

## COMMENTARY

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on

### The Relation of Accounting Research to Teaching and Practice: A "Positive" View\*

To follow up on Tom Dyckman's and Bob Sprouse's addresses, there are three basic topics that I would like to discuss. The first is how I believe that the research-teaching-practice triangle works since it will provide a frame of reference. The second concerns some of their specific comments, and third, I would like to elaborate on the basic questions that they pose.

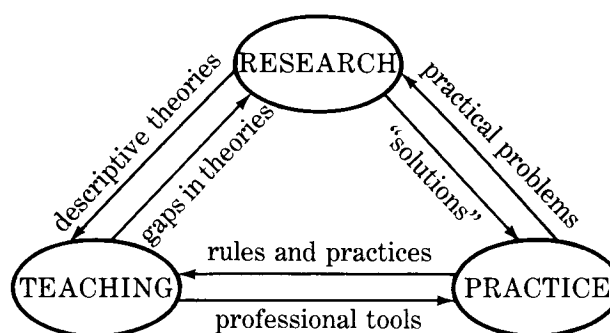
I believe that there has been a fundamental change in accounting research and education that changes the way we would look at practice and the theme of this session. The change is in the nature and role of "accounting theory." Specifically, the shift is from normative or prescriptive theories of how accounting *ought* to be done to positive or descriptive theories of why accounting *is* done as it is. The change is developed in the third section of the paper.

#### I. THE RESEARCH-TEACHING-PRACTICE TRIANGLE

Beaver's research-teaching-practice triangle provides a frame of reference for the entire 1988 AAA annual meeting. What are the links between the vertices? I believe that there are two causal links between each vertex, one in each direction. They are not necessarily of equal magnitude, however. Figure 1 gives an overview and I'll comment briefly on all six links as a basis for further discussions.

First, we know that teaching affects practice. Students are taught the currently established accounting rules and practices. They come to accept them as "right" and apply them when they become practitioners. For example, while current cost basis can be disclosed, depreciation must be based on historical cost in calculating "official" earnings. Second, since research (or the expansion of knowledge) for a

FIGURE 1  
CAUSAL LINKS IN THE RESEARCH-TEACHING-PRACTICE TRIANGLE



practical discipline such as accounting *has* to be based on practice, there is a link between practice and research. Practice problems *cause* research to be undertaken.<sup>1</sup> Third, as professors study real world accounting they try to understand how established practices affect behavior. As they understand the *relations* among and between facts, they teach them to students. It is not just the rules that are taught, but *theories* about the causes and

\*Based on discussion comments following the Plenary Session Address of Tom Dyckman and Bob Sprouse at the 1988 Annual Meeting of the American Accounting Association, Orlando, Florida, August 1988.

<sup>1</sup>Some believe that this link is weak—Tom Dyckman, as we know from his recent guest editorial in *Accounting Horizons*, has become concerned about the strength of this practice-to-research link in regard to management accounting.

effects of the rules.<sup>2</sup> Thus, the counter-clockwise causal flows (the teaching-to-practice-to-research-to-teaching flows) are relatively easily understood. But, what about the clockwise flows or the practice-to-teaching-to-research-to-practice causal flows?

First, since students need to know the current rules and other "facts" about practice, there is a link from practice to teaching. Students learn real world "facts" from practice and, in this simple triangle, they learn "theories" about how facts are related to each other through research. Thus, descriptive theories relate the existence of straight-line depreciation, LIFO accounting, and lease capitalization rules to other real world facts such as conflicts of interest, risk sharing, contracts and laws. Other theories explain the coexistence of accelerated depreciation, FIFO and accounting rule-based leases.

Second, there is often a link from teaching to research, as you who are teachers know. When you try to teach others what you "know," you often find that you really don't know it. Preparation of class materials to allow easy understanding of real world situations reveals gaps in our knowledge. A good portion of my own research ideas have arisen in just this way.<sup>3</sup>

Finally, let's look at the research to practice link. The path in Figure 1 indicates "solutions" as the link. What is the nature of the "solutions?" Does research directly influence practice? Can we relate accounting research or knowledge production to accounting practice? This is Tom's primary question. I believe that the answer is clearly yes—both directly (research-to-practice) and indirectly (research-to-teaching-to-practice). Some of the evidence that is claimed to show that research does not influence practice is, in fact, consistent with the view that it does. I'll elaborate in section III.

