural Impact Accounting Policy?		✓

Source: Author’s (Oladutire, Shittu & Olonite) Thematic Approach, 2023

From table 1, it can be deduced that a theme has been derived which is “Firm’s Behavioural Impact Accounting Policy”. Ogungbade & Oyerogba (2020) [17], Chang, Liu & Ryan (2021) [5], Fekete et al. (2010) [7], Badulescu, Muhammad, Mumtaz, & Soharwardi's (2021) [3] and Andrea (2021) [15]’s submissions showed a common theme which is different from the studies of Ali & Ahmed (2015) [2] and Hofstedt & Kinard (1970) [12].

Discussion

It is essential for a company to select an accounting policy to help reduce their expenses. The accounting policies adopted by a reporting entity will have a significant impact on the interpretation of financial statements when performing ratio analysis. These accounting practices will influence both the income statement and the financial position, leading to direct and indirect impacts on all important ratios such as return on capital employed and gearing. Organizations must adhere to accounting standards, even if there is a perceived commercial conflict, as regulations will take precedence in the event of a disclosure dispute.

Conclusion

Having a good understanding of accounting policies is essential for successful business management. This helps keep track of the organization's resources and ensures that they are compliant. It is beneficial to compare different businesses within the same industry, as they may utilize different accounting methods. Regardless of the size or type of business, all financial transactions must be recorded according to accounting concepts and principles.

If a company makes a purchase of shares from a reliable company and the shares then become untraceable in a short period of time, it could be an upsetting situation for both the company and its stakeholders. Therefore, it is beneficial to the firm and to those who rely on the accounting information to have a set of strict policies in place that must be followed.

Recommendations

The study recommends the following based on the summaries and conclusions:

1. Firms should disclose the accounting policies they have chosen, as these can have a significant influence on the interpretation of financial statements. This includes the policy for the valuation of assets, particularly land and buildings, the depreciation policy, the method used for the valuation of stock (LIFO, FIFO), the treatment of overhead costs, the assumptions made for long-term contracts, the method used for the translation of foreign trading operations (temporal or closing rate), pensions problems, research and development policy, leases allocation, and goodwill valuation in the statement of financial position.
2. It is important for those involved in research, writing, academia, and education to become acquainted with the accounting options available to businesses, as this is the basis of the continued operation of any organization.
3. In order to uphold established business practices, organizations need to enact appropriate regulations and make them available to the relevant authorities. This will facilitate the development of the business.

Contributions for further studies

As the world continues to evolve, there is an increasing demand for new research fields, including in accounting. Accounting is a science that deals with facts, but it must also take into account the human factor when evaluating the results. Since not all people or organizations act in a rational manner, it is necessary to consider cognitive influences when analyzing their decision-making process. This is known as behavioural accounting, which focuses on how individuals behave in specific accounting contexts. Recently, neuroscience has become more pertinent as it has been discovered that certain behaviours have a more cognitive foundation.

The development of Neuroaccounting, a field within neuroscience that examines the components that affect decision-making, has stemmed from neuroeconomics and has been met with both appreciation and disapproval. Its practices of neuroscience, which have the ability to monitor the workings of the human brain, could potentially alter the outlook of accounting behaviour. This understanding of human behaviour could be highly advantageous in the future and as a result, further research should be conducted on Neuroaccounting and Behavioural Accounting Policy Choices.

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