

# A PRESENTATION OF THE ROLE PLAYED BY ACCOUNTING IN ECONOMIC DEVELOPMENT

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## Abstract

*The aim of this paper is to describe and analyze the importance and the role played by accounting in economic development. The accounting system must respond to the needs and expectations of the nations, but, underlining the fact that we are in the era of globalization, it must respect simultaneously the international standards. Considering that the accounting has an essential impact in economy, we intend to present the contributions of the accounting system in the economic development. Accounting does not only provide modalities of control for economic entities, but it can also be useful for the national economic planning.*

**Keywords:** *economic development, accounting, accounting information, international standards, accounting system.*

## 1. Introduction

The purpose of this article, framed in the area of the economic studies, is to analyse, to underline and to make remarks in what regards the role of accounting in the economic development.

It is considered that in the economic development of countries an important role is played by accounting and that the success of the progress in an economy is influenced by the performance of the accounting systems used at micro and macro-economic level. Starting with the second half of the 20<sup>th</sup> century a striking feature of the macro-economic theory is “the use of accounting methodology for planning and control at the level of the state – a method of obtaining an over-all picture of economic activity in essential”.<sup>1</sup>

The research question of this article is: "Which is the importance of accounting in the economic development?". In order to respond to this question we conducted a qualitative research of the specific literature, research based on several inductive processes of collecting and analyzing data. For centralise the gathered information we used as techniques: documentary research, reviewing the documents, analyze and systematic comparison. We consider it appropriate to start this study with the defining of the concepts analyzed: economic development and accounting.

## 2. Content

Geneviève Causse affirmed that “the economic and social development of one country is defined in relation to the basic needs of humans and in relation to the characteristics of socio-economic structures of the regarded country”<sup>2</sup>.

The economic development must lead to a growth of the people welfare, as a result of the combined and planned actions of government, the private sector and the communitys. “The development of a country is measured with statistical indexes such as income per capita (per person) (GDP), life expectancy, the rate of literacy, et cetera.”<sup>3</sup>

In the last century the economic development represented one of the political issues between countries, especially between the socialist and occidental ones.

On the academic research area were conducted many studies regarding the economic development. Rostow and Lewis, were among the first authors that presented models of economic growth, models focusing on the role of investments.

Some authors, like Perroux, make differences between economic growth and economic development. The accent is put on the economic duality of countries - exists simultaneously a traditional sector and a modern sector.

Because were many development models with very different results, the World Bank and the International Monetary Fund - IMF made pressures for the implement “The structural adjustment Program”,

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<sup>1</sup> Kenneth Samuel Most, “*The role of accounting in the economic development of the modern state*”, (PhD diss., University of Florida, 1970), p. 31.

<sup>2</sup> Bernard Colasse, “*Encyclopédie de Comptabilité, Contrôle de Gestion et Audit*”, (Paris: Ed. Economica, 2009), p: 689.

<sup>3</sup> Chokri Zehri, Asma Abdelbaki, “*Does adoption of international accounting standards promote economic growth in developing countries?*” International Open Journal of Economics, Vol. 1, No. 1, July 2013, p.01; Available online at <http://acascipub.com/Journals.php>

and new privatization policies and trade liberalization. "These outreach programs for the world market have determined the appearance of a minimum harmonization regarding regulations, including accounting regulations"<sup>4</sup>.

The accounting arised from human's need, as an economic being, to represent the own socio-economic reality. "Over time, this form of representation has evolved and individualized in a distinct body of knowledge that was meant to explain the practices used to represent an economic and social reality (an exchange of products, a business)."<sup>5</sup>

The process of defining the accounting as scientific field was a complex one, and was made in close relation with the socio-economic development.

In the economic theory accounting it is defined "as a knowledge tool of economic realities in the form values (utilities) and their sources of origin (resources)"<sup>6</sup>. But, from the perspective of economic development, the accounting must be seen as a large system with multiple dimensions: legal, economic, social and political.

In the current literature many authors have focused on studying the role of accounting in economic development. Researchers like Enthoven (1973), Perera (1989) and Mirghani (1982) suggested that the accounting has a major role in achieving a higher level of the socio-economic development. Wallace (1990) and Susela (1999) considered that it is impossible to describe the exact role of accounting in economic development, this relation being influenced by various factors. M.S. Haque treated in his paper "Restructuring Development theories and Policy" (1999) the role of accounting under conservative, reformist and radical traditions. He concluded that "the exact role of accounting within each national socio-economic development will depend, to a large extend, on the development paradigm that is under consideration"<sup>7</sup>.

The conservative tradition of development sustains the idea that the accounting is a technical instrument which can contribute to the effort of achieving some better socio-economic living conditions. Accounting collects, analyzes, interprets data and reports them to the final users, being a help in the economic decision making.