## II. COMMONALITIES WITH DYCKMAN AND SPROUSE

Let's look at some of Tom Dyckman's and Bob Sprouse's specific comments. I heartily agree with Tom on two major points. First, research has a direct influence on official practices through those professors with an official advisory role. Professors influence practitioners one on one or a one on many through professional organizations.

Tom Dyckman, Bob Kaplan, and especially Chuck Horngren have had considerable influence through the Financial Accounting Standards Advisory Council and the Financial Accounting Foundation Trustees. While their role in FASAC is purely advisory, it is a chance for these professors to make the Board and other FASAC members (who are themselves prominent preparers, users, attestors and government officials) aware of *relevant* lessons from research. I emphasize relevant because I do not believe that all scholarly research is relevant to codification of practices and one of an advisor's roles is to filter out the irrelevant.

Other professors also have potential influence on whether and how research is considered in codification of standards through less direct but still *ex officio* ways. In fact, I believe that as an association of professional scholars, we err if we don't consider scholarly qualifications in appointments to these positions, including the Association's presidency. We shortchange ourselves and society if we appoint professors who are accountants first and scholars second because their views duplicate those of practitioners. What we need are accounting scholars who can reasonably communicate with practitioners as well as with other scholars.

Also, while not merely an advisor, the professional scholar on the FASB is a primary vehicle for research influence. Bob Swieringa's appointment to the Board is unmistakable recognition of the FAF Trustees' intent to reflect research in accounting standards setting.<sup>4</sup> Bob Swieringa was well known as an empirical researcher and his appointment bypassed more than a generation of well known academics who could have been chosen.

Second, I agree with Tom about the role of incentives to study practice problems. To do research that is relevant to practice we need a laboratory or observatory just as a chemist or

<sup>2</sup>The theories try to explain accounting practices by answering questions such as: Why is historical cost used for "official" earnings? Why is that a good idea? Who demands that it be that way? Why?

<sup>3</sup>For example, I wrote the decision theory and auditing papers [Kinney, 1975 a and b] because I wasn't satisfied with the answers that textbook authors gave as to how the auditor should choose the extent of auditing.

<sup>4</sup>Again, that appointment was influenced by other academic advisors.

astronomer does. Practitioners hold the necessary keys. One impediment to conduct of relevant-to-accounting-practice research is lack of ready access to financial statement preparers and users. The research supporters who have done well have provided dollars, data and discretion (the three Ds). In my opinion, the best example of a successful program for both parties is Peat Marwick's Research Opportunities in Auditing program. Other organizations (such as the FEI, IIA, NAA, and FASB), have had less success in attracting a large number of top researchers to work on their problems. In my view, these programs offer *fewer data* access opportunities and *less discretion* for the author as to how to do the research and where the finished product can be published.

Research professors are scholars first and accountants second. Success as a professor (and, indeed, respect for accounting on campus) requires recognition by other scholars and not by practicing accountants alone. This means that freedom of inquiry, objectivity and independence are important for scholars just as they are for professional attestors.

Finally, I would like to note one area of agreement with Bob Sprouse and an area of only partial agreement. First, Bob states that educational preparation for a career in accounting should not bury students with current official rules but should strive to provide "a foundation for identifying, analyzing, and resolving accounting issues" and that the foundation should last a professional lifetime. I heartily agree and I believe that we now recognize a vehicle to achieve that foundation. Second, Bob stresses the need to consider ethical matters in accounting education. As an example, Bob is distressed by those who would design a financial instrument to circumvent the letter and spirit of existing financial accounting standards and thereby keep that financial instrument from being recognized as a liability. I agree with the concern for ethics in general but not with the specific example that he gives. I'll come back to these points as I discuss the third topic.

### III. Prescriptive Research vs. Descriptive Research in Accounting

Let's consider the nature of the interaction of research with practice and teaching. First, the basic question in Tom's address is really, "Why has accounting scholarship had so little

effect on accounting practice?" Implicit is the assumption that we should judge aggregate scholarly success by the number or proportion of accounting rules or practices that have resulted from the work of professors. I don't believe that the assumption or criterion is useful.

Even the question is a defensive one bemoaning the fact that our collective lives' works seem to have had little visible impact. I would ask the question cautiously, much like I did as a teenager asking my mother why girls didn't want to dance with me. I wanted them to dance but the answer was obvious and I really didn't want to hear it. It's not so grim for accounting research, however.

I believe that a basic problem with the question is that it presumes a normative or prescriptive position with respect to accounting research and not a positive or descriptive approach. That is, it asks about our prescriptions for the "right" accounting given particular facts. How should situation "x" be accounted for "in theory." Normative accounting theories or "true income" theories are theories of accounting that prescribe the "right" way to account. For example, some theories of accounting posit that current cost to acquire all factors of production should be used to price all components of earnings.

