A COMMENTARY ON THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

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Abstract

In this paper, the author reviews the adoption of principles-based conceptualisation in the Conceptual Framework of Financial Reporting. The importance of understanding the conceptualisation of framework in Accounting has also been highlighted here. It applies the Social Reality Construction Model (SCRM) to better understand the Framework theoretically. This paper concludes that a great amount of coherence or consensus should be gained among institutional players so that they share a common belief about the representation of meaning behind accounting numbers. It is also a mean to convince accounting regulators to tighten the connectivity between accounting concepts and quality characteristics of financial reporting. Otherwise, the conceptualisation of accounting may only superficially define underlying theoretical understanding of accounting.

Keywords: Conceptual Framework of financial reporting, International Accounting Standards Board (IASB), principles-based accounting approach, rules-based accounting approach, generally accepted accounting principles (GAAP), Social Reality Construction Model (SCRM).

INTRODUCTION

In the process of developing and revising the Conceptual Framework of financial reporting by International Accounting Standards Board (IASB), accounting researchers, at the same time, are challenged to provide research insights into the design of the framework. The debate on theoretical background between academician and accounting regulators has been continued even since principles-based approach is incorporated into the Conceptual Framework (Kaminski et al., 2011; Dennis, 2008; Benson et al., 2006; Bennett et al., 2006; Schipper, 2003).

The examination of accounting concepts in the context of social reality needs to be recognised and highlighted (Evans, 2003) so that accounting regulators are aware of its importance in designing a conceptual framework that truly represents a quality and useful financial information. Social facts are constructed conceptually in the minds of stakeholders when they actively interact with people surrounding them in their daily activities. Through the process of interaction, they gradually form their judgment towards a phenomenon and, later, it is reflected in their behavioural actions.

In the same vein, accounting concepts are embedded with social facts in the conceptual framework, apart from physical facts, as they are developed by accounting experts. They, as well, input their personal judgment into the design of conceptualisation of framework while they interact with other social members. At the end, the result of portraying a sound framework conceptualisation will also be greatly influenced. This is especially true when accounting regulators have determined to continuously adopt principle-based approach, which applies personal judgment to make decisions.

Besides, while accounting regulators intensively encourage harmonisation in developing accounting standards internationally, the initiation of revisiting the social reality of conceptualisation of framework, that is once neglected, has never been greater to ensure quality and usefulness of financial information is agreed coherently by stakeholders.

Hence, this paper aims to build an argument theoretically by acknowledging the importance of recognising social reality of accounting when accounting regulators interpret the conceptualisation of accounting in the Conceptual Framework. Specifically, the author demonstrates such argument using Searle's (1995) Social Reality Construction Model (SCRM) to gain a better insight into the conceptualisation of accounting by taking into consideration of the multi-dimensional nature of social reality.

The discussion of this paper is arranged as follows. It is started with an introduction specifying the main objective of the paper. The next section provided a brief history on the initiation of Conceptual Framework project. The third section explains the adoption of principles-based conceptualisation in the Conceptual Framework. It is followed by a discussion on the importance of understanding conceptualisation in accounting. Subsequently, this paper discussed Searle's (1995) Social Reality Construction Model (SRCM) and the Conceptual Framework. Lastly, it is ended with a conclusion.

Background

The desire to develop global accounting regulation for financial reporting has resulted the restructuration and reconstitution of International Accounting Standards Committee (IASC) be replaced by International Accounting Standards Board (IASB). It is operated under the governance of the International Accounting Standards Committee Foundation (IASCF), which is represented by trustee from different parts of the world (Muller, 2013). This effort is seen as one of the strategic moves to achieve harmonisation accounting standards internationally. The concept of reaching for harmonisation, in fact, is not a new idea. Such initiation has been taken place since the late 1950s, after the Second World War, when the world sought for economic integration and to increase the flow of capital across nations (Bennett et al., 2006).

The relationship between Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) is rather complex. Financial Accounting Standards Board (FASB) favoured rule-based, rather than principles-based accounting approach, and placed its emphasis greatly in wordings such as "*present fairly" and "in conformity with generally accepted accounting principles (GAAP)*" (Alexander and Jermakowicz, 2006) when companies present their financial statements. For instance, the term of "*present fairly*" implies that

"The application of officially established accounting principles almost always results in the fair representations of financial position, results of operations, and cash flows" (Benson et al., 2006, pg. 166).

