

# Accounting Theory Structure as A Basis for Developing a Financial Reporting Framework

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## ABSTRACT

Accounting theory plays a fundamental role in establishing systematic and consistent accounting and financial reporting practices. This study aims to examine the definition, scope, and structure of accounting theory and its relationship to the conceptual framework for financial reporting developed by the International Accounting Standards Board (IASB). This study focuses on the role of accounting theory as a philosophical and conceptual foundation for establishing financial reporting standards, as well as the function of the conceptual framework as a translator of theory into accounting practice. The approach used is a conceptual study by analyzing academic literature, scientific journals, and relevant official documents. The results of the study indicate that the structure of accounting theory, which includes reporting objectives, basic assumptions, concepts, and accounting principles, plays a crucial role in building a coherent conceptual framework, reducing uncertainty in accounting practices, and supporting the development and evaluation of financial reporting standards. The integration of accounting theory and the conceptual framework has been shown to improve the quality, consistency, and usefulness of financial information for stakeholders in facing the dynamics of the modern business environment.

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## 1. INTRODUCTION

The increasingly complex world of business and economic development demands an accounting system capable of presenting relevant, reliable, and understandable financial information to various parties. Accounting, as the language of business, serves not only to record and report transactions but also serves as the basis for economic decision-making. To achieve this goal, a solid theoretical foundation is required so that accounting practices are not merely technical but also have clear direction and principles. This is where accounting theory becomes crucial, serving as a scientific foundation that explains why and how accounting practices are carried out.

Accounting theory plays a role in establishing a systematic structure and framework for developing standards and financial reporting. Through theory, fundamental concepts such as accounting postulates, principles, and assumptions can be logically structured, resulting in a consistent conceptual framework for financial reporting. This conceptual framework serves as a guideline for accounting standard setters (such as IFRS and SAK in Indonesia) in establishing policies that align with the objective of financial reporting, namely to provide information that is useful for economic decision-making by report users.

However, in practice, the relationship between accounting theory structure and financial reporting frameworks often faces various challenges. Differences in economic and social environments, as well as the needs of financial statement users, require general theories to be

adapted to local contexts. Furthermore, modern business dynamics such as globalization, digitalization, and sustainability require accounting theory to continuously evolve to remain relevant. Therefore, studying the structure of accounting theory as a basis for developing financial reporting frameworks is crucial for understanding how theory plays a role in building a reporting system that is accountable, transparent, and adaptable to changing times.

## **2. RESEARCH METHOD**

This research uses a qualitative approach with a conceptual study method. This approach was chosen because the research focuses on the analysis of the thinking, concepts, and theoretical structures underlying accounting and financial reporting practices, rather than on empirical testing based on quantitative data. The research data was obtained through a literature review of accounting textbooks, reputable scientific journals, and official documents related to accounting theory and financial reporting conceptual frameworks, including the Conceptual Framework published by the IASB.

The data analysis technique was conducted descriptively and analytically by reviewing, comparing, and synthesizing various theoretical perspectives on the structure of accounting theory, conceptual frameworks, and their relationship to accounting standard-setting practices. The analysis focused on identifying the main elements of accounting theory, the role of conceptual frameworks in reducing accounting treatment uncertainty, and the theory's contribution to the evaluation and development of financial reporting standards. The results of the analysis were then presented systematically to provide a comprehensive understanding of accounting theory's position as a conceptual foundation in the modern financial reporting system.

## **3. RESULTS AND DISCUSSIONS**

### **Definition and Scope of Accounting Theory**

Accounting theory is a set of concepts, principles, and conceptual structures that form the foundation for systematic accounting and financial reporting practices. In academic studies, this theory serves not only as a technical guideline for recording and preparing reports, but also as a reference framework that enables the development and evaluation of consistent accounting standards. For example, a conceptual study of the elements, structures, and conceptual frameworks in accounting theory shows that the basic elements of this theory, including assumptions, principles, and conceptual structures, form an important foundation for credible and relevant financial reporting practices for users of financial information. The study confirms that accounting theory plays a crucial role in explaining accounting behavior and providing a framework that supports the logical and coherent preparation and interpretation of financial statements.

Broadly speaking, accounting theory encompasses various approaches used to understand accounting phenomena in their social and economic contexts, and provides the basis for the development of accounting standards and regulations. Contemporary academic research confirms that the structure of accounting theory encompasses a conceptual framework that serves as the primary basis for establishing financial reporting rules aimed at improving the quality of information presented to stakeholders. Thus, the scope of accounting theory is not limited to technical aspects alone, but also encompasses the evaluation, development, and adaptation of accounting principles to address changes in the business environment and the needs of users of financial statements.

