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Accounting Theory

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What is Accounting Theory

Accounting theory is a set of assumptions, frameworks and methodologies used in the study and application of financial reporting principles. The study of accounting theory involves a review of both the historical foundations of [accounting practices](#), as well as the way in which accounting practices are changed and added to the regulatory framework that governs [financial statements](#) and financial reporting.

BREAKING DOWN Accounting Theory

All theories of accounting are bound by the conceptual framework of accounting. This framework is provided by the [Financial Accounting Standards Board](#), an independent entity that works to outline and establish the key objectives of financial reporting by businesses, both public and private. Further, accounting theory can be thought of as the logical reasoning that helps evaluate and guide accounting practices. Accounting theory, as regulatory standards evolve, also helps develop new accounting practices and procedures.

Key Elements of Accounting Theory

While accounting procedures are formulaic in nature, accounting theory is more qualitative in that it is a guide for effective accounting and financial reporting. The most important aspect of accounting theory is usefulness, which, in the [corporate finance](#) world, means that all financial statements should provide important information that can be used to make informed business decisions. This also means that accounting theory is intentionally flexible