Later, the collapse of Enron Corporation and Arthur Andersen's LLP violation of accounting code of conduct and practice alert Financial Accounting Standards Board (FASB) that the rule-based accounting approach has been challenged (Kaminski et al., 2011). As a result, the Sarbanes-Oxley Act of 2002 encouraged the Financial Accounting Standards Board (FASB) to investigate the possibility of adopting the principles-based accounting approach. After responded favourably to such request, Financial Accounting Standards Board (FASB) begins to develop a conceptual framework that

"Prescribes objectives and concepts that the FASB will use in developing standards of financial accounting and reporting" (FASB, 1978, pg. 6).

It is adopted as a guide to further develop accounting standards consistently to achieve a coherent set of accounting principles to assist practitioners.

Financial Accounting Standards Board's (FASB) initiation of such project is favoured by many international accounting regulators. International Accounting Standards Board

(IASB) released its version of a conceptual framework named Framework for the Preparation and Presentation of Financial Statements (IASB, 2010). Despite of the difference in both of their framework designed, their common goal towards the framework is that it should be served as a basis of accounting conceptualisation that better develops accounting standards coherently and internationally in the future (De Lange & Howieson, 2006).

Encouraged by the move of harmonisation of accounting standards internationally, Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) jointly developed a project on conceptual framework that is principles-based (Muller, 2013). They prioritise their joint collaboration in updating "*the existing concepts to better reflect the current economic environment and business practices of today's markets*" (Kaminski et al., 2011, pg. 17) and so they plan to replace the existing conceptual framework with the new and revised version for achieving international harmonisation in accounting standard settings.

However, International Accounting Standards Board (IASB) recently, on its own, pledges a full flagship of re-engineering the work on revising the framework. The possible motive behind such decision is beyond the scope of this report as it requires an extensive amount of empirical data to further explore this topic and great research effort is still placed in the discussion about the progress of harmonisation of international accounting standards (Muller, 2013; Rodrigues & Craig, 2007; Baker & Barbu, 2007).

The Conceptual Framework for Financial Reporting, that is developed by International Accounting Standards Board (IASB, aims to identify accounting concepts for preparing and presenting financial statements. It is to ensure the consistency between conceptual identification and development of accounting standards. It highlights important aspects of accounting such as objectives of financial reporting, qualitative characteristics of financial information and elements of financial statements, conceptual definition, recognition criteria, measurement and equity attributes, presentation and disclosure of financial statement and others (IASB, 2013).

This project is prioritised for International Accounting Standards Board (IASB) especially when it received feedback from the Agenda Consultation 2011 (IASB, 2013). As a priority project, IASB decides "*to update, improve and fill in gaps of concept identification*" (IASB, 2013, pg. 16), rather than revising the entire Conceptual Framework for Financial Reporting. In other words, International Accounting Standards Board (IASB) focuses on specific problems within the framework or those changes and hopes to seek for a clearer and more significant improvement to the existing Conceptual Framework. It also decides not to fundamentally revisit chapters of the Conceptual Framework that deal with objective of financial reporting and the qualitative characteristics of usefulness financial information in chapter one and three respectively.

Based on the discussion above, it can be concluded that accounting regulators place great emphasis into developing and synthesising the conceptualisation in accounting in the initiation and review of the conceptual framework, which later lays the foundation of how accounting standards should be developed coherently for the purpose of international harmonisation as their future plan. Prior to that, it is required to understand and evaluate the approach of conceptualisation of accounting that is currently adopted by International Accounting Standards Board (IASB).

The Adoption of principles-based Conceptualisation in the Conceptual Framework of Financial Reporting

International Accounting Standards Board (IASB) adopts principles-based approach to develop its conceptual framework (Hines, 1991). It offers a basis of conceptualisation to be followed in developing accounting elements, instead of providing a detail listing of rules. It emphasises on professional judgment particularly in the application of relevant principles into accounting transactions (Schipper, 2003). That is why Dennis (2008, pg. 261) described this approach as "*an attempt to tell preparers and auditors not what to do but how to decide what needs doing*". However, accounting regulators believe that it is the only approach that serves both the interest of business and public.

