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Institutional Influences on the Development of Accounting: A Stroll into Nigeria History

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Abstract: The review of institutional influences on the development of accounting became necessary particularly because modern accounting is becoming more sophisticated that the origin of accounting seems to have disappeared with the sophistication. Institutions in this regard are the individuals, and/or group of individuals while influences are essentially those demands to account/report one's economic dealing(s). That is, the demand on the world around us to account and how the world affects accounting. Actions and reactions as it affect the accounting thoughts. These have lead to improvement in measurement thoughts, provide powerful information and insights and have empowered decision takers. As the influence continues the dynamism of accounting continues.

Key Words: Institutional/institution, Accounting

1.0 Introduction:

The precondition to accounting is the subsistence of duty towards others which requires responsibility to account for one's dealings. Responsibility and accountability have their origin in social relationship and are connected together in all individual and business associations (Gautier, Underdown & Morris, 2011). Accounting as perceived by the world is the language of business. The accounting language provides means to communicate substance relating to various parts of business operations (Maharshi Dayanand University (MDU), 2004). It is essentially guided by theories, postulates, principles, conventions, concepts, and propositions. The theory and practice of accounting are two different sides of the same coin. Like the conventional head and tail of a coin, the theory of accounting should precede the practice, albeit this is not the case.

A theory according to American Institute of Certified Public Accountants (AICPA), (1970) "is a structure that unifies the underlying logic or system of reasoning. Such theoretical structure, though abstracts from the complexities of the real world, is designed to achieve a level of simplicity necessary for analysis." On the other hand, American Accounting Association (AAA), (1966) sees accounting theory "as a cohesive set of conceptual, hypothetical and pragmatic proposition explaining and guiding the accountant's actions in identifying, measuring and communicating economic information to users of financial statement." Placing the definitions proposed above by AICPA and AAA in a Venn diagram, we observe the inter-set of logic, hypothetical and pragmatic propositions. These logics and propositions are essentially initiated or caused to be initiated by individual(s), group of individuals or circumstance otherwise known as institution(s).

Welsch and Antony (1981) in Abdulrahaman (2012) corroborate that logics and propositions, alongside theory are essentially initiated or caused to be initiated by individual(s) or group of individuals or otherwise known as institutions when they opined that accounting is man-made act and continuously undergoing changes to meet the evolving needs of the society. For a better understanding of the accounting (theory and practice) vis a vis institutional influences on the development of accounting, specific look is made at the institution(s) that is/are imperative in the development of accounting, alongside the history of Nigeria.

2.0 Review of Related Literature:

Institution is explained by the Merriam-Webster dictionary to mean: firstly, an established organization; secondly, a place where organization takes care of people for a usually long period of time; and thirdly, a custom, practice, or law that is accepted and used by many people. Meanwhile, Acemoglu and Robinson (2008) citing the work of North (1990) defined institution as "are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction." Imperatively, x-raying the definitions above, three features of institutions are apparent in these definitions: (1) that they are "rules, laws, customs, or acceptable norms; (2) that they are initiated by human, for human i.e. setting "constraints" on human behavior, etc; (3) that the society might be better improved.
Institutional influences on Accounting is essentially the demands of accounting on the world around us and how the

world affects accounting; actions and reactions as it affect the accounting thoughts. These thoughts become national when they guide accounting activities within a geographical location. These has led to improvement in measurement thoughts, provide powerful information and insights that has introduced monumental changes for regulators, auditors, consultants, investors, employees, governments and other practicing accountants and has bettered the decisions of users of accounting information. Amongst other things, institutional influences on and in the field of accounting is essentially divided into: (i) pre emergence of money (the era of barter), and (ii) the emergence of money.

2.1 Accounting in pre emergence of Money (the Era of Barter):

Before the emergence of money, there was need for accounting for one’s effort(s); particularly for the purpose of keeping track of event, communicating and taking decision when the need arose. For example, events associated with farming and the corresponding yields accounts are kept based on the acceptable measurement standard. The society as at that time undertake rotational labour (i.e. you work in my farm land today, we all move to your farm tomorrow and it continues like that until the last person benefits from that exercise), though not money backed transactions, but there was consideration and thereafter exchange; which could be seen as the cost for the transaction. At the recording stage, parties to this arrangement that has benefitted are marked somewhere, and those that are yet to benefit are marked as well. The process continues until all the parties in the arrangement benefits.

