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## **Causes and Consequences of the Formation and Development of the Institute of Professional Accountants**

**Abstract.** Assumptions about the absence of a future in the accounting profession in the era of digitalization determine the need to assess the fundamental guidelines for its further development. The institutional theory considers accounting as an important socio-economic institute and the accountant as an informal carrier of this financial institution. Today, in practice, accounting occupies an important place not only in managing economic entities but also in adopting state decisions and decisions on the capital market. The article's purpose is to deeply investigate the phenomenon of the institute of professional accountants, the historical prerequisites of its formation and, most importantly, its influence on the future of the accounting profession. The results of the study show that an accountant can be considered a representative of the profession (institute) if he possesses knowledge, skills and adheres to professional ethics. A clear observance of these qualities is formed as the economy develops and reaches its heyday only with the formation of the professional accounting movement. The article also analyzes the history of the formation of accounting professional organizations. It was revealed that today the formation of such organizations takes place under the supervision and control of the state. Although accounting professional organizations have a national identity, their development is determined by factors of globalization. Formally, the "institute of accountants" is always present everywhere in the broader consideration of the accounting phenomenon. "Institute of accountants" and "institute of professional accountants" differ in their internal and external content maturity. For most countries, including Ukraine, the development of the institute of professional accountants is based on borrowing the "rules of the game" and organizational practices from more developed countries. Institutional paradigm and theory create fundamental guidelines for substantiating the development of accounting and the accounting profession.

**Keywords:** accountant profession, institute of professional accountants, globalization, professional ethics, institutional paradigm, institutional accounting theory.

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## Причинно-наслідковий зв'язок формування і розвитку інституту професійних бухгалтерів

**Анотація.** Припущення про відсутність майбутнього у професії бухгалтера в умовах ери цифровізації визначають необхідність оцінки фундаментальних орієнтирів її подальшого розвитку. Інституціональна теорія розглядає бухгалтерський облік як важливий соціально-економічний інститут, а бухгалтера – як неформального носія цієї фінансової інституції. Сьогодні, на практиці, бухгалтерський облік займає вагоме місце не тільки в управлінні суб'єктами господарювання, але і в прийнятті державних рішень, рішень на ринку капіталу. Метою статті є глибоко дослідити явище інституту професійних бухгалтерів, історичні передумови його становлення і, головне, вплив на майбутнє бухгалтерського обліку. Результати дослідження свідчать, що бухгалтера можна вважати представником професії (інституту), якщо він володіє знаннями, уміннями, навичками та дотримується професійної етики. Чітке вираження, а тим більше дотримання вищезазначених якостей формується в міру розвитку економіки і досягає свого розквіту лише з формування професійного бухгалтерського руху. В статті також проаналізовано історію становлення бухгалтерських професійних організацій. Виявлено, що сьогодні формування таких організацій проходить під наглядом та контролем держави. Хоча бухгалтерські професійні організації мають національну ідентичність, їх розвиток визначається чинниками глобалізації. Формально «інститут бухгалтерів» присутній завжди і скрізь, якщо обширно вивчати феномен бухгалтерського обліку. «Інститут бухгалтерів» та «інститут професійних бухгалтерів» відрізняються внутрішньою та зовнішньою змістовною зрілістю. Для більшості країн, у тому числі й для України, розвиток інституту професійних бухгалтерів базується на запозиченні «правил гри» та організаційної практики з більш розвинених країн. Інституційна парадигма та теорія створюють фундаментальні орієнтири для обґрунтування розвитку бухгалтерського обліку та професії бухгалтера.

**Ключові слова:** професія бухгалтера, інститут професійних бухгалтерів, глобалізація, професійна етика, інституціональна парадигма, інституціональна теорія бухгалтерського обліку.

