

# TRACING THE THEORETICAL FOUNDATIONS OF ACCOUNTING: A HALF-CENTURY REVIEW (1975–2025)

**Dr Pragnesh B. Dalwadi**

Assistant Professor,  
Shree Bhaikaka Government Arts & Commerce College, Sojitra  
Sardar Patel University, Vallabh Vidyanagar, Anand, Gujarat  
ORCID-ID: <https://orcid.org/0000-0001-7483-3724>  
E-Mail ID: [pragnesh1606@gmail.com](mailto:pragnesh1606@gmail.com)

## ***Abstract***

*In the past fifty years (1975–2025), accounting theory has changed a lot because of the combined influence of the economy, human behaviour, ethics, institutions and technology. This study provides a comprehensive review and critical analysis of the historical development of accounting theories and traces their transformation from prescriptive and normative approaches to empirical, behavioural and sustainability-oriented paradigms. The study shows that accounting ideas have grown step by step, but are still connected. In the late 20th century, Positive Accounting Theory was the main focus. Later, Institutional and Behavioural views developed to handle problems in corporate governance. In the 21st century, new ideas like Sustainability Accounting and Digital Accounting became more important. The study shows that modern accounting theory includes many different ideas and approaches. It focuses on ethical responsibility, social trust and openness through technology. However, there are still gaps in bringing together ethics, sustainability and digital change into one complete framework. The paper concludes that the future of accounting theory depends on combining knowledge from different fields such as economics, data science, behavioural psychology and environmental ethics to build a well-rounded and global foundation for accounting practice.*

**Keywords:** *Positive Accounting Theory, Normative Theory, Behavioural Accounting, Digital Accounting, Artificial Intelligence, Ethics, Transparency.*

## **1. INTRODUCTION**

### **1.1 Background of the Study**

Accounting is called the *language of business* because it helps in making decisions, maintaining accountability and measuring performance. Behind the practical work of recording and reporting lies accounting theory, which explains how and why accounting functions. From 1975 to 2025, accounting theory has evolved under the influence of economic changes, globalisation, corporate issues and technology. In the 1970s, normative theories focused on how accounting should be practised, but later, Positive Accounting Theory (PAT) emerged to explain how it is actually practised. This shift moved accounting from rule-based ideas to practical and evidence-based models.

Over the years, bodies like the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) developed frameworks to make financial reporting more consistent. From the 1990s, accounting theory began including ideas from behavioural science, sociology and economics to match changing business needs. Recently, sustainability accounting, integrated reporting and AI-driven systems have reshaped their focus toward ethics, transparency and long-term value. These changes show how accounting continues to evolve with society and technology.

### **1.2 Problem Statement**

Despite the vast number of publications on accounting theories, there is still no clear picture of how these theories have grown and connected over time. Most studies focus only on one idea, like Positive Accounting Theory or Behavioural Accounting, without looking at how they link to earlier thinking. With today's fast changes in technology and the environment, older accounting theories are being revisited to include ideas like sustainability, digital tools and artificial intelligence. This study aims to close this gap by tracing how accounting theories have developed from 1975 to 2025 and how social and economic changes have shaped them.

### **1.3 Objectives of the Study**

The main objectives of this study are as follows:

1. To trace the historical evolution of major accounting theories from 1975 to 2025.
2. To identify and analyse key paradigm shifts in accounting thought during this period.
3. To examine the relationship between theoretical developments and changes in accounting standards and practices.