At the time of harvest, the same process is repeated. The outcome of the individuals’ effort in this kind of society is measured using space or container. The fellow with the best yields/outcomes was declared the most successful, where the success was consistently repeated over several farming seasons, the effect is an increase in the size of his bans or silos as the case may be. Such efforts necessitate the classification of the fellow as wealthy. Another example in this regard was the case of Onuka in Chinua Achebe’s things fall apart that represents those he was indebted-to by stroke of line on the wall, the longer the stroke the more his indebtedness (Achebe, 1958). This era of accounting was greatly faced with the challenges facing the barter era and system. The need to answer some unanswered questions (e.g. what if after creating so much wealth, I don’t want to work in the farm again? Or, what do I do, if I want to diversify in my investment?), posed by this system gave rise to the need for a standard acceptable unit of exchange, which eventually revolutionized into what is known as money. Although money was not in use, the system of accounting had very important elements of accounting which are: measurement, information, communication and decision.

2.2 Accounting after the emergence of Money

The introduction of a standard unit of measurement and exchange (i.e. money) exited the challenges of accounting in barter system and gave rise to new challenges in accounting. The introduction of money commissioned the money measurement concept of accounting. This concept essentially see money as the common denominator for every transaction, such that accounting records are made of only those facts that could be expressed in monetary terms with a fair degree of objectivity, and relative homogeneity (Okafor, 2000). The money measurement brought with it other controversies, one of them bothers on the basis of recognizing transaction, i.e. whether recognition should be done at their historical cost, replacement cost, exit value, market value, fair value, net realizable value, current value, etc. This controversy though has received contributions from accounting scholars but it still remains a controversial topic in accounting (Gautier, Underdown & Morris, 2011). Another controversy in money measurement is the inability of money to give vital information about the management expertise of the firm, workers’ synergy, workers’ welfare, quality of the product, size of the market for the product, competitive nature of the products. This challenge gave rise to some accounting scholar’s effort toward accounting for human capital and by extension, human resources accounting (Apiti, 2014). Other influences that have shaped the accounting practice include, but not restricted to the following:

2.2.16 Trade, Colonization, formation of Accounting Body and Accounting:

The influence of Institution is also evidenced in the development of Accounting in Nigeria. Although, the parts that make up the entity called Nigeria has existed separately years (with different accounting systems) before the amalgamation of the Northern and Southern protectorates, the present day accounting was introduced by British colonialist. The local system of accounting was out-lived by the accounting system in use by European traders, particularly the British chartered company by name Royal Niger Company (later known as United Africa Company Plc (UAC)), which was active from 1886 through 1899 in the territory bordering the Niger and Benue Rivers in contemporary Nigeria (Pearson, n.d.). The increased trading and administrative activities led to the introduction of British currency, subsequently, the establishment of British Bank of West Africa (now First Bank of Nigeria Plc) in 1894, and the Barclays Bank DCO (now Union Bank of Nigeria Plc) in 1917. The introduction of income taxation by the colonialist in the Northern Nigeria in 1904, in the West in 1918, and East in 1927 and the enactment of the Direct Taxation Ordinance of 1940 in Nigeria, which essentially became the origin of modern day taxation.

In 1961 an Act of the Parliament was established bringing into existence the Lagos Stock Exchange, which encourage professional accounting practice. The enactment of an Act of the parliament in 1965 establishing the Institute of Chartered Accountants of Nigeria (ICAN) bestowed professional status and statutory recognition to accountancy practice in Nigeria. The recognition given to ICAN includes the pronouncement of the minimum standard for preparation of accounts (Ezejelue, 2008). In 1968, the Nigeria Companies Act (now Companies and Allied Matters Acts (CAMA) of 2004 as amended) was enacted, requiring that every company must keep the proper books of accounts. It also required that account of specific companies shall be subjected to independent examination of qualified licensed accountants otherwise known as public accountants. Later in history, Nigeria Accounting Standards Board (NASB) was established in 1982 and so was Association of National Accountants of Nigeria (ANAN) in 1993 (Ugwoke, 2018).

