



## **The Influence of Neoclassical Economic Theory on Modern Accounting in a Technology Dependent Business World: A Theory Based Perspective**

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### **Abstract**

This is a theory based paper aimed at discussing the basic ideas related to rethinking the functional purpose, logic and principles of accounting in accordance with emerging trends that have developed in recent years in emerging economies and specifically in Nigeria. It is a qualitative research using discussion and explanatory methods. The fulcrum of these discussions and explanations is the interaction between accounting and neoclassical theory of finance in developing economies like Nigeria. The ideas discussed in this paper would be specifically useful for researchers trying to comprehend the intricacies and complexities of transformational ideologies and accounting profession in the 21<sup>st</sup> century revolutionary economic dynamisms. The paper discovered that, first; the controlling function of accounting has been replaced by its information and communication functions. Secondly, the present set

of accounting standards which are function oriented is not adequate to harmonize the ideological aspect of accounting into its functional areas. In line with these findings, the paper recommends the harmonization of accounting functionality to its ideological and methodological usefulness. This is because there are non-professional users of financial statements and reports that do not understand the accounting reports and hence the need to simplify accounting reporting for easy understanding.

**Key Words:** Neoclassical Economic Theory, Modern Accounting, Accounting Standards, Technology Dependent Business World.

## Introduction

Accounting plays a special role in financial decision making which is highlighted by the situation that such decisions are made on the premise of adequate information support and great degree of reliability. The challenge is how to adopt accounting to new dynamics in finance and economy, especially in developing economies and Nigeria in particular. Recently, technological developments leading to emergence of software and financial applications which can record, summarize and analyze transactions are withering away the traditional accounting basics. As such, the 21<sup>st</sup> century accountant is expected to go far beyond the traditional debit and credit, and drafting of basic books of account and financial statements if he or she must remain relevant. This is because the fast technological advancing information support of business is putting question mark on the usefulness and relevance of the traditional work of an accountant (Rebecca, 2019).

However, the situation would be radically different with globalization of business and the strengthening of financial markets, leading to enhanced need for a transformed, technology savvy accountant, who integrates modern technological tools into accounting functionalities. This is because in all organizations the accounting department is still very much needed to prepare financial statements, which are the fundamental channels of financial communication in the business world. The accounting departments also go beyond this, to analyze and interpret these financial statements and provide vital financial advice to the other levels of management. Hence, understanding the basics and functionality of accounting, and acquiring the ability to sufficiently perceive the modern channels of communicating financial information are very vital to the 21<sup>st</sup> century accountant (Webber and Daves 2010).

According to the International Monetary Fund (IMF) classifications, countries are categorized into either (i) advanced or developed economies, and (ii) emerging markets or developing economies. Presently, efforts are being made to harmonize and align the growth rates of developing economies, aimed at improving the standard of living and reducing poverty in these countries. Achieving this would be impossible without first harmonizing the basic methodical, methodological and organizational structural parameters of the economies of these countries, which include accounting profession and practice as a very important component.

It is paramount to note that there is much advancement in accounting profession in developed economies such as USA, UK, etc, that are yet to be implemented in emerging economies like Nigeria. This is not just because of the development and strength of such giant countries. The



fundamental reason is that innovations are actively adopted only when a society has developed a perception of the requirements for such changes. For instance, the introduction of environmental accounting or green accounting is imperative in USA and UK, not because of just the strength of their economy but because of a development perception towards the environment. Whereas, in Nigeria, environmental accounting is merely at introduction stage and usually treated voluntarily and in most cases as a burden for doing business and not an imperative. Again, this also boils down to the failure of the Nigerian society to realize the imperativeness of efforts in this direction. If the Nigerian society wakes to this understanding, the Nigeria business environment will respond to it with information on environmental activities. This is where neoclassical economics comes into play (Boeger, 2016; Ploeg and de Zeeuw, 2014).