On the other hand, descriptive accounting theories are theories *about* accounting—they describe the relations among and between facts about accounting. How do bookkeepers keep the books? Why do they do it that way? Does it make a difference how the books are kept and how the results are reported? If it does, why?

Basically, descriptive research works like this. If the world seems to have a problem or be peculiar in some way and it has been that way for quite a while, then it is probably because someone wants it that way. If you, as a researcher, can figure out who and why, then you can better understand the world and what will happen to you if you try to change things. Also, you may be able to develop compact descriptions that readily communicate knowledge about accounting practice to beginners (i.e., students).

Education reflects the prescriptive and descriptive approaches to accounting theory and the shift toward descriptive theories is dramatic. Twenty-five years ago, when I was a lad studying accounting, you became an expert

by learning to reason the “right” accounting in novel situations. Basically, you used analogical reasoning to determine the right accounting. I read about current rules (through APB Opinion No. 4) and I learned a “logic” to explain each rule that seemed not to follow “good accounting theory.”

I read about normative theories of accounting that derived optimal bookkeeping rules under the implicit assumptions of certainty and perfect and complete markets, with bookkeepers having a monopoly over firm specific information and a single user who had only one possible investment. Some form of current cost was clearly preferable to historical cost in accounting for depreciation and long term assets. My teachers complained bitterly that the current cost prescriptions weren't followed by real world bookkeepers due to extreme conservatism among practicing accountants brought on by the Great Depression. My mission as an accountant (should I decide to accept it) would be to conform the practice world to the professors' views about true income.

Education 25 years ago was not devoid of descriptive theories. After learning some facts about equally acceptable FIFO and LIFO accounting, I can recall asking my teacher how I could tell whether a client firm should be using one method or the other. The answer (given with a straight face) was that the teachers didn't know and I wouldn't have to know because client *management* would know which method would best reflect the true earnings of the firm and would choose that method. I wondered how future managers were learning how to choose such accounting methods and I wondered why stockholders needn't worry about managers choosing methods that would not reflect “true earnings.” Out loud, I said, “Thanks.”

Accounting, reporting and attestation are social phenomena. They involve more than a bookkeeper and a set of inanimate objects to be measured. In addition to objects, states, and events, there are preparers, users, attestors and regulators and there are contracts and markets among and between them. If accounting is important, then simple prescriptions are unlikely to be acceptable to all parties. They may not even provide a useful norm.

Today, analogical reasoning or truth seeking are not likely to be taught as the *only* way to

make an accounting policy recommendation. Conformity to true income is one basis (or excuse [Watts and Zimmerman, 1979]) for a recommendation. However, costs and benefits, alternative sources of information, economic and political consequences and even data are also considered. Furthermore, students are taught that *analytical* prescriptions for optimal bookkeeping may not exist for even a simple social setting [Beaver and Demski, 1979]!

The lessons seem to be taking. While “truer” income or relevance or representational faithfulness may have been an objective in adoption of SFAS No. 33, few argue that it should be extended because its current cost measures are closer to “truth” than are historical cost measures. Furthermore, the inability of empirical researchers to find significant price-related information in SFAS No. 33 data has had an effect on not extending the requirement.

Education for codified professional ethics has also changed. When I was a lad, professional ethics were taught as a non-economic phenomenon. They were a reflection of the view that accountancy was a calling much like a religious calling. Relaxation of anti-competitive features of the AICPA's ethics code and the resulting changes in practice are hard to understand if you really believe their originally stated, self-serving justifications. However, the changes and their effects on practice are easily understood with fairly simple economic theories. Today, professional ethics and their continuing development are more likely to be taught as a natural consequence of the attestation contract. Research developing descriptive theories about our institutions has helped us to understand and explain “official” ethical practices.

It seems to me that study of extant rules and descriptive theories about how real world accounting works vis-a-vis those rules provides just the basis that Bob Sprouse seeks for professional education—a means of evaluating accounting choices and a means that doesn't go out of date for an entire professional career! By understanding the whys of real world accounting practices, a student will be better prepared to evaluate alternatives in the face of inevitable changes in the social, economic, and political environment.

Curiously, we don't teach our students about accounting research. We don't prepare

students to be producers or consumers or even “appreciators” of research as other practicing professions do. For example, most of us have Nursing Schools at our universities. Search the course catalog and I’ll bet that you will find that a course in research is required for a BSN degree. Nursing program accreditation agencies require such preparation for beginning professional nurses.

