Revisiting Classical Accounting Theories: Their Relevance and Transformation in Contemporary Accounting Research - A Critical Literature Review

Zulkiffly Baharom

Tunku Puteri Intan Safinaz School of Accountancy (TISSA-UUM), College of Business, Universiti Utara Malaysia, Malaysia

***Corresponding Author**

DOI: https://doi.org/10.47772/IJRISS.2026.101000847

Received: 29 October 2026; Accepted: 03 November 2026; Published: 20 November 2026

ABSTRACT

This critical literature review examines the relevance and transformation of classical accounting theories, namely proprietary, entity, enterprise, fund, and residual equity theory, in contemporary accounting research. A Scopus search conducted on 24 October 2026 identified 265 journal articles and reviews published between 1970 and 2026. Two-stage screening retained 99 studies that address the theoretical foundations of financial accounting. Each study was coded for explicit engagement, defined as naming a classical theory or its defining concept, or implicit engagement, defined as addressing one of four questions on which the theories divide: the purpose of financial reporting, the reporting entity, income and measurement, and the nature of equity claims. Only three studies engage the theories explicitly, whereas 42 address their core questions implicitly, most often income and measurement (26 studies) and the purpose of reporting (15 studies). The remaining 54 studies concern classical theorists, the history of accounting thought, or the positive–normative debate. The findings indicate that classical theories persist mainly as unacknowledged assumptions in debates on fair value, conceptual frameworks, and reporting boundaries. The review proposes a contingency framework that links each perspective to reporting circumstances, stakeholder relationships, and accountability objectives, and identifies where the perspectives conflict.

Keywords: classical accounting theory, entity theory, proprietary theory, conceptual framework, financial reporting

INTRODUCTION

The evolution of accounting thought from the nineteenth century to the present day has been characterized by periodic shifts in theoretical orientation, yet the foundational theories that emerged during accounting's formative period continue to shape contemporary discourse in subtle and often unacknowledged ways. Classical accounting theories, namely proprietary theory, entity theory, enterprise theory, fund theory, and residual equity theory, were developed primarily between the late nineteenth century and the mid-twentieth century as scholars sought to establish coherent conceptual bases for accounting practice. These theories addressed fundamental questions about the nature of the accounting entity, the boundaries of the reporting unit, the attribution of income, and the relationship between the firm and its various stakeholders. Mattessich's (2003) survey of nineteenth- and early twentieth-century accounting research documents how these theories emerged through international scholarly exchange, with controversies over personalistic versus materialistic accounts and entity versus proprietary theories dominating academic discourse.

The problem that motivates this review is the apparent disconnect between the continued reliance on classical accounting theories in standard-setting and practice, on the one hand, and the marginalization of explicit theoretical engagement in contemporary accounting research, on the other. The rise of positive accounting theory from the 1970s onward shifted scholarly attention toward explaining and predicting accounting practice rather than prescribing normative foundations, a shift contested by classical theorists such as Sterling (1990) and

Chambers (1993). Classical theories nevertheless persisted as assumptions embedded in accounting standards and conceptual frameworks. Van Mourik (2010, 2014) demonstrated that equity theories continue to underpin financial reporting, with the International Accounting Standards Board's (IASB) Conceptual Framework drawing on different equity theories without consistent theoretical justification. At the same time, a survey of 1,672 published articles by Kogan et al. (2026) found that agency, institutional, and positive accounting theory dominate contemporary research, with none of the classical equity theories among the most frequently mentioned.