Neoclassical economic theory focuses on effects of perception of efficacy or usefulness of products on market forces, which are demand and supply. It considers pricing from the perception of both the consumer (demand) and the producer (supply). This implies the optimization of benefits or profits while taking into consideration the limitations in the demand for the products by the consumers. It is a system of theoretical constructs on how financial flows are managed within four spheres which are interrelated. These interrelated spheres are (a) household finance, (b) corporate finance, (c) public finance, and (d) finance for non-profit oriented organizations (Kenton, 2021)

It is imperative to state here that there is dearth of studies on the relationship between Neoclassical economic theory and modern accounting in developing economies. The only available study in recent times was by Kovalev and Kovalev (2018), a study on accounting in modern economics: influence of neoclassical tradition. Their study was conducted in Russia, usually seen as an emerging economy. But unlike Nigeria and most African nations, it has made tremendous progress towards becoming an advanced and developed economy. Nigeria is a country rich in petroleum, other mineral resources and abundant intellectual and human capital. Despite these, Nigeria still languishes in underdevelopment and poverty due to poor political leadership and acute corruption and cluelessness of political elites. Interestingly enough, the various advancements in accounting recorded in most developed economies are yet to gain recognition in Nigeria due to the failure of the Nigerian society to realize the imperativeness of efforts in this direction.

Hence, there is an urgent need to conduct a study on how accounting in Nigeria can brace up by making use of propositions by the neoclassical economic theory. In line with this, this study attempted to fill this gap by looking at the influence of neoclassical economic theory on modern accounting in a technology dependent business world.

### **The Relevance of Neoclassical Economic Theory to Business Operations**

Neoclassical economic theory proposes a predetermined set of axioms which leads to choices independent of social environment. In neoclassical economic perspective, humans are rational agents assumed to make their choices in a consistent pattern. Individuals are a set of preferences in conformity to axioms such as reflexes, continuity, transitivity and completeness (Kovalev and Kovalev 2018). It makes provision for an analytical framework in favour of the postulation that wealth is the result of the decisions made by individuals, and

not as a result of coercion, colonization, theft, etc. It suggests that those who got wealthy did so by frugality and hard work, while those who become poor do so by laziness and profligacy (Clark, 2021).

Further, it postulates that the value of a product or service goes beyond its production costs but rather it is determined by the perceptions of its value which affects its price and demand (Kenton, 2021). It concluded that the best of all possibilities, "Pareto optimality," can only be achieved by free market exchanges which allow individuals to make decisions without government interferences. This reduces the role of government in controlling economic activities and promoting the role of transnational corporations in determining the direction of these economic activities; thereby making neoclassical economics a great weapon in promoting transnational corporations-led internationalization processes (Clark 2021).

The critics of neoclassical economic theory argue that it cannot describe actual economies with accuracy. They argue that the assumptions of the rationality of consumers in making choices does not take into cognizance the vulnerability of human nature to responding to emotions. Other critics blame neoclassical economics for inequalities in international trade relations and global debt as the theory postulates that labour rights and standard of living will improve inevitably as a result of economic advancement and market growth.

### **The Emergence of Globalized Modern Accounting in a Technology Dependent Business World**

Technology has enhanced the way business activities are done thereby unifying international business through the internet. Accounting has since aligned itself to this trend as businesses optimize success through the use of modern accounting tools to support financial tracking. Presently, there are accounting tools and software that assist in running financial systems, enhancing tax strategy and systematically structuring receipts from customers wherever these customers may be located in the world (Rebecca, 2019; Gray, Brennan and Malpas, 2014).

Prior to invention of modern computers and internet, accountants track transactions manually. Accounting ledgers were used to record the in and out of cash or goods in a cash dominant transaction system. Presently, the business world has changed. Businesses are now technology dependent. If a business does not make provisions for digital payments and receipts, then chances are high that it will lose its customers to its competitors. A business must not only integrate technology into the business systems, it must also ensure that it is using the right tools fit for such industry and individual customer needs (Webber and Daves 2010).