4. To highlight emerging theoretical directions in accounting for future research.

## 1.4 Scope and Significance of the Study

This study looks at how accounting theories have developed over the past fifty years, from 1975 to 2025. It discusses the main schools of thought, including Normative, Positive, Behavioural, Agency, Institutional and Sustainability Accounting theories. The study also goes beyond Western ideas to include global perspectives, highlighting the impact of international standards like IFRS and the growing role of technology in financial reporting. The importance of this study lies in showing how accounting has evolved as a social science. It will help academicians by bringing together fifty years of theoretical progress in one clear framework, assist practitioners in understanding how these theories influence accounting practices and decisions and guide policy-makers and standard setters by offering insights that can support future accounting reforms

## 1.5 Methodology of the Study

This study uses a historical, descriptive and analytical approach. The information is mainly collected from secondary sources such as academic journals, textbooks, research papers and publications from institutions like the FASB and IASB

## 2. CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

### 2.1 Concept and Nature of Accounting Theory

Accounting theory refers to a set of clear principles, logical ideas and assumptions that help explain and guide accounting practices. Hendriksen and Breda (1992) describe accounting theory as “*a logical reasoning in the form of a set of broad principles that provide a general framework for evaluating and developing sound accounting practices.*”

The purpose of accounting theory is twofold:

1. To explain why accounting works in certain ways and
2. To guide the creation of better accounting methods and standards in the future.

Broadly, accounting theories are classified into two main types:

- **Normative Theories:** These are prescriptive and focus on what accounting *should* be. Examples include fair value accounting, current cost accounting and decision usefulness.
- **Positive Theories:** These are descriptive and predictive, and focus on what actually happens in practice. Positive Accounting Theory is a key example.

Over time, accounting theory has grown to include behavioural, institutional, and social-environmental views. These developments recognise that accounting is not only a technical system but also a social and ethical activity (Hopwood & Miller, 1994).

### 2.2 Historical Development of Accounting Thought

The origins of accounting theory can be traced back to Luca Pacioli (1494), who introduced the concept of double-entry bookkeeping. However, the systematic development of accounting theory began in the early 20th century with the growth of corporate capitalism and the increasing demand for reliable financial reporting. During the mid-20th century (1950–1970), accounting research focused mainly on normative approaches, which aimed to define the “best” accounting methods using logic and reasoning rather than practical observation. After the 1970s, the emphasis shifted toward empirical and behavioural approaches as researchers began questioning the universality and objectivity of normative theories.

From 1975 to 2025, accounting thought has progressed through several key stages:

1. **1970s–1980s:** Emergence of Positive Accounting Theory (PAT) and Agency Theory.
2. **1990s:** Introduction of conceptual frameworks for financial reporting by the FASB and IASB.
3. **2000s:** Expansion of Behavioural and Institutional Accounting Theories.
4. **2010s–2025:** Growth of Sustainability Accounting, Integrated Reporting, and Technological Accounting Theories such as AI, Blockchain chain and Digitalisation.
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## 2.3 MAJOR ACCOUNTING THEORIES AND THEIR EVOLUTION

### 2.3.1 Normative Accounting Theory

Before the 1970s, normative accounting theory was the dominant approach. It aimed to define the ideal accounting principles that should be followed to make financial information more relevant and useful for decision-making. Scholars like Chambers (1966) and Edwards and Bell (1961) supported methods such as current cost accounting and value-based reporting, as they believed these better reflected economic reality than traditional historical cost methods. However, normative theories were often criticised for lacking practical evidence and being too idealistic. This criticism led to the rise of positive accounting research, which focused on studying real-world practices through observation and data.

### 2.3.2 Positive Accounting Theory (PAT)

Positive Accounting Theory (PAT) was introduced by Watts and Zimmerman (1978, 1986) and brought a major shift in accounting thought by using economic reasoning to explain why managers make certain accounting choices. PAT suggests that accounting practices are influenced by self-interest, contracts and incentives rather than by ideal principles. It is based on ideas from Agency Theory, Information Economics and the Efficient Market Hypothesis. According to PAT, managers often select accounting policies that reduce political costs, increase firm value or meet debt agreement requirements. PAT continues to be one of the most significant and widely studied theories in modern accounting research.

