

**PHILOSOPHY OF SCIENCE PERSPECTIVE ON QUALITY OF FINANCIAL STATEMENTS****Lativa**

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**Abstract:** Financial statements reflect the good and bad performance of the company. High quality financial reports indicate that the information contained therein can be used in decision making. The influence of financial statements is very large for companies, so sometimes some companies violate or manipulate the company's financial statements. The ontological perspective of accounting is actually not only technical, but there are standards that apply, including Generally Accepted Accounting Principles or commonly abbreviated as GAAP which contains the rules of financial statements reported to interested parties. The epistemology aspect is truth seen from the point of view of why and how true facts occur and can be verified or proven. The embodiment of empiricism in accounting (Beam, 1969) emphasizes factual information, accurate measurements and data objectivity. According to SFAC No. 2 (FASB, 1978), the resulting accounting information must meet the qualifications of relevant and reliable in order to be useful to users of financial statements. Accounting and its developers must always be accompanied by certain relevant values so that the practice of accounting does not run itself off the track. Accounting is essentially a moral and discursive practice, therefore the development and practice of accounting ideally needs to be done with responsibility. Kuhn's thinking which has criteria where one (scientific) theory is considered better than other theories is reinforced by Rofiq's statement which describes these criteria including Accuracy, Consistency, Scope, Simplicity and Fruitfulness must be reflected in the quality of financial statements presented by financial preparers.

**Keywords:** ontology, epistemology, axiology, financial report quality

**INTRODUCTION**

Financial statements are the main indicator used to describe the company's performance. We can find out the company's future prospects, analyze the company's performance and predict future cash flows from the financial statements. Financial statements also reflect the success or failure of the company in achieving profitability targets. Quality financial reports should be disclosed according to facts and avoid engineering (Wicaksono et al, 2013). From this explanation, we can see that the influence of this financial report is very large for the company, so sometimes some companies violate or manipulate the company's financial statements. One of the biggest scandals that occurred was the accounting practices carried out by the energy company "Enron". The practices carried out include displaying inappropriate income data and modifying the balance sheet so that financial performance looks good. As an effort to restore doubts about the correctness of the quality of financial statements in this case accounting science and its development, accounting as a branch of science cannot be separated from its philosophy.

Philosophy is one of the first branches of science that appeared before other branches of science appeared. Immanuel Kant defines that philosophy is the basis of all science which covers many things. Starting from the issue of epistemology or what is more familiar as the philosophy of knowledge and plays a role in answering questions about what humans know. Ulya et al (2015) explain Thomas Kuhn's paradigm concept that the development of science does not come from a combination of several existing sciences but occurs revolutionarily through certain stages. The term paradigm was originally introduced by Thomas Kuhn (1962) in his work 'The Structure of Scientific Revolution'. Kuhn's paradigm has been used by Wells (1976) and STTA (1977) to explain the development of accounting today. Belkaoui (1981 and 1985) used it to

describe accounting as a multiparadigm science. STTA (1977) also recognized in addition to Kuhn's views, other perspectives such as Lakatos were also used.

Thomas Kuhn's thinking can be contextualized with the development of accounting science in relation to the quality of financial statements. Purdy, Smith and Gray (1969) examined the effect of disclosure in financial reports that deviate from accounting standards on the visibility of these reports.

Anggoro argues that the four areas of philosophy of science are considered capable of explaining the following:

1. What is the nature of accounting science (Knowledge)
2. How scientific truth is obtained by explaining sources and procedures.
3. For what and where the science should be developed related to scientific attitudes, and
4. How to make science add value to human culture.

Based on the explanation above, the author is interested in looking at the review of the philosophy of science in relation to the quality of financial statements as an effort to restore the quality and public trust in accounting.

## LITERATURE REVIEW

The quality of financial statements reflects the conformity of financial information presented by an entity with applicable accounting standards (Firmansyah, 2022). Good quality financial reports indicate that the information contained in them can be used in decision making. According to Febrita et al (2019) Quality financial statements must be able to reflect how far the financial statements produce honest and fair information about the presentation of the financial position on which the company's performance is based (FASB, IASB, ASB and AASB).

According to Wicaksono (2018) every theory is a knowledge that is recognized as true and does not appear suddenly. Theory or science must be based on assumptions about how it is, its existence, its reality (ontology), how the theory or science is obtained (epistemology) and cannot be separated from the benefits of theory or science obtained from the existence of this science (axiology). Philosophical review is expected to be able to see and appreciate the problems faced by accounting as a whole and in total, so that it can solve these problems wisely (Anggoro, 2010).