In comparison to rules-based approach, International Accounting Standards Board (IASB) is continuously committed to adopt principles-based conceptualization in the framework design. Accounting regulators are opined that such approach is able to define fundamental accounting concepts, such as recognition, measurement and reporting requirement, distinctively (Bradbury and Schroder, 2012). It is "*a broader, have fewer exceptions, guidance, and interpretations*" (Lee, 2006, pg. 1), which lays the basic premise of providing useful financial information to stakeholders such as lenders and creditors, existing and potential investors (IASB, 2013). However, Carmona & Trombetta (2008) argued that professional judgment will have to be applied and so there may be a considerable extent of judgmental or bias in accounting process. Dean & Clarke (2003) also criticised that principles-based approach fails to improve the practice of financial reporting. They further argued that such exercise places too much emphasis in searching for explanation that underpins traditional accounting practice. They opined that the attention should be drawn towards the articulation of accounting concepts in which accounting words and numeric are conformed.

Due to its nature, principles-based approach keeps a certain extent of ambiguity in accounting transactions reasonably (MacDonald, 2002). In other words, they regularly rely on using professional judgment to make accounting decisions and therefore result in biasing of accounting practices. In the same vein, through the adoption of this approach, accounting regulators tend to input their personal judgment when they define accounting concepts into the conceptual framework. Worse still, their judgment may not be representative or coherent within the social context of accounting if they do not consider fulfilling stakeholders' social benefits as their primary concern. In this case, the qualitative characteristics may not be reflected in the accounting information.

Based on the discussion above, there is a need to understand the formation of humans' subjectivity in judgment making, as principles-based approach relies on professional judgment and therefore it may result in bias of financial reporting (Alexander & Jermakovicz, 2006). Hence, it is concluded that International Accounting Standards Board (IASB) is obliged to look into how conceptualisation of accounting is developed theoretically in a social context. Prior to that discussion, there is a need to understand the importance of conceptualisation in accounting.

The Importance of Understanding Conceptualisation in Accounting

Asserting "*accounting as a language*" may clarify objectives and roles of setting accounting standards (Bloomfield, 2008, pg. 433). Accounting regulators particularly places great effort in initiating the project on conceptual framework so that preparers and users are equipped with knowledge on how to prepare and understand financial statements to ease decision-making. When people communicate with each other, they select words, combine them into meaningful way and later organise those words with emphasis shaded (Bloomfield, 2008). Similarly, accounting preparers communicate with each other through financial statement as a form of language, they individually select relevant accounting concepts, combine them into meaning ways and then organise or incorporate them into financial statement in accordance to stipulated guidelines.

When considering accounting as a form of language, some form of enquiry into concepts has to be further investigated. The identification of a concept involves setting out the characteristics of a subject matter explicitly (Dennis, 2008). Philosophically, a concept is attached with "*the meanings of words*" (Craig, 2005, pg. 261). For instance, accounting practitioners ask the question whether there is any precise meaning to a word. Therefore, when investigating a concept, it is an act of "*philosophical investigation*" (Lyas, 1993, pg. 156). It examines the meaning of an expression.

A concept is developed to achieve a need or an end and therefore it constitutes a desire to further investigate the meaning to a word. That is why Wittgenstein (1953, pg. 570) agreed that "*concepts lead us to make investigations*…". A concept must not be vaguely defined if coherent is to be achieved among societal members. Otherwise, communication becomes ineffectively conveyed. Regardless how the concept is understood differently, there must be a general consensus to be achieved of what a Conceptual Framework is. Therefore, additional attention should be drawn upon the idea of a Conceptual Framework so that the problem is diagnosed appropriately (Power, 1993).

Wittgenstein (1953, pg. 560) indeed argued that "*philosophy may in no way interfere with the actual use of language, it can in the end only describe it… it leaves everything as it is*". However, opposing to Wittgenstein's (1953) argument, Dennis (2008) defended that if philosophical investigation into the meaning of a concept may offer reasons for accounting regulators to change the way they formulate concepts, it may result in new changes that brings about a new perspective in accounting.

Educators have been encouraged to play a key role in global financial reporting starting from educating students with the concepts in the framework (Barth, 2008). The framework itself specifies important accounting concepts that underlie global financial reporting. It is where the foundation of financial reporting is built on. Most importantly, the concepts in the framework specify how the principles in accounting standards should be formed. For instance, educators should not only teach accounting rules and bookkeeping alone to students but also their roles of judgment in preparing financial reporting as it may a crucial impact on their practice of accounting (Barth, 2007).