### 2.3.3 Behavioural Accounting Theory

Behavioural Accounting Theory was developed during the 1970s and 1980s. It focuses on the human side of accounting. It highlights how psychological and social factors influence accounting behaviour. Researchers such as Argyris (1952) and Birnberg et al. (1983) studied how attitudes, motivation and cognitive biases shape accounting decisions and affect organisational performance. It helped explain how accountants, managers and other stakeholders interpret accounting information and how this impacts budgeting, performance evaluation and decision-making within organisations.

### 2.3.4 Institutional and Socio-Political Theories

During the 1990s, accounting researchers began to apply Institutional Theory to understand how accounting practices are shaped by social norms, cultural values and institutional pressures (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). Accounting started to be seen not just as a technical process but as a social activity (Hopwood & Miller, 1994). Institutional theorists suggest that organisations often adopt accounting practices to gain legitimacy and social approval, rather than only to improve efficiency. This perspective helps explain why innovations such as integrated reporting and sustainability disclosures have spread across organisations worldwide.

### 2.3.5 Sustainability and Environmental Accounting Theories

Since the early 2000s, growing awareness of corporate social responsibility (CSR) and environmental issues has encouraged the development of Sustainability Accounting and Triple Bottom Line Reporting (Elkington, 1997). These approaches broadened accounting's focus from purely financial results to include social and environmental impacts. Gray, Owen, and Adams (2014) stressed that accounting should consider not only profit but also people and the planet, promoting greater accountability and transparency. The increasing use of Environmental, Social, and Governance (ESG) reporting and Integrated Reporting (IR) frameworks shows how these ideas are being applied in real-world practice.

### 2.3.6 Technological and Digital Accounting Theories (2010–2025)

During the 2010s and 2020s, accounting theory started to include ideas from information technology, data analytics and artificial intelligence. New approaches such as Digital Accounting and Blockchain-based Transparency are transforming traditional views of verification, auditing and accountability (Yoon, Hoogduin, & Zhang, 2015). AI-powered accounting systems now focus on real-time information, predictive analysis and automated control and challenge long-held beliefs about human judgment in accounting. These developments mark a major shift toward a technology-integrated accounting theory suited for the 21st century.

## 2.4 Conceptual Framework of the Study

The conceptual framework guiding this research integrates multiple theoretical paradigms across five decades (1975–2025). It is structured around three major dimensions:

1. **Theoretical Evolution** – The chronological progression from normative to positive, behavioural and sustainability-based theories.
2. **Driving Forces** – Economic, regulatory, social and technological changes that influenced each theoretical phase.
3. **Practical Outcomes** – The impact of theoretical developments on accounting standards, reporting practices and ethical accountability.

This integrative framework allows for the comparative analysis of how accounting theories have both shaped and responded to the changing business environment.

## 2.5 Review of Key Empirical Studies (1975–2025)

Over the years, several scholars have contributed significantly to the development of accounting theory. Watts and Zimmerman (1978, 1986) laid the foundation of Positive Accounting Theory, which focuses on empirical analysis and agency-based reasoning. Hopwood and Miller (1994) emphasised the institutional and social dimensions of accounting within organisations. Scott (2015) brought together modern theoretical developments and connected them with the conceptual frameworks of IFRS and FASB. Gray et al. (2014) advanced sustainability and social accounting theories, highlighting the importance of non-financial disclosures. Yoon et al. (2015) examined how information technology and artificial intelligence are transforming accounting processes.

Similarly, Bebbington and Larrinaga (2014) proposed frameworks that integrated sustainability and reporting practices into accounting research.

### 3. EVOLUTION OF ACCOUNTING THEORIES (1975–2025)

The history of accounting theory shows a continuous journey of intellectual growth shaped by economic, technological, regulatory and social developments. Over the past fifty years (1975–2025), accounting ideas have moved beyond rigid, rule-based approaches to more flexible frameworks that combine insights from behavioural science, institutional theory and sustainability perspectives.

