

Accounting theory hendriksen

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Understanding Accounting Theory**

What is Accounting Theory?

Accounting theory is a body of knowledge that provides a conceptual framework for understanding the principles and practices of accounting. It explains the why and how of accounting, establishing a set of guidelines for recording, measuring, and reporting financial information.

Father of Accounting Theory

The father of accounting theory is **Luca Pacioli**, an Italian mathematician who introduced the double-entry bookkeeping system in his 1494 book "Summa de Arithmetica, Geometria, Proportioni et Proportionalita."

Basic Theory of Accounting

The basic theory of accounting is based on the idea that financial statements should provide a true and fair view of a company's financial position and performance. This is achieved by adhering to certain accounting principles, such as:

- **Going Concern:** The assumption that the company will continue to operate for the foreseeable future.
- **Accrual Accounting:** Transactions are recorded when they occur, regardless of when cash is received or paid.
- **Materiality:** Only information that is material to decision-making is included in financial statements.

Three Theories of Accounting

There are three main theories of accounting:

- **Decision Usefulness Theory:** Focuses on providing information that is relevant and helpful to users in making economic decisions.
- **Proprietary Theory:** Emphasizes the stewardship role of accounting, providing information to owners about the performance and financial health of their company.
- **Entity Theory:** Views the company as a separate entity from its owners, with a focus on reporting its economic resources and activities.

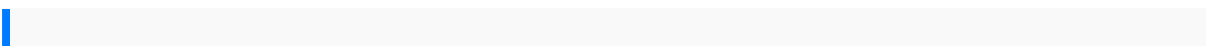
Golden Rules of Accounting

The golden rules of accounting are a set of principles that govern the recording and reporting of financial information. They were first introduced by **Hugh Oldcastle**, known as the father of the golden rules, in his 1543 book "A Brief Instruction and Manner How to Keep Books of Accompts."

Hendrickson's Accounting Theory

Hendrickson's accounting theory, proposed by American accounting theorist Earl Hendrickson, suggests that accounting is a combination of:

- **Descriptive Theory:** Describes the accounting practices and procedures that are currently used.
- **Prescriptive Theory:** Provides guidance on how accounting should be performed to achieve the objectives of financial reporting.
- **Economic Theory:** Incorporates economic principles to explain why accounting practices are used.



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