### INTRODUCTION

The task of science is to solve the problems of practice and forecast its development. However, in absolute terms, this task is not always solved. Science forms a paradigm, develops theory, methodology, and models, i.e. inspires faith, mobilizes and equips accountants. After receiving high motivation and sufficient tools, accountants will solve the problems of practice and shape the future of this profession. Institutional theory considers accounting as an important socio-economic institute and the accountant as an informal carrier of this financial institution. In today's world, not a bookkeeper is valuable, but an accountant with an active position, a leader in economic and even legal specialization, which forms the institute of professional accountants in qualitative and quantitative indicators. The institute of professional accountants must be formed and developed on a new fundamental platform to ensure understanding and manageability in the modern socio-economic environment. The authors consider the institutional accounting theory to be such a platform. In this theory, the institute of professional accountants occupies a special place.

### LITERATURE REVIEW

Thanks to the development of artificial intelligence, and the introduction of advanced information technologies in the field of enterprise management, some have talked about the disappearance of the accounting profession. This assumption has prompted many researchers to pay more attention to the study of the development of the accounting profession to confirm or refute it (Rîndașu, Topor & Ionescu-Feleagă (2023), Kroon, do Céu Alves & Martins (2021), Shenderivska (2022), Pushkar & Semanyuk (2017), Leghenchuk (2017), Loboda, Ihnatyshyna & Bednarchuk (2019), Zhuk (2018), Tomo (2022)).

Rîndașu, Topor & Ionescu-Feleagă (2023) studied the impact of digitalisation in managerial accounting in terms of the changes generated in the set of digital skills. Their research's findings highlight that currently, the digital competencies management accountants should demonstrate are focused on both technologies already widely adopted by the business environment, such as cloud computing, big data, and data analytics, but also on emerging technologies, such as artificial intelligence, machine learning, blockchain, and Internet of Things.

Even though at the beginning of the analysed period, the set of digital competencies was relatively narrow, once most industries started navigating Industry 4.0, it extended, thus allowing management accountants to continue providing valuable information and embrace the new role of advisors. These results emphasise the changing role of the management accountant through the lens of digitalisation, providing valuable insights for practitioners and universities regarding the importance of an adequate set of competencies vital in a highly digitalised profession.

The study by Kroon, do Céu Alves & Martins (2021) provides an integrated understanding of the implications of recent technological developments on the accountant's role and skills that have been hitherto discussed in the existing literature in a fragmented way. Future research suggestions are also provided, based on identified gaps in the literature, assisting other researchers in finding a way to augment knowledge in this area.

Shenderivska (2022) believes that the accountant's timely response to challenges is not only a guarantee of the survival and development of the profession itself but also a matter of the effective functioning of the economic system as a whole. Today, the methodical patterns of the accountant's daily work are changing, responding to the social, informational, and digital transformations of the economic environment caused by global challenges and the introduction of innovative technologies. In this case the accountant's functions can also transform and change.

Drawing from Guo's identity sense-making framework, Tomo (2022) focuses on how Italian accountants within a so-called "community online" have tried to make sense of their professional identity crisis by sharing feelings and emotions about the unstable context surrounding their profession. The Italian context provides an interesting case of "institutionalized de-professionalization" affecting accountants' identity, prestige and image. It is affected by the ongoing expansion of regulatory intervention, which is transforming the profession, and a "non-interventionist" professional body that does not protect its members.

Thus, the studies mentioned above prove that the accounting profession has a future in which the accountant's role will be somewhat different. The adaptability of this profession is relatively high. As Professor Kireytsev (2015) said, "to understand the future of the accounting profession, we must look around and study the history of its formation in more depth".

Historical milestones in the development of the accounting profession were investigated by Chyzhevska (2007), Walker (2020), Caplan, Janvrin & Kurtenbach (2007), Carmona (2006), Lehenchuk (2017), Pushkar & Semaniuk (2017).

Caplan, Janvrin & Kurtenbach (2007) contribute an historical perspective to ongoing discussions about the efficacy of self-regulation by the public accounting profession.