#### 3.1 THE 1970S–1980S: FROM NORMATIVE TO POSITIVE ACCOUNTING THEORY

The late 1970s and 1980s marked a major turning point in accounting theory, moving away from normative approaches that focused on ideal accounting principles toward positive theories that aimed to explain and predict actual accounting practices in the real world.

##### 3.1.1 Decline of Normative Theories

Before the 1970s, normative accounting was the main focus of academic discussion. Scholars like Chambers (1966) and Sterling (1970) introduced ideal models such as current cost accounting and exit price valuation, aiming to make financial reporting more relevant. However, these approaches were criticised for lacking practical and empirical evidence, which eventually led to a major methodological shift in accounting research (Belkaoui, 2004).

##### 3.1.2 Emergence of Positive Accounting Theory (PAT)

Watts and Zimmerman's influential studies (1978, 1986) introduced Positive Accounting Theory (PAT), which used empirical research and economic reasoning to explain how managers make accounting choices. PAT is built on three main hypotheses: the *Bonus Plan Hypothesis*, which suggests that managers select accounting methods to increase income and maximise bonuses; the *Debt Covenant Hypothesis*, which proposes that firms choose accounting policies to avoid breaching loan agreements; and the *Political Cost Hypothesis*, which argues that large firms adopt methods that reduce public and regulatory attention. PAT marked a major shift in accounting thought by viewing accounting behaviour as driven by self-interest and economic incentives, rooted in Agency Theory (Jensen & Meckling, 1976).

##### 3.1.3 Agency and Information Theories

Alongside Positive Accounting Theory (PAT), Agency Theory offered a framework for understanding the conflict of interest between managers and shareholders. It explained how accounting policies act as tools for control, communication, and alignment of interests. During this period, Information Economics (Akerlof, 1970; Spence, 1973) also played an important role by emphasising the problem of information asymmetry in financial reporting, which encouraged the development of disclosure-based accounting standards. As a result, the 1970s and 1980s transformed accounting into an empirical and decision-oriented discipline rooted in economic reasoning, moving away from abstract prescriptions toward testable and practical hypotheses.

#### 3.2 THE 1990S: CONCEPTUAL FRAMEWORKS AND GLOBAL STANDARDISATION

##### 3.2.1 Rise of Conceptual Frameworks

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Committee (IASC) developed comprehensive conceptual frameworks to guide financial reporting (Zeff, 2016). These frameworks defined the key objectives of accounting as relevance, reliability, comparability and faithful representation. This effort represented a synthesis of ideas from both normative and positive theories, which combined decision usefulness with empirical verification and resulting in a hybrid model that connected theoretical reasoning with practical standard setting.

##### 3.2.2 Globalization and Standard Harmonization

The globalisation of capital markets in the 1990s strengthened the push for international standardisation in accounting. This movement was based on the principles of comparability and transparency, which stem from both normative and institutional theories. The establishment of the International Accounting Standards Board (IASB) in 2001, succeeding the IASC, carried this integration forward. Its main goal was to develop a common financial language through the creation of International Financial Reporting Standards (IFRS).

##### 3.2.3 Emergence of Behavioural and Social Influences

During this period, accounting theory began to recognise the behavioural aspects of financial decision-making. Researchers such as Birnberg et al. (1983) and Argyris (1952) demonstrated that human psychology, motivation and limited rationality have a strong influence on accounting systems. These behavioural insights deepened the understanding of management control and performance evaluation. The 1990s, therefore, represented a period of synthesis, bringing together formal theoretical structures, empirical reasoning and humanistic perspectives into a more complete accounting framework.

#### 3.3 THE 2000S: INSTITUTIONAL, ETHICAL AND BEHAVIOURAL EXPANSION

The early 2000s brought major disruptions that reshaped accounting thought. Corporate scandals such as Enron (2001) and WorldCom (2002) triggered scepticism toward self-regulated financial reporting and led to deeper ethical and institutional inquiry.