The objectives of this critical literature review are threefold. First, to map, through a documented search and screening process, how classical accounting theories are engaged, explicitly or implicitly, in contemporary research. Second, to evaluate their relevance to current challenges, including fair value measurement, conceptual framework development, reporting boundaries, and sustainability reporting. Third, to synthesize the literature into a contingency framework that specifies when each perspective is useful and where the perspectives conflict. The review differs from earlier reviews of equity theories (van Mourik, 2010, 2014), which analyzed the theories conceptually in relation to standard-setting, in that it documents how the theories are engaged with across a defined body of literature and operationalizes implicit engagement so it can be identified and counted. In doing so, it responds to Rutherford's (2019) argument that classical accounting thought possesses a coherent structure that merits renewal, and tests, for classical accounting theories, the observation made by Parker and Ritson (2011) with respect to classical management thought that classical roots remain embedded in accounting theory and practice yet are rarely acknowledged.

LITERATURE REVIEW

The Classical Accounting Theories: Origins and Core Propositions

The classical accounting theories emerged from a prolonged intellectual debate about the fundamental nature of the accounting entity and the appropriate perspective for preparing financial statements. These theories are not merely historical curiosities but represent competing philosophical positions that continue to inform contemporary accounting thought.

Proprietary Theory conceives the business entity as a vehicle through which the owner or proprietor derives income. The entity is not an end in itself, but a means to the owner's economic objectives, and the balance sheet equation emphasizes the owner's claim: Assets − Liabilities = Proprietorship. Income is the net increase in the proprietors' wealth, so interest and taxes are deducted as expenses in arriving at it. Its principal proponents in the English-language literature include Sprague, Hatfield, and Husband (van Mourik, 2010). Stewart (1989) shows that, until the 1930s, such 'orientation postulates', which fix the viewpoint from which accounts are kept, were a common means of rationalizing bookkeeping practice, before being abandoned in the search for deductive theory.

Entity Theory, in contrast, views the business as having its own objectives and interests, with the status of legal owners being similar to that of other external claimants. Its classical statement is Paton (1922), developed further by Paton and Littleton (1940). The balance sheet equation is Assets = Equities, where equities encompass both creditor and owner claims, and interest charges are distributions of income rather than expenses. Van Mourik (2010) explains, in operational terms, why an entity perspective is theoretically irreconcilable with the asset–liability approach to income determination. Moore (2017a) argues that the entity problem in accounting is much broader than determining which activities to include in a reporting entity, while Mulawarman and Kamayanti (2018) criticize entity theory from an Islamic accounting perspective for embedding self-interest in accounting.

Enterprise Theory, articulated by Suojanen (1954), extended entity theory by emphasizing the social responsibilities of large public corporations and proposing the value-added statement as their appropriate accounting expression. Value-added and social income statements of the kind analyzed by Hegde et al. (1997) for a public-sector company in India are among their practical manifestations.

Fund Theory, associated with Vatter (1947), focuses on the fund, rather than the entity or proprietor, as the accounting unit. Its balance sheet equation is Assets = Restrictions on assets, and accounting is concerned with

the custody and utilization of resources dedicated to particular purposes. The theory has been influential in governmental and nonprofit accounting, where, as Ellwood and Brown (2026) show, government financial reporting remains divided between accountability to citizens and usefulness for investment decisions.

Residual Equity Theory, articulated by Staubus (1959), modifies proprietary theory by distinguishing between specific (senior) equity holders, such as preference shareholders, and residual (common) equity holders, whose interest is Assets − Liabilities − Specific equities. Van Mourik (2014) identified residual equity theory, rather than entity theory, as the dominant equity theory in the 2010 IASB Framework and the 2013 Exposure Draft, even though the IASB states that financial statements are presented from the perspective of the entity as a whole.

Following van Mourik (2010), the theories differ in their answers to four questions: (Q1) the purpose of financial reporting and whose information needs it serves; (Q2) the reporting entity and its boundaries; (Q3) the definition, measurement, and determination of income; and (Q4) the distinction between debt and equity and the nature of the claims on the entity. These four questions are used in this review to identify implicit engagement with the classical theories (see Methodology).

Related Studies: Classical Theories in Contemporary Discourse

The contemporary literature reveals that classical accounting theories have not been abandoned but rather transformed and adapted to address new accounting challenges. This section synthesizes research across four domains.