Modern accounting signifies the use of technology and accounting programs to systematize financial tracking by leveraging the synergies inherent in the automation of modern accounting software programs which are designed with double-entry accounting systems. These automated accounting systems have the option to run financial reports relating to the profitability and statement of affairs of the business. These reports can be assessed at snapshot, provided information required to support decisions that relate to cash flow, expenditures, revenues generation, hiring of human resources, etc. One of the great innovations of modern accounting is the storage of information in the cloud. This cloud-based



accounting storage solution reduces greatly the risk of losing accounting and financial data usually orchestrated by system malfunction. Another benefit of modern accounting is that several devices can have access to the financial reports from multiple locations at same time and even in real-time. It makes it easier to keep up with responsibilities since stored financial data can be accessed with a touch of the button from any location in the world provided you have access to such data and access to the internet. In addition, modern accounting gives you the opportunity to hire outsourced accountants without necessarily having an accountant in your company or office (Rebecca, 2019; Janvrin and Watson, 2017; Walker, 2016).

Therefore, the continuous evolving of the accounting profession means that the modern accountant must keep up with current accounting trends so that he/she is continuously abreast with the timely changes in accounting system and profession.

### **Methodology**

This is a qualitative and theory based study. It made use of discussion and explanatory methods to expatiate the relevance and influence of neoclassical economic theory on accounting practice in developing countries and Nigeria in particular. Viewpoints and opinions of seasoned neoclassical economics theorists, other economists, accountants and researchers alike were used in making expatiated discussions and explanations on the research area of interest.

### **Presentation and Analysis**

#### **Accounting and Finance**

Traditionally, accounting was independent of finance. However, as market economy began to depend heavily on financial tools, the ideology to integrate accounting with finance and an aspect of law began to gain recognition in advanced countries and fast developing emerging economies. The aspect of law accounting relates with is majorly the regulatory framework of accounting (Deegan, 2014). The interwoven relationship with finance is in the essential features and methodological areas of accounting. This is because the users of information generated by accounting operations are fundamentally related to the financial areas of the business operations. In other terms, accounting and finance can be regarded as twin brothers. This is because the financial aspect of businesses speaks strictly about the major aspects of business; it means that the relevance of accounting that produces information on this financial aspect has increased tremendously. It also implies that there must be a shift in accounting paradigm from procedural to financially essential (Kovaley and Kovaley, 2018).

Hence, it is shocking that the National Universities Commission (NUC) in Nigeria has separated accounting from finance in all degree programs in Nigerian universities. It seems Nigeria is moving in the opposite direction of the world in this regard. This is even more surprising, given that in the area of research, accounting and finance are interwoven trends in accounting practice and science. For instance, in 2016, Moehrle et al. (2016) carried out a review of published articles in top accounting journals and discovered that 80% of these published articles are directly or indirectly related to the financial areas of firm's operations.

Only 20% of the journals were on historical and other aspects of accounting (Napier, 2006; Fisher and Naylor, 2016).

### **Major Broadening in the Purpose of Accounting**

In mid-20<sup>th</sup> century the fundamental objectives of financial accounting broadly included stewardship and provision of useful information to multiple business stakeholders including regulators and policy makers, and not just creditors and shareholders (Numberg, 2012). The fact that this information provided by accounting is expected to have the qualities of verifiability, reliability and relevance has made financial reports a centre of interest for a wide range of users and potential users which include professional accountants and accounting laymen and novices. This explains the significant changes in accounting and its interaction principles with the business world. This shifted accounting from the functional and traditional purposes (i.e., control and analytical functions which assesses resource allocation efficiencies) to include information and communication (i.e., generation of financial data useful for making financial and investment decisions; and reducing uncertainties and risks in the relationship among different business entities) (Ful et al. 2012).

### **A Shift in Accounting Interpretations**

The vast majority of accountants educated in most developing nations, and particularly in Nigeria, are trained based on the traditional perception of accounting as basically an ancient practice-focused discipline, which is in the performance of some technical procedures prescribed by their national accounting regulatory bodies. Hence researchers have discovered that there seems to be a close relationship between accounting and its social and ideological environments. However, globalization of business has caused a shift in the interpretation of accounting information due to changes in target destination. Hence, in modern business world accounting has become a science that concerns with financial model of organizations and firms (Hooks and Stewart, 2015; Kovaley and Kovaley, 2018).