Carmona (2006) questions traditional contentions that double-entry bookkeeping spread from the fifteenth through the eighteenth centuries and that cost calculations have been implemented only since the advent of the British Industrial Revolution. Furthermore, the

emergence of costing practices in the focal countries of this chapter reveals extensive reliance on the notion of public good rather than on the idea of profit. Finally, to some extent, his research findings question the conventional wisdom stating that standards applied first to raw materials and only later to the labour force. The researcher also outlines some suggestions for future research in these settings.

### RESEARCH OBJECTIVES

Based on previous studies, researchers seek to reveal the reasons for the formation of the institute of professional accountants and its impact on the future of accounting as a professional activity. When analyzing historical facts, researchers rely on the provisions of institutional theory and the laws of dialectics. This approach opens up broader perspectives for studying the *institute of professional accountants'* phenomenon and allows us to predict the future of the accounting profession.

### RESULTS AND DISCUSSION

Today, there are many studies on the history of the development of professional associations of accountants. However, in these studies, we could not find a theoretical justification for the formation and existence of the institute of professional accountants because we consider accounting from the institutional theory and paradigm standpoint. It is known that the professional organizations of accountants received the greatest development in Anglo-Saxon countries. In contrast, in the countries of continental Europe, the prerogative in regulating accounting belonged to the state. Accounting professional organisations' history is a little over a hundred years old. However, not everything is so clear-cut. There are other historical details. To explain the phenomenon of the institute of accountants, it is necessary to clarify the understanding of its socioeconomic essence and explain its development's causal and historical aspects.

The accounting profession arose 6,000 years ago, and during all this time, the accountant was engaged in accounting for specific objects, guided by his knowledge, skills and practical skills (Zhuk, 2018).

A profession is the main type of labour activity, the occupation of a person with a complex of special theoretical knowledge and practical skills acquired due to special training, experience and work experience (Azrylyan, 2002).

From the point of view of a specific person, a profession is an activity through which this person takes part in society's life and serves as his primary source of material means of livelihood. In its development, the accounting profession has changed – an ordinary bookkeeper has turned into a professional accountant, an active participant in managing a business entity, and a guarantor of understanding and manageability in the socioeconomic environment. Today, to hold the position of accountant, it is necessary to possess certain professional knowledge, skills, abilities, ethics of behaviour and communication.

Professional knowledge is information that constitutes the content of accounting and related disciplines.

A person who has decided to associate himself with the accounting profession can acquire knowledge in the accounting field by studying in college or university. As noted by Bakaev, "In itself, the higher education received by an accountant at a university is not yet a guarantee of his competence. That is why the status of "professional accountant" exists in almost all countries with a developed market economy (Bakaev, 2006). This status requires the accountant to be a member of a self-regulated professional association and pass qualifying exams (that is, receive professional education).

In addition to professional knowledge, an accountant must have the skills to solve the tasks set before him on time. Skills are actions formed through repetition and bringing them to automatism. In turn, skill is the ability to perform actions acquired due to training or life practice. With further training, the skill can improve. When processing information, these skills allow the accountant to significantly reduce the time required to perform the necessary calculations and organize the accounting process in a high-quality manner. The behaviour that characterizes and defines a professional accountant as an informal bearer of the institute is established by professional ethics. Ethics also forms the procedure for solving conflicts and situations if the views and opinions of professional accountants, clients and employers do not coincide.

Thus, we conclude that an accountant can be considered as a representative of the profession (institute) if he possesses knowledge, skills, and abilities and adheres to ethics. Clear expression, and even more so, observance of the qualities mentioned above, is formed as the economy develops and reaches its peak only with the formation of the professional accounting movement (Zhuk, 2018). In other words, the accounting institute always has its informal component – the accountants' institute, but only when accounting reaches the level of an important socio-economic institute, the quality of its informal component (what is "in the heads" of accountants) and the quantitative growth of organizational associations accountants leads to the emergence of the institute of professional accountants.