Equity Theories and Conceptual Frameworks

Van Mourik's (2010, 2014) work represents the most sustained contemporary engagement with the equity theories. Her 2010 review identified clear differences between pure proprietary and pure entity perspectives in the purpose of financial reporting, the distinction between debt and equity, and the definition and determination of income, and showed that there is always an implicit perspective to financial reporting. Her 2014 paper found that the perspective underlying the definition, recognition, and measurement of the elements in the IASB framework differs from the entity perspective the IASB espouses. Baker (2017) traces how the accounting theory developed by academics in the first half of the twentieth century was absorbed into the FASB Conceptual Framework, which has since replaced academic theory as the primary basis for standard-setting. Sutton et al. (2015) argue that the purpose of financial reporting is determined by its socio-economic environment and that coherence between that purpose, the framework, and standards is a precondition for progress. Georgiou et al. (2021) find that financial analysts do not regard fair values as unquestionably useful and that their usefulness depends on the decision context, calling into question the assumptions of the decision-usefulness objective reaffirmed in the revised IASB framework.

Measurement and Income Determination

Debates over measurement and income are where the classical tradition remains most active. Sterling (1981) distinguished historical cost, current cost, and exit values and, applying a relevance criterion, supported the exit value system. Capalbo and Clarke (2006) re-examined whether Chambers' Continuously Contemporary Accounting and the Italian Economia Aziendale, which appear irreconcilable, are in fact so opposed, noting that International Financial Reporting Standards combine elements of both, and Alexander et al. (2019) draw on Economia Aziendale to expose incoherences in the IASB's presentation of comprehensive income. Biondi (2011) contrasts conceptual frameworks based on fair value (a market basis) with those based on historical cost and revenue (a process basis), defending the latter as the means by which the creation and allocation of business income is governed, with implications for the distinction between equities and liabilities. Orthaus et al. (2023) trace the historical conceptualization of conservatism and prudence and attribute the persistence of the controversy partly to different assumptions about the objective of financial reporting, and Dean et al. (2025) argue that the displacement of historical cost by fair value, together with the rise of decision-usefulness, constitutes a paradigmatic shift in accounting thought over the past 50 years.

The Reporting Entity and Its Boundaries

The entity question has re-emerged in studies of reporting boundaries. Moore (2017b) argues that conceptual frameworks depict reporting entities as self-evident, stand-alone units whose activities are likely to continue, a representation called into question by the 2008 financial crisis. Bayne (2022) develops a conceptual framework of the dimensions that underlie reporting boundaries across nine regulations and guidelines, and Veldman and Jansson (2020) argue that treating the corporation as a nexus of contracts restricts the object and audience of corporate reports, thereby hindering the integration of planetary boundaries into reporting standards.

The Displacement of Classical Theory

A further body of work concerns the displacement of normative classical theory by positive accounting research and by standard-setting. Sterling (1990) and Chambers (1993) contested the claims that positive accounting theory is value-free, scientific, and explanatory of practice. Sunder (2005) observed that written standards now dominate accounting thought, practice, regulation, instruction, and research, and Nagdee (2016) argues that the reliance of practice on professional standards rather than academic theory has inhibited the development of accounting as an academic discipline. Analyses of the use of theory in leading journals confirm that contemporary research draws predominantly on theories imported from economics and sociology (Alshamari et al., 2026; Kogan et al., 2026). Against this background, Rutherford (2019) argues that classical accounting thought possesses a coherent methodological structure and merits renewal.

Theoretical Framework

The theoretical framework for this review is grounded in the recognition that classical accounting theories represent competing positions on the four core questions identified above. Table 1 summarizes how each theory answers them. Figure 1 presents the proposed conceptual framework: three contextual determinants (the reporting circumstance, the stakeholder relationship, and the accountability objective) determine which question the accounts must answer, and therefore which classical perspective is most useful; where the perspectives give different answers, the choice must be made explicit and justified. The framework is evaluated against the reviewed literature in the Discussion.