### Financial Statement Quality from an ontology perspective

Ontology comes from the Greek *ontos* which means essence, being, or science. Ontology is the science of what is the nature of science, what is the essence of truth and inherent reality, with scientific knowledge that is inseparable from philosophical perceptions of what and how there is (Siswomihardjo, 2016). The study of ontology discusses what is real, concrete (Dahlan, 2015). If we relate it to accounting, we will learn what the nature of accounting is not only technical. Accounting is the process of identifying, measuring and reporting economic information to enable clear and firm judgments and decisions for those who use the information (American Accounting Association in Soemarso, 2018). Financial reports can provide an overview of the company's financial condition. The principle that regulates accounting is the GAAP (Generally Accepted Accounting Principles) standard which contains the rules of financial statements reported to interested parties. Fee and Warren (1990) state that financial accounting information presented in accordance with GAAP is primarily intended for outsiders but is also useful for management to direct company operations. Miller et al (1985) argue that there are three groups of people who participate in financial accounting, namely users, preparers and auditors. The three parties have different interests in financial presentation, therefore an agreed rule is needed to be used as a reference for users, preparers and auditors. This is the background to the importance of GAAP.

Miller et al (1985) also argue that there is a three-level hierarchy that can be used to determine whether a practice is GAAP, including:

1. Authoritative pronouncement
2. Official publication
3. Other sources

If associated from the level of hierarchy with the organizations involved include FASB, AICPA, and SEC (Miller et al, 1985)). Nikolai and Bazley (1988) argue the sequence of sources of generally accepted accounting principles (Sources of GAAP) include:

1. FASB Statements of Standards and Interpretations, APB Opinions, and AICPA Accounting Research Bulletins;
2. FASB Technical Bulletins, AICPA Accountants Interpretations, Industry Audit Guides, Industry Accounting Guides, and Position Statements;

3. General practice;
4. Securities and Exchange Commission regulations;
5. Internal Revenue Service regulations;
6. Accounting literature.

Wicaksono (2018) argues that applicable accounting principles are developed by assumptions:

1. Economic entity
2. Business continuity (Going concern)
3. Periodicity

Financial information is needed by internal and external parties to make decisions. As a means of accountability and reporting business activities to interested parties, financial statements should be open and honestly.

### Financial Statement Quality from an Epistemology perspective

Epistemology comes from the words "episteme" and "logos". Episteme is knowledge while logos is theory. In English terms Epistemology is also known as "Theory of knowledge". Epistemology is a branch of philosophy that discusses the sources, structures, models and validity of knowledge (Dagobert D Runes, 1962). The aspect of epistemology is truth from the point of view of why and how facts are true

and can be verified or proven. Epistemology by definition should dominate logic because it is with logic that we can explain the problem as a whole and make sense. If it is associated with accounting, accounting has several methods that are in accordance with the needs used, including inductive methods and positivism methods (Wicaksono, 2018). The inductive method is used when making decisions by looking at the financial statements while the positivism method is when making finances it must be supported by existing data including proof of transactions, journals etc.

The Indonesian Institute of Accountants as an accounting regulator issued Financial Accounting Standards (IAI, 2009) which states that the purpose of financial statements is to provide information about the financial position, performance and changes in the financial position of a company that is useful for financial users in making decisions. This agrees with Beam (1969) who states that pragmatism is related to setting accounting objectives to provide information and Belkaoui (1993) who states that accounting includes a set of techniques that are really useful in certain areas.

Accounting as the end of organizational activity in financial reporting is a symbolic mechanism of ritual and dynamic accountability (Mulawarman, 2008). The dynamics of accountability contains the meaning of life on the achievement of productivity and profit is a measure of productivity in the achievement of business organizations.