In addition to educators, accounting regulators are keen to learn what researches have been revealed about their agenda topics and issues addressed in the findings, although they may be well trained in research (Barth, 2006). Although they play the roles of standard setting, they opine that the findings in the research offer valuable insight into issues relating to standard setting which can be adopted in the development of future accounting standards, such as faithful representation and relevance.

International Accounting Standards Board (IASB) states a list of topics as technical agenda that may be further investigated, such as revenue recognition, measurement criteria, presentation and disclosure of financial statement, the conceptual framework and others (Barth, 2008). Among the list, the framework itself is the foundation of which accounting regulators tabulate their decisions on future standard settings. It identifies the objective of general purpose of financial reporting so that useful information is provided to stakeholders. Barth (2008, pg. 1170) also encouraged existing researchers to investigate "*what the qualitative characteristics of accounting information should be given to the objective of financial reporting*." Particularly, Barth (2008) highlighted the need to further examine the appropriateness of identifying relevance and faithful representation in the revised conceptual framework in the first two chapters of the existing draft.

Chapter one of the Conceptual Framework discussed that the overall purpose of financial reporting is to offer useful financial information about an entity to existing and potential stakeholders (IASB, 2013). Based on this objective, considering stakeholders as the primary user group is not only the concern of accounting regulators but also, at the same time, safeguarding their interest to obtain useful financial information for decision making. In this case, regulators have to ensure that stakeholders' opinion is considered discretely so that the objective of the financial reporting is presented as clearly as possible. Therefore, regulators are urged to understand the underlying of objectives in financial reporting by safeguarding stakeholders' interest.

Moreover, in chapter two of the Conceptual Framework addressed that financial information should possess qualitative characteristics of relevance and faithful representation. In terms of relevance, financial information presented to stakeholders must be to make a difference in decision making as well as influence stakeholder's decisions. On the other hand, faithful representation stresses on the importance of possessing substance over forms (Kaminski et al., 2011) and therefore characteristics, such as free from error, neutral and complete, are highlighted. In other words, accounting regulators should take into account the substance of an economic phenomenon, instead of merely identifying its legal form in the context of conceptualisation, as it only results in the redundancy of components presented in faithful representation.

Based on the discussion above, in order to have solid accounting conceptualisation, accounting regulators have to look into the theoretical background of accounting, although it is considered an act of "*philosophical investigation*," (Lyas, 1993, pg. 156) in the initial stage of reviewing the conceptual framework. The formation of theoretical knowledge is crucial to humans as they need such knowledge to understand the set of relation surround them in a social context. In turn, financial reporting can be presented with the substance of an economic phenomenon that is beneficial to stakeholders (Alexander and Jermakovicz, 2006). Hence, it has never been more important than now to understand both ontology and epistemology of social reality in order to gain a better insight into the representation of financial information in the eyes of social members (Lee, 2009).

Searle's (1995) Social Reality Construction Model (SCRM) and the Conceptual Framework of Financial Reporting

In spite of its popularity, social reality is difficult to be understood as it is multi-dimensional in nature (Berger & Luckmann, 1966), as it is subjective and depends greatly on human interaction, communication and mutual agreement. Searle's (1995) Social Reality Construction Model (SRCM) examines social reality from philosophy and linguistics perspectives. Ontology examines the nature of existence of a subject matter whereas epistemology describes the observation of the reality. Ontology studies whether the objectivity in the physical reality is intrinsically independent to human or whether the subjectivity of social reality relies on humans' communication and thinking. On the other hand, epistemology relates the meaning and functionality of social and physical reality to whether statements are true or not.

Searle's (1985) model illustrates the way in which accounting regulation should be put into practice. He argued that, ontologically, social reality should be created subjectively by humans. He further added that, epistemologically, general consensus needs to be gained in order to interpret the meaning and functions of social reality and therefore, the objectivity or subjectivity of social reality relies on the relative truthfulness of statements that humans made about it.

Based on Searle's (1995) model of social reality, facts about the existence of subject matters depends on whether humans judge it independently (objective) or dependently (subjective). The first set of the fact contains physical facts that are explainable by science, such as air or plants. The existence of this fact is independent of humans' mental thoughts and thus it is considered as ontologically objective. However, humans may subjectively represent them differently and so it is regarded as epistemologically subjective. The second set of the fact contains social facts that are created by humans in spite of the fact that they already have had relative physical facts in their mental states. In this sense, they mentally assign a function to the social facts. For instance, humans assign the function of a piece of wood to make a chair.