##### 3.3.1 Institutional Theory in Accounting

Accounting researchers used Institutional Theory (Meyer & Rowan, 1977; DiMaggio & Powell, 1983) to show how social norms

and cultural pressures influence accounting practices. Instead of viewing accounting as purely objective, they saw it as a socially constructed activity aimed at legitimacy rather than efficiency (Hopwood & Miller, 1994). This view highlighted symbolic compliance, where organisations follow standards to appear legitimate even if internal practices differ.

### 3.3.2 Ethical and Corporate Governance Perspectives

The corporate scandals of the early 2000s renewed attention to Ethical Accounting Theories and Corporate Governance Frameworks. Accounting began to be seen through a moral perspective that prioritised integrity, transparency and accountability (Gray et al., 2014).

### 3.3.3 Behavioural Accounting Revival

Building on earlier behavioural research, new models examined cognitive biases, judgment errors and decision shortcuts in accounting and auditing. The Sarbanes–Oxley Act (2002) strengthened accountability frameworks based on these behavioural insights, encouraging ethical control and greater audit responsibility.

## 3.4 THE 2010S–2025: SUSTAINABILITY, TECHNOLOGY, AND INTEGRATED THINKING

The most recent decade has seen an unprecedented expansion in accounting theory, which now includes environmental, technological and social dimensions.

### 3.4.1 Sustainability and Social Responsibility Accounting

The rise of sustainability reporting, the triple bottom line and integrated reporting (Elkington, 1997; Gray et al., 2014) introduced a new direction in accounting theory. Accounting began to focus on all stakeholders rather than only shareholders, combining economic, social and environmental performance. This change led to the development of Sustainability Accounting Theory, based on Stakeholder Theory and Legitimacy Theory (Suchman, 1995). The focus shifted from short-term profit to long-term value creation and environmental responsibility.

### 3.4.2 Integrated Reporting and Value Creation

The formation of the International Integrated Reporting Council (IIRC) in 2010 introduced the idea of Integrated Thinking, which connects financial and non-financial capital. The Integrated Reporting Framework (2013) served as both a practical tool and a theoretical milestone, creating a new approach in accounting that brings together economics, sustainability and governance.

### 3.4.3 Technological and Digital Accounting Theories

From 2015 onwards, accounting theory started to absorb the effects of digital transformation, big data, blockchain and artificial intelligence (Yoon, Hoogduin & Zhang, 2015). New frameworks such as Digital Accounting Theory and Blockchain-based Transparency focus on automation, data immutability and real-time reporting. These changes challenge traditional ideas about human control, verification and audit independence. Accounting is now moving toward a technology-centred approach that combines analytics, systems thinking and ethical responsibility.

### 3.4.4 Theoretical Integration and Future Orientation

By 2025, accounting theory will become multi-dimensional, combining insights from economics, psychology, sociology, ethics and technology. New approaches focus on sustainability intelligence, algorithmic accountability and integrated ethics, reflecting a more complete and balanced view of accounting in the digital and environmental age.

## 4. COMPARATIVE AND CRITICAL ANALYSIS OF ACCOUNTING THEORIES

The evolution of accounting theory from 1975 to 2025 reflects not only the changing priorities of business and society but also the dynamic interplay of empirical evidence, human behaviours, ethics and technology. While each theoretical framework contributed significantly to the understanding of accounting practice, their assumptions, methodologies and applications vary widely.

### 4.1 Comparative Overview of Major Accounting Theories

#### 4.1.1 Normative vs. Positive Accounting Theory

The most significant divide in accounting thought during the late 20th century was between Normative and Positive theories.

| Aspect      | Normative Accounting Theory               | Positive Accounting Theory                      |
|-------------|-------------------------------------------|-------------------------------------------------|
| Nature      | Prescriptive — what <i>should</i> be done | Descriptive — what <i>is</i> done               |
| Approach    | Logical reasoning and ideal models        | Empirical observation and prediction            |
| Objective   | Establish universal accounting principles | Explain and predict accounting behaviour        |
| Methodology | Deductive reasoning                       | Inductive, data-based reasoning                 |
| Example     | Chambers (1966): Current cost accounting  | Watts & Zimmerman (1978): Managerial incentives |
| Criticism   | Lacks empirical validation                | Ignores ethical and social dimensions           |

Normative theory offered clear concepts but lacked real-world relevance, while Positive theory provided practical accuracy yet ignored ethical aspects (Christenson, 1983). Together, they complement each other and form the foundation of modern accounting research.