### **Relationship between Accounting Theory and Practice**

The bone of contention in discussions among African scientists is the validity of regarding accounting as science. This is because the history of accounting shows that it evolved basically by the desires and wishes of practice. This explains why accounting is viewed by some economists and academics as mainly practical technology that is seldom relevant to science. However, this view has been countered by a lot of accounting researchers. These pro-science accounting theorists argued that the development of the accounting true and fair view, its applications, forming of conceptual framework of accounting standards, and the institutions of uncertainty and variability are made possible only by a theoretical scientific design of logic, methodology postulations and accounting principles, which are very fundamental to business environments and as such qualifies accounting as science (Zeff, 2013; Smith and Cordina, 2014; Kovaley and Kovaley, 2018). Recently, the scientific and professional environment has witnessed successful attempts in the formation of various mathematical models in accounting and finance. This is now trending in accounting education globally (Apostolou et al., 2017).



## Discussion of Findings

### **The Replacement of the Controlling Function of Accounting by its Information and Accounting Function**

A major motivational factor of any economy is the pursuit of growth and development. The realization of this desire is dependent on the well-being of the business environment. Interestingly, modern business cannot function well without adequate, reliable and useful financial information. This thus put a heavy burden on modern accounting to evolve from traditional functionality to generation of financial data useful for making financial and investment decisions; and reducing uncertainties and risks in the relationship among different business entities. This is in line with neoclassical economic theory which postulates that the value of a product or service goes beyond its production costs but rather it is determined by the perceptions of its value which affects its price and demand (Kenton, 2021).

### **The Inadequacy of the Present Accounting Standards in the Harmonization of Ideological Aspect of Accounting in its Functional Areas.**

The global dynamics in financial information requirement has led to a change from the dominant functional and analytical accounting to dominant financial information which makes accounting useful for making financial and investment decisions and reducing the level of uncertainties and risks in relationship amongst firms. This pointed to the loopholes in accounting standards. A mere change of title of International Accounting Standards (IAS) to International Financial Reporting Standards (IFRS) does not provide needed reinvigoration of the accounting profession. It is not all about name change, the contents of financial reports and accounts should reflect the standards in terms of not just the accounting technique itself, not its procedures, but the output which should focus on the various categories of users. There is also the problem of interpretation of international accounting standards when translating them into other languages that are not English as errors in translation may cause challenges with regards to consistency in the application of International Financial Reporting Standards (IFRS) leading to disparities in accounting practices across countries (Hellman et al., 2010). Hence neoclassical economic theory concluded that the best of all possibilities, "Pareto optimality," can only be achieved by free market exchanges which allow individuals to make decisions without government interferences. This reduces the role of government in controlling economic activities and promoting the role of transnational corporations in determining the direction of these economic activities; thereby making neoclassical economics a great weapon in promoting transnational corporations-led internationalization processes.

## Conclusion

The paper concluded that first the controlling function of accounting has been replaced by its information and communication functions. This implies that the continuous evolving of the accounting profession means that the modern accountant must keep up with current accounting trends so that he/she is continuously abreast with the timely changes in accounting system and profession. Secondly, the present set of accounting standards which are function oriented is not adequate to harmonize the ideological aspect of accounting into



its functional areas. The contents of financial reports and accounts should reflect the standards in terms of not just the accounting technique itself, not its procedures, but the output which should focus on the various categories of users. There is also the problem of interpretation of international accounting standards when translating them into other languages as errors in translation may cause challenges with regards to consistency in the application of International Financial Reporting Standards (IFRS) leading to disparities in accounting practices across countries.

### Recommendations

In line with these findings, the paper first recommends the harmonization of accounting functionality to its ideological and methodological usefulness. This is because there are non-professional users of financial statements and reports that do not understand the accounting reports and hence the need to simplify accounting reporting for easy understanding. Secondly, since the second finding shows that the present set of accounting standards, which are mostly function-oriented, is not adequate to harmonize the methodological principles of accounting there is need to adopt conceptual framework of accounting to national accounting systems. This means that conceptual framework of accounting should be the bedrock for formulating national accounting standards.

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