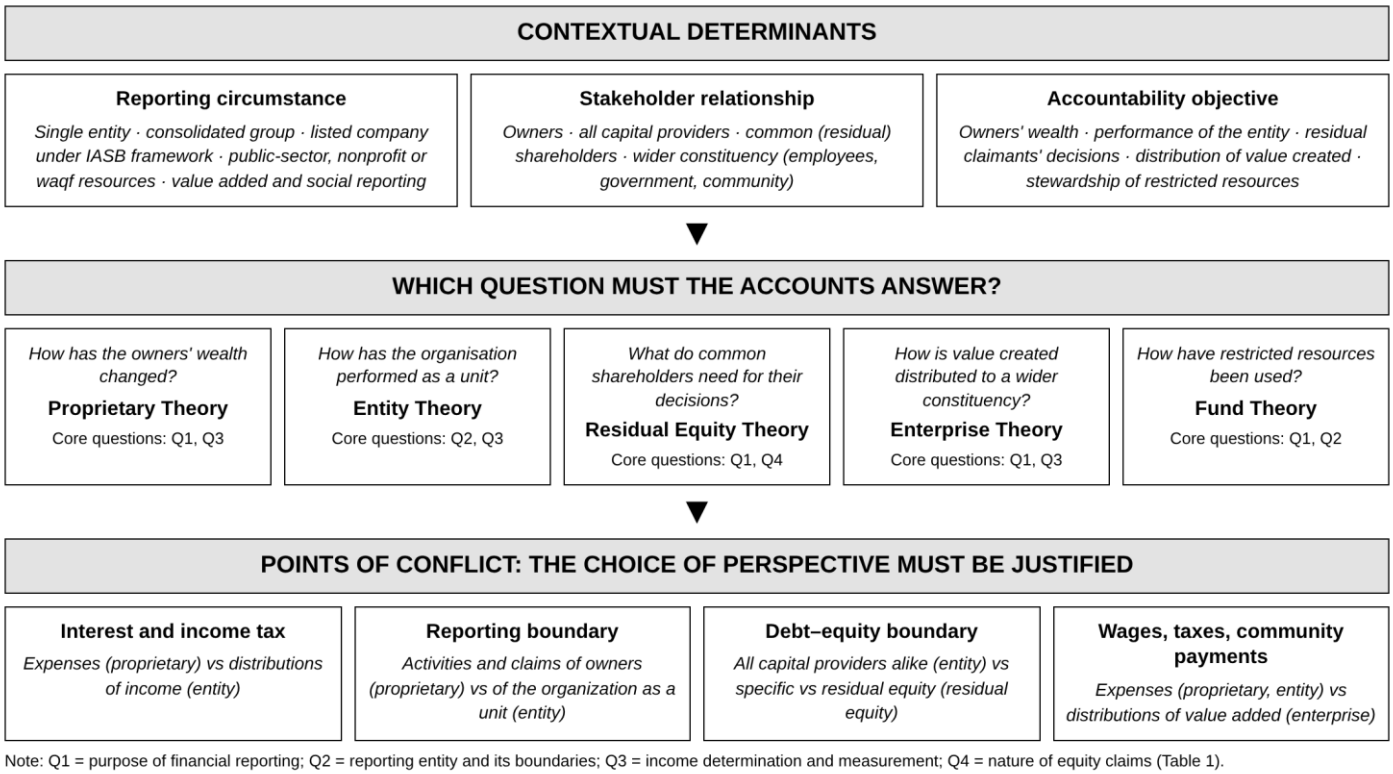
Table 1: Summary of Classical Accounting Theories