In addition to that, social facts involve "*collective intentionality*" (Searle, 1995, pg. 23) in which humans share similar states of intention such as desirability and belief system. For instance, there is a group of people who share similar viewpoint about an object. Social facts are turned into functional status when '*functions*' and 'collective intentionality' are combined together. For example, a group of people name a piece of wood as a chair. Based on these arguments, social facts are created on the basis of humans' thoughts and therefore they are ontologically subjective.

However, such creation of social facts relies on humans' personal judgment about how objects should be represented and so it is epistemologically objective or subjective. For instance, when humans describe that this is a chair, it is an objective statement as the chair is created by humans. However, when humans complain that this chair is uncomfortable, it is subjective statement as it is a relative judgmental statement.

In chapter three of qualitative characteristics of useful financial statement, International Accounting Standards Board (IASB) highlighted the fact that, in the section of faithful representation, "*financial information must not only represent relevant phenomena, but also it must faithfully represent the phenomena*…" (IASB, 2013, pg. 200). This statement implies that Searle's model of social reality may be relevant in the context of accounting as it represents a social reality. It is especially true when International Accounting Standards Board (IASB) acknowledges an economic phenomenon which is a broader subset of social reality. In other words, it subscribes, consciously or unconsciously, to argument of philosophical sense whereby there are objective social facts that can be represented subjectively or objectively which is judgmental in nature. Therefore, there is a need to alter the mindset of accounting regulators who "presume a concrete and objective world (Hines, 1991, pg. 322).

Using Searle's (1995) model of social reality, the Conceptual Framework comprises many physical facts or words, such as inventory or plant and machinery, as definition of accounting concepts. These wordings are then applied into economy activities as part of its social function. In other words, it is subjectively represented in a social reality by humans. At the same time, these physical facts or words are perceived to be able to bring forward financial benefits when humans perform functions on them.

For instance, existing definition of asset is described as "*a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity*" (IASB, 2013, pg. 24). This definition highlights three important characteristics of asset and they are, bringing in future economic benefits to an entity; controlling the access to such benefits and; controlling the right of such benefit due to past events. In short, an entity has the right to control future economic benefits that is because of past events. However, such definition does not provide explanation on ontologically objective physical fact. Instead, there any many unexplained epistemologically subjective social facts that have yet to be explored with greater insight. To further explain this point, future economic benefit may be considered as an unpredicted event that involves estimation, which relies greatly on humans' subjective judgment. As a result, this kind of social fact about asset may blur the functional meaning of accounting concepts and thereby affects the usefulness of financial information.

Moreover, Searle's (1995) highlighted that humans create institutional facts with collective intention. It is an effort made collectively by a group of people on creation of functional status about social facts. In other words, such fact is created because there is a collective intention by a group of people who want to provide a specific functional status towards an object. For instance, there is a group of people in a community who designate a piece of paper as money so that economic exchange is taken place.

Financial information represents institutional facts that describe human activity (Alexander & Archer, 2003) in economic phenomena (IASB, 2013), which is also considered as a social reality. This kind of information is collectively agreed by institutional players who have intention to provide social function on it. It usually involves institutional players such as corporations, governments and markets. That is why it is important for accounting regulators to seriously examine the nature of economic phenomena collectively so that its functional status is intentionally represented faithfully in financial reporting (Mouck, 2004). Hence, accounting regulators, such as International Accounting Standards Board (IASB), have to ensure that underlying theoretical concepts of accounting represents objectively institutional facts highlighted in social reality (Mattessich, 2009).

Furthermore, Searle (1995) ascertained that truth is a matter that is correspondence to facts. He furthered emphasised that humans assess statements as true when they trust those statements. In other words, facts should be presented to represent objects in a way that it really is. The credibility of representations in social reality only exists if humans believe that they understand and interpret reality with sufficient and yet accurate explanation or justification (Searle, 1995). This is because they determine the degree of accuracy based on the amount of correspondence between facts and their linguistic representations in mental states. For instance, faithful representation, a qualitative characteristic in financial reporting, is greatly related to the relativity of quality of accounting numbers. The phase of "*purports to represent*" (IASB, 2013, pg. 200) is reflected as truthful financial information using accounting measure in a phenomenon to assure users to deal with accounting using facts as a correspondence (Evans, 2003).