### **A. Structure of Accounting Theory**

The structure of accounting theory is a conceptual framework that organizes various interrelated theoretical elements and serves as a foundation for the development of accounting practices and the preparation of financial statements. According to research by Brink and Steenkamp published in the *Journal of Applied Accounting Research*, the structure of accounting theory includes key components such as the objectives of financial reporting, postulates or basic assumptions, theoretical concepts, and accounting principles, which together form a theoretical model for evaluating and determining the accounting treatment of certain economic transactions when specific standards are not yet available. This study shows how these elements do not stand alone but are interrelated to produce a theoretical model that can be used to guide consistent and logical accounting practices.

Furthermore, Brink and Steenkamp explain that this structure helps link the economic phenomena that occur in business transactions with the appropriate reporting framework, thus enabling accountants and standard setters to determine the most appropriate accounting treatment based on the objectives of financial reporting and the characteristics of the observed transactions. Thus, the structure of accounting theory is not only a conceptual tool in accounting education, but also plays a practical role in guiding the application of accounting principles in the field, especially in situations where formal standards do not explicitly describe certain treatments.

### **Conceptual Framework for Financial Reporting**

The conceptual framework for financial reporting is a theoretical foundation that establishes the objectives, basic concepts, and assumptions underlying the preparation of financial statements, so that reporting standards and practices are consistent and comparable internationally. The journal *Critical Analyses on Conceptual Framework for Financial Reporting* explains that the revised version of the conceptual framework by the International Accounting Standards Board (IASB) in 2018 was designed to respond to the complexity of the global economy and the diverse information needs of stakeholders. This framework not only establishes the basic objective of reporting to provide relevant and reliable information for decision-makers, but also updates the definitions and recognition criteria for elements of financial statements such as assets and liabilities to better suit the realities of modern business. These changes demonstrate the crucial role of the conceptual framework in ensuring that financial statements reflect reliable and useful information amidst the dynamics of the economic environment.

This conceptual framework also strengthens accounting principles such as stewardship and prudence in reporting, emphasizing accountability and prudence in providing financial information. The revised conceptual framework, which includes a reaffirmation of these principles, is designed to enhance the decision-usefulness of financial reports, ensuring that the information presented is not only relevant but also stable and accountable to investors, creditors, and other external parties. Thus, the conceptual framework serves as a fundamental guideline for accounting standard setters and practitioners in formulating consistent and transparent accounting policies, particularly when formal standards do not explicitly regulate specific accounting treatments.

### **The Relationship between Accounting Theory Structure and Financial Reporting Framework Accounting Theory as a Basis for Establishing a Conceptual Framework**

The structure of accounting theory provides the philosophical and logical basis for the development of a conceptual framework for financial reporting. The conceptual framework used by the International Accounting Standards Board (IASB) is essentially a form of application of accounting theory to reporting standards, where theory provides general principles that are then formalized in the conceptual framework. Accounting theory helps explain why basic concepts such as relevance and reliable representation were chosen as fundamental to the financial reporting framework.

### **Conceptual Framework as a Translator of Theoretical Structure to Practice**

The structure of accounting theory, encompassing reporting objectives, basic assumptions, and accounting concepts and principles, serves as a blueprint for developing a more practical and operational conceptual framework. This framework is then used to assist standard setters in determining accounting policies when specific standards are not yet available. The same study showed that the conceptual framework represents a direct application of the structure of accounting theory internalized by the IASB in developing a consistent and coherent reporting model.

### **Reducing Accounting Uncertainty Through Integration of Theories and Frameworks**

The relationship between the structure of accounting theory and the financial reporting framework is also evident in their function of reducing uncertainty in accounting practice. With a strong theory as the basis for the structure, followed by a formalized conceptual framework, accountants can more easily determine the appropriate accounting treatment for transactions not explicitly regulated by standards. This helps produce representative and consistent financial statements, as demonstrated

in the theoretical model developed that incorporates the IASB Conceptual Framework for determining the treatment of complex transactions.

#### **The Role of Theoretical Structure in the Evaluation and Development of Reporting Frameworks**

The structure of accounting theory plays a role not only in the initial formation of the framework but also in the ongoing evaluation and development of the financial reporting framework itself. As business conditions, the economic environment, or users' information needs change, accounting theory provides a framework for assessing whether the existing conceptual framework remains relevant or needs to be adjusted. This theoretical approach helps standard setters assess and update the framework consistent with the evolution of modern accounting practices.

#### **4. CONCLUSION**

The structure of accounting theory is a scientific foundation that plays a crucial role in shaping and guiding the conceptual framework of financial reporting. Accounting theory provides a logical and systematic basis for the development of accounting standards to align with the reporting objective of providing relevant, reliable, and useful information for economic decision-making. The close relationship between theory and the financial reporting framework demonstrates that the development of accounting practice is inseparable from the strengthening of its theoretical foundation. Therefore, a thorough understanding of the structure of accounting theory is key to maintaining consistency, transparency, and accountability in financial reporting in the current era of globalization and digitalization.

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