2.2.2 Report of Stewardship:

After the emergence of money, accounting moved with the complexities associated with the human economic environment; as man moved from peasant farming into merchant - controlling large volume of transactions, the dynamism of accounting moved as well to accommodate the changes in the human economic environment. The advancement in the economic environment gave rise to dynamism in business forms, from sole-proprietorship through to a more complex joint-stock business. This change essentially launched a management style where ownership of the business is divorced from the management. At this juncture the responsibility was saddled upon accounting to render stewardship of the managers' management efforts to the shareholders (owners). This is necessary because ownership is separated from the management of business entities, and owners would need to know whether the investment made is doing well or not.

2.2.3 Accounting Information need:

The need and kind of information produced remains a strong influence on accounting. Essentially, this influence gave rise into the separation of fundamental fields of accounting i.e. Cost and Management Accounting, Financial Accounting, Public Sector Accounting, Taxation, and Auditing. Management Accounting represent the process of generating relevant, sufficient, and reliable information, both quantitative and qualitative to management for the purpose of effective and efficient decision making (Adeniji, 2004). Financial Accounting represents the process of collecting, classifying, recording, presenting, analyzing, interpreting and communicating financial information of an economic entity to the users of the financial statement (Igben, 1999). Public Sector Accounting represents a process of recording, communicating, summarizing, and analyzing and interpreting government financial statement in aggregate and in detail; reflecting all levels of transactions involving the receipt, custody, and disbursement of government funds (Adams, 2002). The definition goes on, but one convergent point is certain, and that is, there is a 'report' to a certain group or individuals. These group or individuals are essentially seen as the stakeholders to accounting information.

2.2.4 Comparison need of Accounting:

Information contained in the financial statement could be important to external users such as shareholders and investors, without information of this nature; they would possibly take decisions about a prospective investment with significant degree of uncertainty. Traditionally, government has assumed the responsibility for legislation specifying the type and minimum level of information which companies should disclose (e.g. CAMD or CAMA 1990). Going by the minimum level of information, companies within the same sector could prepare varying financial statement within the ambit of 'minimum level' that could render comparison of financial statement futile. To close this gap, the accounting profession assumed the responsibility for ensuring the proper presentation of such information. As time progressed, it became established that the concepts applied to presentation of financial information should not permit too much judgment and that the manner in which financial information is taken care of in financial statement should be conventional to a carefully considered standards. This demand gave birth to the establishment of accounting standards alongside accounting associations (Accountants International Study Group (AISG) and Institute of Chartered Accountants of Nigeria (ICAN) in 1967 and 1965 respectively); with the accounting association having the responsibility of setting the minimum standards to be adhered to.

Although the comparison need made attempt to address a particular challenge facing accounting, but it placed a fresh demand on another accounting ideal. The argument on, 'accounting standards being issued by users of standards' became the fresh challenge. This ideal subsequently became one of the grounds that led to the establishment of accounting standards boards (International Accounting Standards Committee (IASC) in 1973 and Nigerian Accounting Standards Board (NASB) in 1983 at the international and local plane respectively) and the empowering of the board to issue standards. Thereby divorcing accountants (i.e. users of accounting standards) from preparing accounting standards hence empowering an independent body known as Accounting Standard Board/Committee (Glautier, Underdown, & Morris, 2011; Ezejelue, 2008; Okafor, 2000).

2.2.5 Internationalization of Commerce (Business Transactions):

As local accounting standards body was developing and commerce developing beyond the borders of the home economy, professional accountancy bodies in different parts of the world began to codify the widely differing accounting treatments which were in use in their respective countries.

Authoritative papers were issued by way of recommendations, principles, guidelines, opinions, statements, and bulletins, which marked the initial outing of what is now known as accounting standards. These authoritative publications issued in different countries with different backgrounds and systems exhibited some similarities and varying disparity. The diversity exhibited conflicted slightly, but in some occasion on fundamental issues and principles. This lead to the formation of Accountants International Study Group (AISG) in 1967 with UK, Canada, and USA as the founding members; and later the birth of International Accounting Standard Committee (IASC) in 1973, following the failure occurred in different parts of the world which brought criticism upon the business community and the accounting profession. The public demanded higher and more definite accounting standards. At that time the international barriers within the profession were being reduced or removed (Ezejelue, 2001). The IASC was established to develop and issue accounting standards that should guide the preparation and presentation of financial statement, globally (ICAN, 2009).