## 4.1.2 Behavioural vs. Economic Rationalism

While Positive Accounting Theory is rooted in economic rationalism, assuming that individuals act in their self-interest, Behavioural Accounting Theory challenges this assumption. It integrates psychology and sociology to explain how human limitations, biases, and organisational culture affect accounting decisions.

### Comparison:

Economics-based models assume rational, utility-maximising agents (Jensen & Meckling, 1976).

Behavioural models emphasise cognitive limits, emotional factors and group dynamics (Birnberg et al., 1983).

Behavioural theories enhanced understanding of managerial behaviour but lacked predictive strength, while economic theories oversimplified human motivation. A new approach, Behavioural Economics in Accounting, is emerging to combine both views and create more realistic models of accounting judgment (Tversky & Kahneman, 1986).

## 4.1.3 Institutional vs. Positive Perspectives

Institutional theory departs from the purely economic lens by focusing on social legitimacy rather than efficiency.

| Positive Accounting Theory       | Institutional Theory                          |
|----------------------------------|-----------------------------------------------|
| Emphasises individual incentives | Emphasises social pressures and legitimacy    |
| Rooted in economics              | Rooted in sociology and organisational theory |
| Focuses on efficiency            | Focuses on conformity and symbolism           |
| Predictive                       | Interpretive and contextual                   |

Institutional theory broadened accounting's perspective by viewing it as a social institution rather than just a technical process. Though insightful, it is often criticised for lacking quantitative precision (Carruthers, 1995). Positive theory, on the other hand, explains variations in accounting practices but overlooks cultural and social factors. Together, both offer a balanced view of accounting as an economic and social activity.

## 4.1.4 Sustainability and Stakeholder Theories

Since the 2000s, sustainability accounting has shifted the focus of accounting from profit maximisation to wider social accountability. The Triple Bottom Line approach (Elkington, 1997) and Stakeholder Theory (Freeman, 1984) emphasise that organisations should report not only financial outcomes but also their environmental and social performance.

Traditional theories (Normative, Positive) focus on shareholders and efficiency. Sustainability-based theories emphasise stakeholders, ethics, and long-term value creation.

However, sustainability accounting faces criticism for:

- Lack of standardisation and verifiability;
- Subjectivity in non-financial metrics;
- Tension between environmental goals and economic objectives (Gray, 2010).

Despite these challenges, sustainability theories represent an important moral and philosophical evolution in accounting—bridging financial logic with social responsibility.

## 4.1.5 Technological and Digital Accounting Paradigm

The last decade (2015–2025) has witnessed the rise of Digital Accounting Theory, influenced by artificial intelligence, blockchain chain and big data analytics (Yoon et al., 2015). This paradigm shift challenges conventional assumptions about human agency and verification in accounting. Blockchain technology introduces trust less accounting systems, where transactions are automatically verified through distributed ledgers, reducing the need for intermediaries.

While technological theories improve transparency and allow real-time reporting, they also bring new ethical and governance concerns related to data privacy, cybersecurity, and the declining role of human judgment (Appelbaum et al., 2017). So, the digital revolution represents both a major technological opportunity and a significant theoretical challenge for accounting.