The embodiment of empiricism in accounting (Beam, 1969) emphasizes factual information, accurate measurement and objectivity of data. According to SFAC No. 2 (FASB, 1978), the resulting accounting information must meet the qualitative relevant and reliable to be useful for users of financial statements. The qualitative characteristics can be described in the following hierarchy:

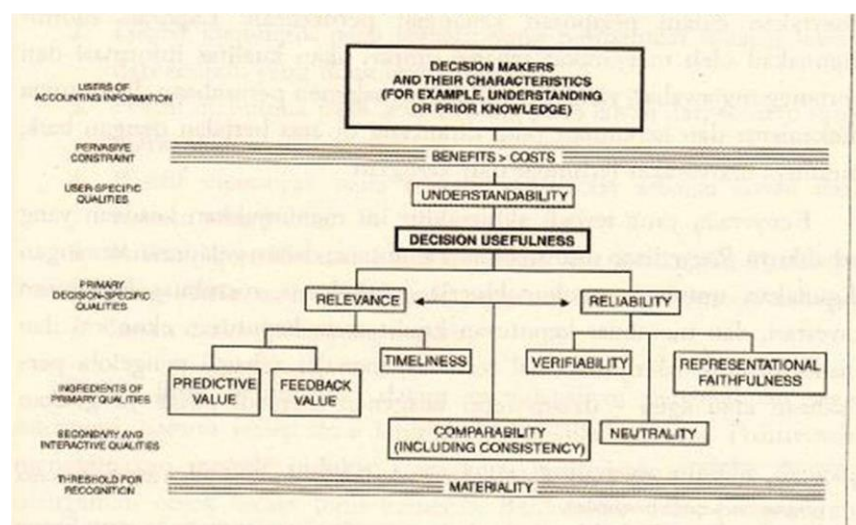


Figure 1. FASB in SFAC No. 2 of 1978

Reliability is a form of empirical influence in accounting which is information that is characterized by verifiability, neutral and objective information, and presents representational faithfulness and is free from error and bias.

The mechanism in accounting is to keep management producing financial statements that meet the objectives and characteristics of generally accepted accounting principles (GAAP) that are consistently applied. However, this still has the possibility of deviation from the applicable provisions. That is why there is a profession in accounting, namely auditors who are tasked with finding evidence and verifying and assessing the conformity of the resulting financial statements with these provisions. The auditor will make an audit report that will be included in the company's financial reporting which is used by the public as an empirical of the quality of information and accountability published by company management.

However, in reality there are still frequent practices of violations of the presentation of financial statements. Therefore, philosophy requires us to integrate data, theories, and values in an integral and integrative manner so that the conclusions obtained are critical, comprehensive, and evaluative conclusions.

Kuhn has criteria where one (scientific) theory is considered better than another. Rofiq (2015) explains the criteria of a theory are:

1. Accuracy  
A scientific theory must be scientific in its research domain.
2. Consistency  
The theory is internally consistent and so are other theories within the same paradigm.
3. Scope  
The theory is able to explain broadly than just what is stated.
4. Simplicity  
Theories should be clear and not convoluted.
5. Fruitfulness

The theory should be useful for identifying new phenomena or relationships that have not been or are not known prior to the theory.

This is in line with what is stated in PSAK No.1 (2020: 3), "there are four characteristics of financial statements, namely easy to understand (Understandability), actual or what it is (Relevant), reliability (Reability), and comparability (Comparability). The Indonesian Accounting Association (IAI) in PSAK No. 1 (2020: 3) states that "the purpose of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful for most users of reports in making economic decisions.

### **Quality of financial statements from an axiology perspective**

Axiology comes from the Greek "axios" which means appropriate or reasonable and "logos" which means science. Axiology is knowledge that investigates the nature of value which is also understood as a theory of value from a philosophical point of view (Alfan, 2013).

The occurrence of the "Enron" event is enough to indicate a violation of accounting standards and result in the fall of the prestige of accounting and related professions. As an effort to restore and increase the value and dignity of accounting science, the development of accounting as a science cannot be separated from its philosophy. Philosophy of science is part of philosophy as an answer (clarification) to explain the findings in the branch of science to provide implications for human life. This philosophy of science is expected to restore accounting to its essence and develop in accordance with what is expected and the essential values it has (Anggoro, 2010).

Philosophy can be said to be a view of life that is believed to be true and can be used as the direction of life (Siswomihardjo, 2016). Accounting and its developers must always be accompanied by certain relevant values so that the practice of accounting does not run itself out of its path. Luca Pacioli in the basic accounting equation which states assets = liabilities + equity is very loaded with values and morality. The equation contains the value of honesty with assets as a form of company wealth on the one hand and a liability and equity explains where the wealth comes from. If only viewed as a theory without honesty, the balance of both sides can be achieved even with various manipulations that harm other parties.

Accounting is essentially a moral and discursive practice, therefore the development and practice of accounting ideally needs to be done with responsibility.