2.2.6 Protection of Investors:

Following the failure that occurred (e.g. the Enron, WorldCom, Cadbury etc. saga) in different parts of the world which brought criticism upon the business community and the accounting profession, and the subsequent lack of trust in the stock market by investors, the International Organisation of Securities Commission (IOSCO), Basel Committee on Banking Supervision, International Association of Insurance Supervisors (IAIS), had to demand for high and more definite accounting standards. The demands placed on the IASC were fundamental that necessitated a fundamental change in the global standard setting body which resulted in the establishment of International Accounting Standard Board (IASB) in 2001, to take over the responsibilities of the IASC with effect from 1st of April, 2001. The IASB now issues International Financial Reporting Standards (IFRS) in place of the International Accounting Standards (IAS) issued by the IASC (ICAN, 2009; Epstein & Mirza, 2006; Alfredson, et al, 2005). In the year 2005, the Accounting world witnessed the widespread migration (adoption/adaptation) to a 'capital market-oriented financial reporting standards' i.e. the International Financial Reporting Standards (IFRS) (Epstein & Mirza, 2006). The adoption/adaptation of IFRS in 2005 made it the first time the services of IASC (otherwise known as IASB), are packaged to satisfy the need of direct client(s).

While the IFRS was being considered for adaptation to or adoption on the global plane, the Federal Government of Nigeria in 2010 signed into law the Financial Reporting Council of Nigeria Act 2011 to support the adoption of IFRS in Nigeria. The FRCN Act transferred the responsibility of NASB to FRCN, with much more required powers to enable the FRCN carry out the adoption function with, as well as other assignment that may be assigned from time to time. The first sets accounts in compliant to the IFRS were prepared in the 2012 accounting year (Olanrewaju, 2012).

2.2.7 Principle of Double entry and Other Institutional Changes:

The introduction of the 'Principle of Double Entry' by Luca Pacioli is an indication that before that time accounting has handled the posting of economic transaction in a single entry manner which was otherwise understood as charged and discharged accounting system. The double entry principle recognized that every economic transaction has two sides, the side receiving value and the side giving value. The side receiving value is debited while the side giving value is credited. This system essentially became the foundation of the modern day accounting.

Other institutions that placed developmental demand on accounting include: environmental challenges and climate change (environmental accounting), reporting specialized economic activities of a given industry (specialized companies accounting and segment reporting), developmental issues in accounting (e.g. sustainability accounting), technological advancement and accounting (e.g. use of computer in accounting, depreciation etc.).

3.0 Institutional Influences on Accounting:

The major factors that influenced the development of accounting practice in Nigeria as examined include: the emergence of money; trade, colonization, formation of Accounting Body; the demand on man to better his economic efforts; internalization of trade and commerce; the industrial revolution which changed the method of producing marketable goods from handicraft method to factory system; the evolvement of corporate form of organization from sole proprietorship to joint stock company, with immediate need for an independent review or audit of reports prepared by the corporation's management i.e. report of stewardship; the type of information needed; the need to be able to compare activities of companies in the same sector; implementation of dual system of accounting; and the need to protect investors. Another very influential factor is the influence of government at the three levels (federal, state, and local government).

The complexity and dynamic nature of our environment (social, political, economic and technology) pose a great challenge to business entities, schools, and public parastatals in searching for more viable means of keeping records and/or accounting that will stand the test of time. This means the more entities are becoming larger and progressing in technology and other consciousness, the more complex they became and the more proper accounting information they required for onward decision making (Abdulrahaman, 2012).

4.0 Conclusion:

Conclusively, institutional influences on Accounting are essentially the demands of accounting on the world around us and how the world affects accounting. As could be seen, it was the intuitive nature of man to account for his economic efforts that initiated accounting in the first instance, and the complexities in the growth and advancement in the economic activities of man that has sustained the present and future dynamism of accounting both as a discipline and profession. The need for a better human society is essentially the institutional influence that has driven accounting to its present state. Therefore to be continuously relevant in the world of accounting and the society is to be able to adapt to the prospective developmental accounting changes that the society at large would be faced with.

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