Theory	Core Proposition	Balance Sheet Equation	Income Perspective	Key Proponents	Contemporary Applications
Proprietary Theory	Entity is a vehicle for the owner's income	A − L = P	Change in owners' wealth; interest and tax are expenses	Sprague; Hatfield; Husband	Owner-oriented reporting; income determination debates
Entity Theory	Entity has its own objectives and interests	A = E (L + owners' equity)	Entity's income before distributions to all equity holders	Paton (1922); Paton & Littleton (1940)	Reporting entity and boundaries; conceptual frameworks

Enterprise Theory	Large enterprise has social responsibilities to a wider constituency	No distinct equation; focus on value added	Value added distributed to employees, capital providers, government, and retained	Suojanen (1954)	Value added and social reporting; sustainability
Fund Theory	Fund is the accounting unit	Assets = Restrictions on assets	Sources and uses of restricted resources; no owner income	Vatter (1947)	Governmental; nonprofit accounting
Residual Equity Theory	Distinguish specific (senior) from residual claims	A − L − Specific equities = Residual equity	Income available to residual (common) equity holders	Staubus (1959)	IASB Conceptual Framework

Note: A = assets; L = liabilities; P = proprietorship; E = equities. Source: Adapted from van Mourik (2010, 2014) and the primary sources cited.

Figure 1: Proposed Contingency Framework for the Choice of Classical Accounting Perspective



Source: Developed by the author from van Mourik (2010, 2014) and the reviewed literature.

METHODOLOGY

Search Strategy

This critical literature review followed a structured search and screening protocol. The Scopus database was searched on 24 October 2026 within article titles, abstracts, and keywords, using the following query:

TITLE-ABS-KEY (("accounting theory" OR "accounting theories" OR "classical accounting theory" OR "trad itional accounting theory" OR "accounting thought" OR "accounting conceptual framework" OR "theoretical f oundations of accounting") AND ("contemporary accounting" OR "modern accounting" OR "accounting rese arch" OR "accounting practice" OR "financial reporting" OR "corporate reporting" OR "sustainability reporti ng" OR "management accounting" OR "digital accounting")) AND (LIMIT-TO (SUBJAREA , "BUSI") OR L IMIT-TO (SUBJAREA , "ECON") OR LIMIT-TO (SUBJAREA , "SOCI")) AND (LIMIT-TO (DOCTYPE , " ar") OR LIMIT-TO (DOCTYPE , "re")) AND (LIMIT-TO (LANGUAGE , "English")) AND (LIMIT-TO (S RCTYPE , "j")) AND (LIMIT-TO (PUBSTAGE , "final")) AND PUBYEAR > 1969 AND PUBYEAR < 2027

The query combines terms denoting accounting theory and accounting thought with terms denoting the contemporary contexts in which theory is applied, so that it captures studies concerned with the theoretical foundations of accounting rather than studies that merely mention a theory by name. Searching on the names of the five equity theories alone would be imprecise, because several of those names are shared with unrelated constructs in other disciplines (for example, the loanable funds theory of interest and the 'entity theory' of ability in psychology). The coverage period begins in 1970 because the early 1970s mark the emergence of positive accounting research and the establishment of the FASB and its conceptual framework project (Baker, 2017), the developments against which the contemporary relevance of the classical theories is assessed.

Inclusion and Exclusion Criteria

The following database limits were applied:

- **Subject Area**: Business, Management and Accounting; Economics, Econometrics and Finance; Social Sciences
- **Document Type**: Articles and reviews
- **Language**: English
  - **Source Type**: Journals
- **Publication Stage**: Final

  Publication Year: 1970 to 2026

The initial search yielded 370 records. Applying the subject area limit reduced the set to 344, the document type limit to 291, the language limit to 273, the source type limit to 268, and the publication stage limit to 265 records, which were exported with their titles, abstracts, and author keywords for screening.