Another role played by accounting is that of attestation. This means that, the Accountant, as a key figure of managerial staff, is an honest person who conducts his own activity in compliance with the laws and with the accepted policies and principles. This role has gained significance after the recent financial scandal Such as Enron (2001), WorldCom (2002),

Tyco (2002) and so on. The accounting information provided from the individual economic entities are partially used in the national income accounting, and are "important for assessing the effectiveness of particular national development policies and the performance of the economy as a whole"<sup>8</sup>.

A.J.H. Enthoven (1973) considers that the accounting sustains the advancement of the economic development, assuring through its efficient systems the necessary support for extant institutional structures.

From the perspective of the reformist tradition, the accounting has the role of uncovering the illegalities, the unfair economic practices, providing thus the necessary and correct data for making adjustments in structural issues. The published information must satisfy the needs of all users not only for the dominant stakeholders (e.g. shareholding).

Reformists sustain that accounting information must be useful in the process of evaluation of the effects obtained through the particular national policies. The accounting helps in this way in determining whether the promoted policies have the expected results or should be abandoned. In the developing countries the accounting also contributes in establishing relations with international financial institutions, by providing the necessary information for making agreements.

Under the radical tradition, the accounting techniques are represented as unsuitable and perhaps even obstructive in obtaining the national development, government having the most important role.

Accounting has the role to support the government, which is the main actor of economic development, to make decisions at both macro and micro economic levels.

As a preliminary conclusion we can affirm that the accounting meets various roles in economic development depending on the paradigm taked in consideration.

In what regards the role and implication of the accounting at micro and macro-economic levels were made numerous studies.

At macroeconomic level, we assist to an increased interest from the academic society in what regards the usefulness of the accounting methodology in control and planning. But, the use of the accounting for planning purposes is not a recent practice, a rudimentary form being used even in ancient times, in the Nile area and in Ancient Greece.

K. S. Most concluded in 1970 that the "interest in accounting, as evidence for a positive theory of public finance has grown with the availability of

<sup>4</sup> Bernard Colasse, "Encyclopédie de Comptabilité, Contrôle de Gestion et Audit", (Paris: Ed. Economica, 2009), p: 691.

<sup>5</sup> Ion Ionascu, "Epistemologia contabilitatii", (Bucuresti, Ed. Economica, 1997), p. 13.

<sup>6</sup> M.L. Frumusanu, A.Breuer, D. Jurchescu, "The role of accounting information writing and project implementation", (Annals of the University of Petroșani, Economics, 11(1), 2011), p. 121

<sup>7</sup> Abu Shiraz Rahaman, "Revisiting the role of accounting in Third World socio-economic development: A critical reflection", (University of Calgary, Alberta, Canada), p. 2.

<sup>8</sup> Abu Shiraz Rahaman, "Revisiting the role of accounting in Third World socio-economic development: A critical reflection", (University of Calgary, Alberta, Canada), p. 4.

national income accounting models”<sup>9</sup>. He also remarked that the researchers became concerned in problems like planning and control, because “as the economic functions of government expand, the technical aspects of finance, of public accounting and of the control of expenditure, assume a new importance”<sup>10</sup>.

In the specific literature we founded various and very different opinions referring to the role of accounting at microeconomic level.

Although early theorists from economic field showed a concern in the business and accounting practice, classical and neoclassical economists have not shown a particular interest to accounting methodology.

Contrary to their opinion, G. Causse believes that the accounting plays an important role in economic development of states and that the achievement of development depends on the performances of the accounting systems used.

Accounting, at economic entities level, has the role of:

- providing the necessary data for internal and external users;
- satisfying the informational needs of the management;
- meeting the control needs of the owners;
- supplying the necessary databases for economists and planners.

By publishing superior quality data (relevant, pertinent, reliable, for example) the accounting contributes to the development of financial markets, leading indirectly to a channeling of the funds for investment and development.

The public accounting has an essential function in economy, because by its own principles and procedures, sustains the control activity of public funds, funds which have considerable importance in the economic and social life of developing countries.

The national accounting “aligns the economic terminology, in characteristic quantities (national income, for example) or indicators (investment rate, for example) and presents periodically comprehensive and consistent information on the economic activity of a country”<sup>11</sup>, data which represent a basis for economic planning.

In his paper “Développement et comptabilité”, G. Causse has submitted as indirect effects of the accounting in economic development, the following:

- improves the functioning of the tax system;

Accounting, by establishing the procedures and by respecting the legal, fiscal regulations contributes indirectly to the tax collections. This

process is often slowed by a poor performance of bookkeeping or even a fraudulent one.

- the rational evaluation of projects;

When one state must evaluate the developing plans proposed by the specialized organisms, it uses techniques that are specific to accounting (cost-benefit analysis, for example). “A faulty accounting can lead to the acceptance of unviable projects or unattractive, which is very damaging in a context of scarce resources”.

