



Accrual accounting representations in the public sector—A case of autopoiesis

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ABSTRACT

This paper is based on a case study of an accrual accounting change endeavor at central government level in Norway. The case represents alternative accrual accounting solutions and thought. Earlier studies have discussed the (hyper) reality of accrual representations. This study contributes by examining why and in what form alternative accounting thought emerges, and what this means for accounting theory. The discussion stands out from prior studies by relying on autopoiesis as a frame of reference and centering on public sector as the empirical basis of inquiry. This enables a new way of understanding alternative accounting thought, founded on interrelated and complex organizational structures with blurred boundaries and potentially multiple identities. Such a form of autopoietic accounting is argued to represent something new, while still maintaining and representing old structures and identities. This paper illustrates e.g. how the debits represent something new and interrelations with other accounting environments, whereas the way of accounting for credits helps to preserve internal authority, capital and organizational structures. Documents and interviews constitute the empirical material.

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1. Introduction

Accruals (particularly accrual accounting) have dominated financial reporting and calculations in the private sector for many years. One important reason seems to be its assumed superiority in calculating profit measures (on the basis of subjective assessments of expenses and revenues) and predicting future profit and cash flows (see e.g. Riahi-Belkaoui, 2004). By so doing, the accounts are said to represent economic activities and position, at a given time, as well as over time. Yet, researchers have also questioned accrual representations. One example is the potential for misusing the inherent subjective assessments to manipulate the profit calculation (see e.g. Chabrak and Daidj, 2007; Macintosh, 1995; McMillan, 2004; Rezaee, 2005).

Accrual¹ accounting has become more commonly applied in the public sector despite certain experienced difficulties with accruals in the private sector (as mentioned above). (OECD, 2008, p. 4) argued that:

“...the emerging consensus among OECD countries is to adopt full accrual accounting and financial reporting while continuing to budget on cash, or only to apply accruals to a limited number of transactions in the budget.”

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¹ For a definition, see e.g. IPSASB (2009).

This shows that accruals are much applied in the public sector, but also found difficult to employ for all purposes (see also Baker et al., 2010). This further relates to a critical stance in public sector accruals research literature (illustrated by Arnaboldi and Lapsley, 2009; Carlin, 2005; Carnegie and West, 2005), often cautioning or critically assessing the use of accruals in the public sector. It has been argued that accruals bring about unwarranted (negative) effects, whereas argued accrual benefits often do not (sufficiently) materialize (e.g. Newberry and Pallot, 2005; Paulsson, 2006).

Still, this matter appears as even more pressing when considering that some researchers have taken the critical discussion of accrual representations a bit further. For instance, when discussing the accounting profession, Macintosh and Shearer (2000) put forward Baudrillard's ideas of simulacrum, implosion and hyperreality. Relying on (at least partly) the same frame of reference, but focusing more explicitly on the ontological status of information in accounting reports, Macintosh et al. (2000, p. 13) stated:

“Our major thesis is that many accounting signs no longer refer to real objects and events and accounting no longer functions according to the logic of transparent representation, stewardship or information economics.”

The debate over accrual accounting representations, not only in the private sector, but increasingly also in the public sector, signifies complexity and illustrates difficulties associated with accrual based constructions. Still, despite the criticism of accruals in both the private and the public sector, there is a paucity of research looking more closely into cases where alternative directions and accounting thought are pursued.

The purpose of this paper is therefore to explore what alternative accrual accounting representations look like. In so doing, this study briefly readdresses the referred discussion on hyperreality in accounting. Still, the particular aim of this paper is not to engage in-depth philosophical discussions, but rather to contribute by examining why and in what form alternative accounting thought emerges, and what this means for accounting theory.

This paper draws on insight and evidence from the public sector in Norway and its recent experience with exploring and developing accrual accounting solutions for subordinated central government agencies. The empirical material is based on document studies as well as interviews. The documents cover the time period of 2001–early 2009. Twenty-six interviews involving forty interviewees were conducted during the time period of late 2004–early 2007. However, they related to a larger research project, meaning that not all of the interviews were equally relevant to the discussions in this paper. Nonetheless, they were all oriented towards the accrual accounting pilot project in Norway.

This paper continues by presenting the frame of reference, and thereafter the Norwegian case. Subsequently, the empirical material is discussed, and later concluded upon. The latter also entails suggestions for further research.

2. Frame of reference

Since accounting representations is the topic of discussion, the frame of reference seeks to clarify the paper's perspective on accounting representations. Research literature related to this topic is therefore presented in Section 2.1. It is thereafter shown (in Section 2.2) how difficulties related to constructing accounting representations can be understood as a case of autopoiesis.²

2.1. Accounting representations

Accounting representations, or the perceived need for them, relate closely to the functions of accounting. The latter is said to necessitate accounting representations to provide (especially external) decision makers with information about the organization or entity. This reduces uncertainty relating to decision making and control, herein accountability relations (see e.g. Mellemvik et al., 1988; Oguri, 2005). As such, it is no surprise that representational faithfulness³ has been regarded as a core analytical perspective on accounting standard setting (see e.g. Ruland, 1984; Shapiro, 1997). It has therefore been subjected to accounting theorizing, herein relating to conceptual frameworks, like that developed by FASB (see e.g. Hendriksen and van Breda, 1992; Robson, 1999; Wolk et al., 2004).

Macintosh and Shearer (2000) severely challenged the traditional view on representational faithfulness, namely that accounting functions as a mirror of organizational activities. Relating to Baudrillard's work, Macintosh and Shearer (2000, pp. 612–613), relied on three concepts in their discussion; namely simulacrum, implosion and hyperreality:

“Simulacrum refers to any sign, image, model, pretence, or shadow likeness of something else. The accounting model, for example, is a simulacrum of the entity. Implosion is any situation where the distinction, difference, or boundary between two or more entities, concepts or realms disappears, melts, dissolves, or otherwise collapses. . . Hyperreality. . . refers to the condition where simulacra are no longer associated with any real referent and where signs, images and models circulate detached from any material reality.”

² Autopoiesis was also discussed by Hikaka and Prebble (2010), but primarily in relation to the (nature of) law. The focus in this paper is different, where autopoiesis relates more to ways of organizing and accounting (herein accruals).

³ The notion of representational faithfulness has also been critically discussed in relation to the use of metaphors in accounting (Amernic and Craig, 2009; McGoun et al., 2007; Morgan, 1988; Morgan, 1997).

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