## 4.2 THEORETICAL INTEGRATION AND CONTEMPORARY RELEVANCE

### 4.2.1 The Shift from Fragmentation to Integration

Earlier accounting theories were developed in isolation, focusing on specific aspects of practice without broader connections. In contrast, modern frameworks such as Integrated Reporting (IIRC, 2013) present a unified approach that links financial, human and environmental capital. This integrated perspective reflects what Laughlin (2014) describes as “*contextual theorising*,” where empirical evidence is combined with moral understanding and institutional awareness to create a more holistic view of accounting.

## 4.2.2 Relevance to Practice

- Normative principles underpin conceptual frameworks like IFRS.
- Positive and behavioural theories guide managerial decision-making.
- Institutional and sustainability theories inform governance and ESG reporting.
- Technological paradigms drive modern auditing and analytics.

Hence, no single theory dominates contemporary accounting; rather, a pluralistic and adaptive theoretical ecosystem defines the field.

## 4.3 Strengths, Limitations and Emerging Trends

| Theory         | Strengths                                             | Limitations                       | Modern Relevance                              |
|----------------|-------------------------------------------------------|-----------------------------------|-----------------------------------------------|
| Normative      | Provides logical structure; supports standard-setting | Lacks empirical validation        | Basis for conceptual frameworks               |
| Positive       | Empirically grounded; predictive                      | Ignores ethics and culture        | Useful for corporate governance and contracts |
| Behavioural    | Human-cantered insights                               | Limited generalizability          | Relevant for management accounting            |
| Institutional  | Recognises social influence                           | Non-predictive                    | Explains the global adoption of standards     |
| Sustainability | Integrates ethics and accountability                  | Non-standardized measures         | Drives ESG and integrated reporting           |
| Digital/ AI    | Enhances transparency, speed and analytics            | Raises privacy and ethical issues | Redefines auditing and reporting models       |

## 4.4 Theoretical Gaps and Future Directions

Despite significant progress in accounting theory, several important gaps continue to exist. There is still limited integration between ethical reasoning and empirical evidence, as few frameworks effectively combine moral values with measurable data. Another challenge lies in understanding how technology and human judgment can coexist, particularly in the age of automation and artificial intelligence. Accounting research also needs to deepen its interdisciplinary engagement by drawing insights from data science, sociology and environmental studies. In addition, theoretical models must evolve to measure non-financial, real-time and digital assets more effectively. Most existing theories remain centred on Western contexts and must be adapted to suit the economic and cultural conditions of emerging economies. Future research should therefore take a more integrative, cross-disciplinary and forward-looking direction, aiming to balance precision with purpose and efficiency with ethics.

# 5. FINDINGS AND CONCLUSION

## 5.1 SUMMARY OF KEY FINDINGS

Based on the review and critical analysis of the study, the following major findings emerge from this half-century review:

### 5.1.1 Evolutionary Phases of Accounting Theory

#### 1. 1970s–1980s: Economic and Empirical Shift

The emergence of Positive Accounting Theory (PAT) by Watts and Zimmerman (1978) marked a significant shift from prescriptive (normative) approaches to empirical (positive) ones. The focus of accounting research moved toward understanding why managers select particular accounting policies, often influenced by self-interest, contractual obligations and market incentives. During this period, concepts such as Agency Theory and Information Asymmetry became central to explaining managerial behaviour and accounting decision-making.

#### 2. 1990s: Framework Development and Standardisation

The introduction of Conceptual Frameworks by the FASB and IASB brought greater structure to accounting theory by defining clear objectives for financial reporting (Zeff, 2016). This period focused on improving comparability, reliability and decision usefulness, which helped achieve greater harmony in accounting standards across countries. At the same time, the inclusion of behavioural insights added a more human and practical understanding of how accounting information is interpreted and used in real-world decision-making.

#### 3. 2000s: Institutionalisation and Ethics

After the Enron scandal, accounting theory began to include stronger institutional and ethical perspectives. The focus of accounting research shifted from efficiency toward legitimacy, good governance, and moral responsibility (Hopwood & Miller, 1994). Reforms such as the Sarbanes–Oxley Act (2002) and other global governance measures further strengthened the role of transparency and accountability in financial reporting and corporate behaviour.