- support for regional integration;

The actual context of accounting harmonisation facilitates the commercial and financial transactions within a transnational framework.

- the attraction of investors thanks to the transparency of accounts;

The investors need the assurance that their business will bring profit. For estimating the potential earnings, they ask for correct and objective documents, in accordance with the international legal framework. Only a quality accounting system can sustain their exigences.

- increases accountability in the management of funds.

Recently, was raised the question of the growth of the social and economic responsibility of accountants. They need to properly manage the funds which have been assigned to them; because they have a moral responsibility for the whole society, in the extent that they administrate public funds.

At the end of the last century we assisted, amid globalisation of the financial markets and trade, to a repositioning of the entire economic environment.

More than 100 countries have adopted the International Accounting Standards and many others expressed the intention to adopt them. “Although in its first version, the IAS/IFRS have mainly targeted and focused on the developed countries, above all, large corporations, a strong diffusion of these standards has been interested among the developing countries”<sup>12</sup>.

By adapting accounting regulations with the international standards, countries become more attractive to foreign investors, because they can use similar information in fundamenting the investment decisions. It is also more easily to audit and control the economic entities at the level of the state. In the academic environment, most of the economic studies were conducted in the direction of analyzing the impact of the adoption of IFRS in already developed countries. Only few studies were focused on analyzing the data from developing countries. The conclusions of these studies were very different so it couldn't be established a precise relation between adopting the IFRS and economic growth. In the article called “An

<sup>9</sup> Kenneth Samuel Most, “*The role of accounting in the economic development of the modern state*”, (PhD diss., University of Florida, 1970), 34

<sup>10</sup> Ursula K. Hicks, “*Public Finance*” (Cambridge, England, 1955), Preface, p. ix.

<sup>11,12</sup> Bernard Colasse, “*Encyclopédie de Comptabilité, Contrôle de Gestion et Audit*”, (Paris: Ed. Economica, 2009), p: 695

<sup>12</sup> C. Zehri, A. Abdelbaki, “*Does adoption of international accounting standards promote economic growth in developing countries?*” International Open Journal of Economics, Vol. 1, No. 1, July 2013, p.01; Available online at <http://acscipub.com/Journals.php>

analysis of the factors affecting the adoption of international accounting standards by developing countries” Zeghal and Mhedhbi showed that in the developing countries with high economic growth the IFRS adoption is well accepted. Contrary to them “Woolley (1998) has observed that, in an Asian context, no significant differences could be noticed in terms of economic growth among IFRS adopting and those applying their local standards.”<sup>13</sup> G. Causse sustained that the “developing countries are not considered stakeholders in standardization institutions, and standards are not established in consideration of the context of these countries.”<sup>14</sup>

### 3. Conclusions

After reviewing of the academic literature, we can conclude that the accounting not only participates directly at the economic development of countries, but also sustains the national economic planning, by providing the data and the specific instruments. As Hoarau and Teller sustained in 2001, that the accounting must be oriented towards “substantial value”, that is to say integrating resources that ensure long term development potential of economic entities and their environment, not only towards “shareholder value”<sup>15</sup>.

Another conclusion drawn from this research is that accountants are important persons in the managerial team, because they ensure the credibility of accounting by being honest and by respecting the legislation and the economic and financial regulations.

The broad role of accounting is also highlighted by the importance of accounting information in the economic environment. The information satisfy the needs of internal and external users and are also useful in the process of evaluation of the results obtained through the particular national policies. The accounting, by publishing good-quality data, can promote financial stability, facilitate the absorption of domestic and international funds, create a safe investment environment and foster investor confidence.

“A strong and internationally comparable reporting system facilitates international flows of financial resources while at the same time helping to reduce corruption and mismanagement of resources”<sup>16</sup>.

For all that, it is impossible to sustain that accounting has only certain roles in economic development. Its involvement in economy is very various, being influenced by the characteristics of the considered countries, and it may differ according to the dominant paradigm.

The accounting is also used at microeconomic level as an aid in the management of economic entities.

So, we can affirm with conviction that the accounting has an essential role in the economic development.

As a future direction for research we find it appropriate to investigate which are the characteristics that accounting must meet to be a support for economic development. We also find it appropriate to study how and if the economic development of the states influences the evolution of accounting.

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<sup>13</sup> C. Zehri, A. Abdelbaki, “Does adoption of international accounting standards promote economic growth in developing countries?” International Open Journal of Economics, Vol. 1, No. 1, July 2013, p.04; Available online at <http://acascipub.com/Journals.php>

<sup>14</sup> Bernard Colasse, “Encyclopédie de Comptabilité, Contrôle de Gestion et Audit”, (Paris: Ed. Economica, 2009), p: 702

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