## METHODOLOGY

According to Sugiyono (2018: 2) what is meant by research methods is that research methods are basically scientific ways to get data with specific purposes and uses. This research is a library research with a qualitative research approach. In this library study, the author collects and studies various basic theories and concepts related to the problem under study. The basic theories and concepts are obtained by examining various sources such as books, journals and relevant reading materials (Sugiyono, 2018: 224).

Research analysis using descriptive-analytic methods is carried out after the data is collected through the process of collecting, compiling and explaining the data. The descriptive research method according to Sugiyono (2019) is classified as a type of research based on the level of explanation. The data analysis method (content analysis) used is the classification of data according to the problems discussed and given conclusions.

## RESULT AND DISCUSSION

Accounting as a branch of science must be accompanied by the philosophy of science in its development so that there is no shift in essence. Understanding the ontology, epistemology and axiology of accounting is very important for accountants and regulators because this is very helpful in maintaining the quality of the financial statements presented so that there are no various irregularities that can be detrimental and make decisions taken less precise. Accounting science has undergone many developments that follow the positivism paradigm to see other values so that the benefits of accounting science for users can be used without negative consequences. Accounting science is loaded with values in daily practice such as the quality of financial statements. Accountants as people who check the suitability and fairness of financial statements have more moral responsibility to the public so that moral and ethical aspects must be prioritized. The accounting profession has many strategic roles in the company, especially in implementing the principles of Good Corporate Governance (GCG) which include the principles of transparency, accountability, responsibility, independence, fairness and equality (National Committee on Governance Policy, 2006).

In accounting, there are Financial Accounting Standards that must be adhered to in presenting financial statements. These standards are needed so that the resulting financial statements are of high quality and easy to understand for users. If it does not refer to the Financial Accounting Standards, the company will present financial statements in accordance with various interests. This will certainly be a problem for users because they will experience difficulties in understanding financial reports (Ramanda, 2018).

In practice, the nature of financial statements is made historical and comprehensive. Historical in nature means that financial statements are prepared and compiled from past data or a period that has passed from the present. For example, financial statements are prepared based on data one or two or several years back (previous year or period). Then, being comprehensive means that the financial statements are made as complete as possible. This means that the financial statements are prepared in accordance with predetermined standards. Making or preparing only parts (incomplete) will not provide complete information about a company's finances (Kasmir, 2018).

The interests and perceptions of parties with an interest in financial statements vary. Therefore, agreed rules are needed to be used as a reference for internal parties to present financial statements and external parties to understand these financial statements. This is the background of the importance of generally accepted accounting principles (GAAP).

## CONCLUSION

### Conclusion

A correct understanding of the nature of accounting, ways to interpret accounting phenomena and the values that accompany accounting is very helpful in maintaining the quality of financial statements so that users can make the right decisions. Quality financial statements must be able to reflect how far the financial statements produce honest and fair information about the presentation of the financial position on which the company's performance is based (FASB, IASB, ASB and AASB).

The ontology perspective studies what the nature of accounting is not only technical. Financial statements can provide an overview of the company's financial condition. The principle that governs accounting is the GAAP (Generally Accepted Accounting Principles) standard which contains the rules of financial statements reported to interested parties.

The embodiment of empiricism in accounting (Beam, 1969) emphasizes factual information, accurate measurement and objectivity of data. According to SFAC No. 2 (FASB, 1978), the resulting accounting information must meet the qualifications of relevant and reliable in order to be useful to users of financial statements.

Accounting and its developers must always be accompanied by certain relevant values so that the practice of accounting does not run itself out of its path. Kuhn's thinking which has criteria where one (scientific) theory is considered better than other theories is reinforced by Rofiq's statement which describes

these criteria including Accuracy, Consistency, Scope, Simplicity and Fruitfulness must be reflected in the quality of financial statements presented by financial preparers.

#### **Limitation**

The limitations in this study are the limited references and supporting literature obtained by researchers in conducting this writing so that it affects financial performance and the level of quality of company disclosures on financial statements.

#### **Implication**

The results of this study are expected to be correction material for companies as providers of financial statements and accountants as those who verify the suitability and fairness of financial statements so that the quality of the financial statements presented is in accordance with applicable accounting principles and rules in this case in accordance with GAAP (Generally Accepted Accounting Principles) standards which contain rules for financial statements reported to interested parties.

#### **Future Research**

Future research is expected to expand studies and references from related literature so as to add more comprehensive information regarding the quality of financial statements. In addition, future researchers are expected to add other philosophies that are closely related to current accounting developments.

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