Besides, the truthfulness in correspondence between institutional facts and accounting numbers depends greatly on humans' knowledge and capability in assessing and contrasting facts and figures. Representation of true financial information is, ultimately, driven by coherence (Macintosh et al., 2000) in which a consensus should be gained among institutional players so that they have a commonly shared belief about the representation of meaning behind those accounting numbers. That is why Alexander and Archer (2004) argued that the usefulness of accounting numbers in fact depends on verifiability. For instance, considering net income as an institutional fact, its numerical representation merely indicates a change in subjective fact (Mouck, 2004). Another example is that when International Accounting Standards Board (IASB) proposes the removal of prudence in the description of faithful representation, it raises concern among stakeholders at large. Alexander and Archer (2004) predicted the possibility for International Accounting Standards Board (IASB) to increase the use of current value measurement but some stakeholders may consider it as uncertain or unpredictable. In other words, the adoption of current value measurement is merely another indicator to prudence, as both of them involve estimation and predictability.

Previous studies (Macintosh et al., 2000; Lee, 2006 and Robson, 1999) highlighted that social reality should be incorporated into the conceptual prescription of accounting, where ontology and epistemology of social reality with regard to its association in accounting representation is left alone conversantly. Searle's (1995) model is relevant to the field of accounting as its main subject matter is related to social reality, where the examination on physical reality is isolated, and hence it may be able to gain great acceptance among accounting regulators.

Knowing the fact that faithful representation is one of the key qualitative characteristics of financial reporting, accounting regulators presume stakeholders understand the meaning of and rationale behind economic phenomena and purport to represent without further explanation or clarification. As a matter of fact, the move of not explicitly recognising accounting concepts from philosophical and linguistic perspectives may hinder accounting regulators' effort in achieving a truly represented financial reporting with prescribed quality characteristics. Hence, regulators have to incorporate social reality in accounting thoughts.

Macintosh (2006) argued that accounting facts and figures are represented in the context of social reality and they are repeatedly defined using numerical representation. This statement is better explained using existing definitions of accounting concepts highlighted in the Conceptual Framework (IFRS, 2013). For instance, the definition an entity's asset is considered as future economic benefits that are brought into an entity; whereas liability is treated as a claim against the asset that embodies economic benefits. In other words, from philosophical perspective, asset is seen as a physical fact that is ontologically objective but the claim against asset is epistemologically subjective as it depends upon human judgment. Through such philosophical interpretation, a clearer explanation is offered in the unexplained social facts that identified in the Conceptual Framework (Lee, 2006).

Accounting regulators should accept the argument of social reality to improve the existing system of principle-based approach. Traditional accounting regulators are reluctant to accept new thoughts and practice (Sterling, 1977) and they are in favour of neglecting their habitual thoughts and so accustomed to conventional accounting custom and practice. However, the incorporation of social reality in accounting should be brought to light to better understand and interpret the theoretical background behind the conceptual framework, so that there is a general consensus among users of financial information with regard to assignment of functional status and collectiveness in intention (Searle, 1995). In turn, such assessment of social reality in accounting will be able to offer a clearer and more significant improvement to the existing Conceptual Framework and, most importantly, fill in gaps or areas that may have caused International Accounting Standards Board (IASB) problems when it comes to practicality.

CONCLUSION

International Accounting Standards Board's (IASB) continuous commitment in the adaptation of principles-based accounting system demands a greater effort of investigation into objectives of financial reporting, particularly in the underlying theoretical understanding of economic phenomena in the representation of faithful financial reporting. Searle's (1995) model explained that ontologically humans create social reality subjectively. However, they epistemologically gain a collective consensus about the meaning and function of the social reality. In other words, the truthfulness of statements that is made by humans determines the objectivity or subjectivity of social reality. Besides, institutional facts are created collectively by a group of people who provide a specific functional status to an object. Humans also trust the credibility of representation as true when they interpret the reality with sufficient justification. However, the extent of accuracy depends upon correspondence made between facts and linguistic representation in humans' mental states. In other words, it depends greatly on humans' knowledge and capability in interpreting facts and figures. Therefore, a great amount of coherence or consensus should be gained among institutional players so that they share a common belief about the representation of meaning behind accounting numbers. This is also an approach of convincing accounting regulators to tighten the connectivity between accounting concepts and quality characteristics of financial reporting. Otherwise, the conceptualisation of accounting may only superficially define underlying theoretical understanding of accounting. Hence, Searle's (1995) social reality model may well be served as an alternative theoretical foundation to understand accounting words and numbers that truly represent relevant social reality.

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