Accountants realized and implemented the need for self-organization several centuries ago. In 1581, the College of Accountants (Colegio dei Raxionati) was founded in Venice. Later, public associations of accountants were created in Milan, Genoa, Florence, Naples, Rome, and Palermo. From an institutional point of view, in Italy in the 16<sup>th</sup> century, where the free market of goods and capital flourished, accountants were entrusted with a certain responsibility for trust, understanding and manageability in a relatively developed socio-economic environment. Clearly, to fulfil such a mission in the arsenal of accountants of the 16<sup>th</sup> century, there was not enough organizational and methodical support, methodological attitudes and many other factors of the modern perception of the accounting institute. However, objective reasons for the emergence of the institute of professional accountants were formed in Italy at that time – this is the need to ensure trust, understanding and manageability in a more complex socio-economic environment. In carrying out this

mission, accounting and the accountant went outside the enterprise. Many accountants were independent players in the market, not employees. Accounting has become an important institution in the Italian socio-economic environment, and the accountant himself is its informal carrier. A new institutional formation formed the latter – the institute of professional accountants of Italy in the 16<sup>th</sup> century.

However, for reasons known to history, Italy (the homeland of the accounting theory) gave the palm of priority in developing the accounting profession to the Anglo-Saxon countries. It happened three centuries later. Among the national accounting associations, which contributed to increasing the prestige and establishing the status of an accountant, it is necessary to mention the public associations of accountants in Scotland (The Edinburgh Society of Accountants, 1854; The Glasgow Institute of Accountants and Actuaries, 1854; The Aberdeen Society of Accountants, 1867), whose members used the unique title "Chartered Accountant", denoted by the letters "C.A." Following the example of the Scottish institutes, in the second half of the 19<sup>th</sup> century, the institutes of chartered accountants of England and Wales were created, which in 1879 reached an agreement on the creation of a national accounting association – the Institute of Chartered Accountants in England and Wales (Walker, 2020).

To obtain the title of chartered accountant, one must undergo a system of paid training in the offices of members of the Institute, pass exams and have at least ten years of accounting practice. The Institute sought to protect the interests of professional accountants and the market from substandard services by introducing rules of conduct for its members. As we can see, the formation and development of professional institutes of accountants at the end of the 19<sup>th</sup> century took place in the most developed country at that time – Great Britain, where the formation of the capital market had a decisive influence on the development of all socio-economic institutions. The accounting institute developed primarily due to its informal component (the consciousness of UK accountants). The informal institute formed appropriate organizational structures – professional associations of accountants, which, in turn, created the "rules of the game" – formal institutes.

Thus, similar to Italy in the 16<sup>th</sup> century, the phenomenon of the institute of professional accountants in Great Britain in the 19<sup>th</sup> century resulted from the need for accounting to fulfil a larger mission – to ensure trust, understanding and manageability in a complex socio-economic environment. Closed accounting within the enterprise could not satisfy the demands of the investment-share economy. Only the accounting institute with new organizational structures and professional accountants (auditors) as independent players could satisfy such requests.

The openness of the economy and the interstate movement of capital contributed to borrowing and the establishment of similar institutions in other countries as well. The evolutionary model of the formation of the institute of professional accountants is presented in Figure 1.