In accounting you will not find a research requirement or even a research elective for BBAs, MBAs or professional program students. Furthermore, journals for practicing nurses (and physicians) use technical terms for the leg bone and tummy and they reflect experimental control, use of placebos and other research techniques. Why are even basic research terms proscribed in publications for accounting practitioners?

Practicing accountants are not inherently dull. They can understand and exploit complex rules for lease capitalization, can exploit client service opportunities in elaborate corporate reorganizations and can deal with multivariate uncertainties and risks. Why should we deny them the tools to be able to understand research results that would help them make better decisions in practice and would help them defend themselves in Congressional investigations? By withholding education about research we have cheated generations of practitioners of accounting.<sup>5</sup>

One reason for this lack of research education is that knowledge production for accounting is more complex than it is for most other practicing professions. Medicine, for example, is often used as an ideal basis for comparison to accounting (e.g., Sterling [1973, pp. 49-51]). Yet practice of medicine is concerned with natural, non-social phenomena. The College of Surgeons can’t change the need for or the effect of an appendectomy by a *vote*. The FASB can so change accounting behavior, however, since it sets the rules for the game.

In fact, a better analogy for accounting standards is that of the NCAA basketball rules committee. The three-point scoring rule for baskets shot from beyond 19.75 feet makes a difference in the way that the game is played, who wins, and who is recruited to play. Different persons have different preferences for the outcomes. However, there is no “theoretically correct” way to score basketball. The official rule depends on what the players and fans and rule-setters want for a

particular period of time. Also, we don’t view those who shoot baskets from 20 feet as ethically inferior to those who shoot from 25 feet. If there is a rule, then just meeting the rule is sufficient, otherwise they should change the rule.

It is much the same with accounting rules. It is not exactly the same since accounting is a more complicated game. For example, whether it is or isn’t unethical, those who don’t comply with the spirit of GAAP may have a lower earnings multiple than those who do. Also, there may be differences in ethical behavior in regard to accounting rules and tax rules. Bob Sprouse is concerned with accounting practitioners offering “professional advice” on how to avoid the letter and spirit of accounting rules for liability recognition. Yet, tax advisors are commonly praised for devising ways to avoid tax payments. That is, finding loopholes or structuring matters to just miss a taxability criterion is the professional service objective. However, some may say that this violates Congressional intent (they intend to assess taxes) or the “spirit” of the tax law.

Practitioners today often complain that there is great demand for accounting research because there are so many new and different financial instruments and leases, and so many new types of expensive deferred compensation. They complain, “The new standards provide seven criteria but the instrument has only six—what am I to do? What is the right accounting?” As an aside, they mutter, “Why can’t management get it right?” The true income theory-based analogies don’t work. They don’t work *because* the new instruments have been specifically designed *not* to meet traditional criteria for recognition or capitalization!

Yet this behavior is one prediction of positive accounting theory. If accounting is important and you change the accounting rules, then the play of the game changes. The existence of these complaints is a sign that the descriptive theories are correct and that accounting makes a difference. Furthermore, the existence of “anomalous” accounting rules (those not in compliance with “true income” prescriptions) gives us evidence that accounting is important—too important to be left to

<sup>5</sup>Why we haven’t chosen to do so is itself an interesting question for positive research.

individual choice or to the true income theorists alone to prescribe.<sup>6</sup>

Is the FASB a "truth seeking" body or is it a vehicle for political-economic compromise? How you view it makes a difference in how you judge the success of research. The Board may not accept our prescriptions for true income. Yet research has increased our understanding of real world accounting and why it is the way it is and what will happen if we try to change things.

I believe that descriptive empirical research and recent analytical research results have had a direct effect on practice. They have helped to define the agenda of the FASB, and to let us know what types of issues are worthy of study and debate. Indirectly, our students are much better prepared to understand the essential nature of professional attestation and related

services and they will have fewer errors of expectation in making the transition from idealistic student to real world practitioner.

Descriptive research doesn't lead to many unique prescriptions ("solutions" in Figure 1 is in quotes). Normative prescriptions may eventually come as relevant factors are identified by descriptive or positive research. However, we are learning more about how accounting rules and practices affect behavior and we can adjust the rules toward a mutually satisfactory solution. The increase in understanding is how we ought to judge our research success since increased understanding is what research is about.

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<sup>6</sup>Why the anomalies arise for particular types of items is another question for positive accounting research.

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