Screening

Relevance was assessed beyond the database limits in two stages. In the first stage, a dictionary-based pre-classification flagged records containing the names of the classical theories, their defining concepts (e.g., 'entity concept', 'proprietorship', 'value added statement'), and terms associated with the four core questions (e.g., 'conceptual framework', 'decision usefulness', 'reporting entity', 'historical cost', 'fair value'). In the second stage, the title, abstract, and author keywords of every record were read, and the record was retained if it substantively addresses the theoretical foundations of financial accounting: one or more of the classical theories or their core questions, the work of classical accounting theorists, the history of accounting thought, or the relationship between normative accounting theory and positive research or standard-setting. Records were

excluded when the query-matched phrases were incidental to the study's purpose. Table 2 reports the outcome. Of the 265 records, 166 were excluded, and 99 were retained for analysis.

Table 2: Screening Outcome (n = 265)

Screening decision	Records
Retained for analysis: addresses the theoretical foundations of financial accounting	99
Excluded: empirical financial reporting, market, or governance study without engagement with theoretical foundations	40
Excluded: practice-oriented study (sustainability, public sector, Islamic accounting, regulation, technology) not addressing foundational questions	39
Excluded: research methodology, sociology of the discipline, or non-classical social theory	38
Excluded: management accounting and costing	34
Excluded: accounting education or teaching case	15
Total	**265**

Source: Author's screening of the Scopus records.

Coding and Analytical Approach

The analysis employed a thematic synthesis to identify key themes and patterns across the 99 studies. Following the critical literature review tradition, the synthesis was not merely descriptive but critically evaluative, assessing the strengths and limitations of different theoretical positions and identifying gaps, inconsistencies, and opportunities for future research. Each study was coded on four dimensions:

1. Theme: (T1) equity theories and the reporting entity; (T2) measurement and income determination; (T3) the purpose of financial reporting and conceptual frameworks; (T4) classical theorists and the history of accounting thought; (T5) the positive–normative debate and the relationship between theory and practice. Each study was assigned to its principal theme.

2. Mode of engagement with the classical theories. A study was coded as *explicit* where it names one of the five theories or its defining concept (such as the entity concept); as *implicit* where it addresses one or more of the core questions Q1–Q4 without naming a classical theory; and as *not engaged* where it concerns classical accounting thought more broadly (for example, a classical theorist or the positive–normative debate) without addressing Q1–Q4.

3. Core question(s) addressed (Q1–Q4). A study could address more than one question, so the frequencies by question exceed the number of studies.

4. Methodological approach (conceptual, historical, review, empirical).

FINDINGS

Overview of the Reviewed Literature

The 99 studies span 1970 to 2026, with 57 published since 2010. Most are conceptual (50 studies) or historical (32 studies); eight are reviews, and only nine are empirical, analytical, or case studies. Table 3 reports the distribution of studies by theme and by mode of engagement with the classical theories.

Table 3: Distribution of Reviewed Studies by Theme and Mode of Engagement

Theme	Explicit	Implicit	Not engaged	Total
T1 Equity theories and the reporting entity	2	6	0	8
T2 Measurement and income determination	0	22	0	22
T3 Purpose of reporting and conceptual frameworks	0	7	1	8
T4 Classical theorists and history of accounting thought	1	7	27	35
T5 Positive–normative debate and theory–practice relationship	0	0	26	26
Total	**3**	**42**	**54**	**99**

Explicit Engagement Is Rare

Only three of the 99 studies (3%) engage a classical theory explicitly, and all three concern entity theory. Mattessich (2003) discusses the entity–proprietary controversy as part of the history of accounting research; Moore (2017a) examines the entity concept and argues that the entity problem extends beyond the delimitation of reporting entities; and Mulawarman and Kamayanti (2018) criticize entity theory from the standpoint of Islamic accounting anthropology. None of the reviewed studies engages enterprise, fund, or residual equity theory by name.