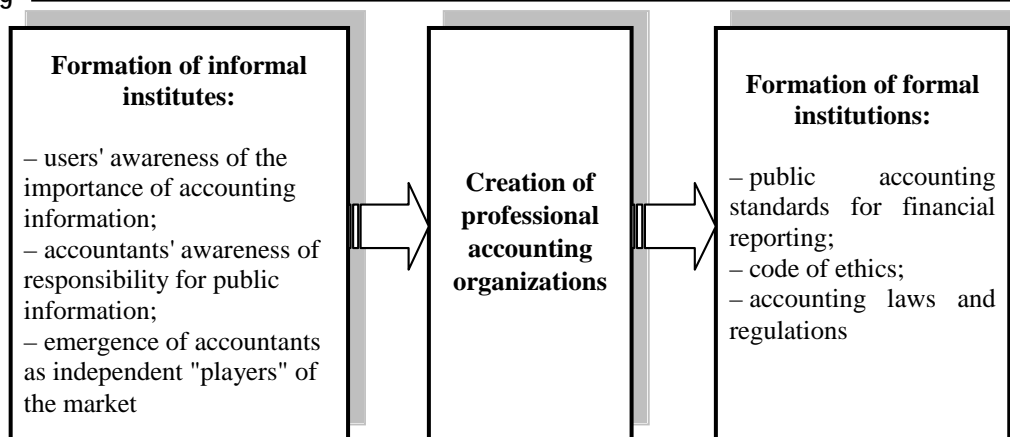


Figure 1. **Evolution of the institute of professional accountants**

Source: developed by the authors.

Today, the development of the institute of professional accountants is influenced by the globalization of the economy. The processes of such development have the causal roots described above. They are explained by the institutional theory from the standpoint of dependence on national histories and borrowing experience from countries that are global players. Studies conducted by scientists show that nowadays, many national institutes of professional accountants are formed under the state's direct influence. State supervision and control have been preserved since ancient times in continental Europe and are gradually being strengthened in the countries of the Anglo-American accounting system. However, it should be noted that although accounting institutional associations have a national identity, their development is determined by factors of globalization. Studying the prospects for the development of the accounting profession, we paid attention to the remark of Hiddens (2004) that "globalization is the cause of the revival of local cultural identity in many regions of the world". Globalization causes a healthy reaction on the part of national accounting and reporting systems, provoking their development strategies based on a powerful state, the desire to influence the formation of global "rules of the game". Here we see the realization of the dialectical law of "negation of the negation". This is the law of continuous development when each phenomenon results from negating the previous phenomenon. The new, which develops and becomes old, is denied by the new. Hegel first formulated this law. In the professional world, there is a growing awareness that the model of globalization of the accounting profession, which is implemented today, is an extremely primitive development and entails its global crisis. So, the optimal accounting strategy in the conditions of globalization involves close cooperation with national organizations of accountants and delegation of their interests to the global professional level. The new qualitative level of development of the profession, which involves its de-monopolization by global players and the equal participation of all interested national accounting organizations in the development of the "rules of the game" necessary for society, is justified by the institutional paradigm and theory of accounting: the

relationship and hierarchy of component professional phenomena, their philosophy development and other basic provisions.

The institute of professional accountants is an important and higher-ranking component of the institute of accounting. In the institutional paradigm and theory of accounting, it is associated with an informal institution (that is, what is in the "heads" of accountants) and with new institutional formations – professional accounting organizations (Zhuk, 2010). The formation and formation of the institute of professional accountants and the institute of accounting are interdependent. The emergence of the institute of professional accountants is directly related to the need to ensure trust, understanding and manageability in a complex socio-economic environment. This is the cause-and-effect relationship of its formation and development. It was so in Italy in the 16th century, in Great Britain in the 19<sup>th</sup> century, so it is today, but already in the world – global socio-economic space.

## CONCLUSION

From the standpoint of institutional theory, the history of the national accounting system certainly impacts its future development. However, borrowing institutions and organizations from the accounting systems of more prosperous countries is a factor in improving development opportunities. This also applies to the institute of professional accountants. Formally, the "institute of accountants" is always present everywhere in the broader consideration of the accounting phenomenon. "Institute of accountants" and "institute of professional accountants" differ in their internal and external content maturity.

For most countries, including Ukraine, the development of the institute of professional accountants is based on borrowing the "rules of the game" and organizational practices from more developed countries. The institutional paradigm and theory create fundamental guidelines for justification of the development of accounting and the profession. The institutional theory explains how each country can have opportunities and tools to develop the accounting profession, taking into account national interests and global orientations.

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