## 4. 2010s–2025: Sustainability and Technological Transformation

During this period, accounting theories broadened to include Sustainability Accounting, Stakeholder Theory and Integrated Reporting. Concepts such as the Triple Bottom Line (Elkington, 1997) and Integrated Thinking (IIRC, 2013) promoted a wider understanding of value creation that includes financial, social and environmental outcomes. At the same time, the growth of Digital Accounting, Artificial Intelligence and blockchain-based systems transformed how accountability and assurance are understood in the digital era.

### 5.1.2 Theoretical Integration and Multidisciplinary

Accounting theory has moved from being a separate discipline to an interdisciplinary field that draws ideas from economics, psychology, sociology, information technology and environmental science. Modern accounting thought now focuses on ethical responsibility, technological transparency and sustainability performance. Instead of being guided by a single theory, today's accounting follows a pluralistic approach that combines empirical research, social relevance, and digital innovation.

### 5.1.3 Major Shifts in Theoretical Emphasis

| Period    | Primary Focus                            | Paradigm Type                  |
|-----------|------------------------------------------|--------------------------------|
| 1975–1985 | Objectivity, empirical explanation       | Economic/Empirical             |
| 1985–1995 | Standardisation, comparability           | Normative–Positive Integration |
| 1995–2005 | Ethics, governance, legitimacy           | Institutional–Moral            |
| 2005–2015 | Sustainability and social accountability | Ethical–Environmental          |
| 2015–2025 | Technology, AI, real-time reporting      | Digital–Analytical             |

### 5.1.4 Persistent Theoretical Gaps

Despite significant progress in accounting theory, several important gaps remain. Ethical integration continues to be a concern, as many theories fail to adequately include moral reasoning and public accountability within their frameworks. Technological oversight is another challenge, with digital accounting lacking a strong conceptual foundation to ethically guide the use of advanced tools such as artificial intelligence and blockchain. Additionally, most existing theories are rooted in Western contexts and require adaptation to suit the cultural and economic realities of emerging economies. Sustainability accounting also faces persistent measurement challenges, particularly in standardising and verifying non-financial indicators related to environmental and social performance. Lastly, there remains an interdisciplinary disconnect, as achieving a balance between quantitative accuracy and qualitative understanding continues to be a key difficulty in developing a more holistic accounting framework.

## 5.2 CONCLUSION

The study concludes that over the past fifty years, accounting theory has steadily evolved toward greater integration, accountability and innovation. Each stage has expanded the discipline's purpose and transformed it from a purely technical field into one that is socially, ethically and globally responsive. The economic crises of the 1970s encouraged empirical research through Positive Accounting Theory, while corporate scandals in the 2000s highlighted the need for ethics and governance. In recent years, environmental and digital changes have driven accounting toward sustainability and technology-based accountability.

Modern accounting theory is pluralistic in nature and accepts that no single theory can fully explain the complex realities of the modern business world. It combines multiple perspectives, such as economic, behavioural, institutional and digital, to create a more complete understanding of accounting practices. This pluralistic approach keeps accounting relevant and adaptable in a changing global environment. After 2025, accounting theory will focus more on the integration of technology, ethics and sustainability. Artificial intelligence, blockchain chain and data analytics will play key roles in improving transparency and accountability in financial reporting. These developments have important implications for practitioners, educators, researchers and policymakers. Practitioners should apply accounting theories to support ethical decision-making, maintain human oversight alongside automation and include sustainability within business strategy. Education and research must follow an interdisciplinary path that connects accounting with data science, behavioural studies and environmental awareness. Policymakers and standard setters need to revise conceptual frameworks to cover non-financial and digital assets so that global standards stay consistent and flexible. Overall, accounting theory is moving into a new era where technology, ethics and sustainability come together to reshape the meaning of accountability in the twenty-first century.

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