Implicit Engagement Through the Core Questions

In contrast, 42 studies (42%) address one or more of the core questions without naming a classical theory. The most frequent is income determination and measurement (Q3, 26 studies), followed by the purpose of financial reporting (Q1, 15 studies), the reporting entity and its boundaries (Q2, 8 studies), and the nature of equity claims (Q4, 2 studies).

Income and measurement (Q3). The historical cost versus current and exit value debate (Capalbo & Clarke, 2006; Sterling, 1981) and the critique of fair value (Dean et al., 2025; Biondi, 2011) turn on whose wealth is being measured and for whom, which is the question that divides the proprietary, entity, and residual equity perspectives. The same question underlies studies that use accounting theory to determine the treatment of new items such as cryptocurrencies (Klopper & Brink, 2023) and credit card rewards programs (Brink & Steenkamp, 2024), and Rambaud's (2024) argument that the credit concept of capital in traditional accounting theory provides a framework for an ecological conception of natural capital.

Purpose of financial reporting (Q1). Studies of conceptual frameworks contrast decision-usefulness for investors with accountability and stewardship (Georgiou et al., 2021; Sutton et al., 2015), and Chahed (2021) traces how financial-economic concepts of decision-making came to justify standard-setting in the United Kingdom. In the public sector, Ellwood and Brown (2026) identify two competing schools of government financial reporting: one rooted in accountability to citizens and the other in investment decisions; the former corresponds to the stewardship orientation of fund theory, and the latter to the investor orientation of proprietary and residual equity theory.

Reporting entity (Q2). Studies of reporting boundaries (Bayne, 2022), the reporting entity and going concern (Moore, 2017b), and the conceptual basis of the corporation (Veldman & Jansson, 2020) address the entity

question without reference to entity theory, although each concerns the very issue on which entity and proprietary theory divide.

Equity claims (Q4). Only two studies address the nature of equity: Rodrigues et al. (2012) note the influence of the Italian school's equity theory on the development of Brazilian accounting, and Biondi (2011) links the choice between market and process bases of measurement to the distinction between equities and liabilities.

Classical Accounting Thought and Its Displacement

The remaining 54 studies engage classical accounting thought without addressing the core questions. Most are historical studies of classical theorists and national traditions, including Chambers, Mattessich and Ijiri, and the German and French literatures, or studies of the positive–normative debate (e.g., Chambers, 1993; Sterling, 1990). Together they document the displacement of normative classical theory by positive research and by standard-setting (Baker, 2017; Sunder, 2005), while recent contributions argue for its renewal (Rutherford, 2019).

Gaps and Inconsistencies

The analysis reveals four gaps and inconsistencies in the contemporary engagement with classical accounting theories:

Implicit rather than explicit theorizing: The ratio of implicit to explicit engagement (42 to 3) shows that the questions the classical theories were designed to answer remain central, but that they are rarely connected to the theories. Studies of fair value, the purpose of reporting, and reporting boundaries therefore tend to rediscover positions that the classical literature had already articulated and compared.

Theoretical fragmentation: Measurement, purpose-of-reporting, and reporting-entity debates are conducted largely separately, although under each classical theory the answers to these questions are interdependent. A change in the measurement basis or in the primary users of financial reports implies a change in the reporting perspective, but this link is seldom drawn.

Neglect of certain theories: Enterprise, fund, and residual equity theory are not engaged explicitly in any of the reviewed studies, even though, according to van Mourik (2014), residual equity theory actually underlies the IASB framework, and fund-type stewardship concerns persist in public sector reporting (Ellwood & Brown, 2026).

Limited empirical engagement: Only nine of the 99 studies are empirical, analytical, or case-based. The reviewed literature contains no test of whether the choice of reporting perspective affects reported outcomes or user decisions.

DISCUSSION

An Integrative Contingency Framework

The findings support the framework proposed in Figure 1: the choice among classical perspectives is less a matter of which theory is correct than of which question the accounts are meant to answer. Table 4 specifies, for each perspective, the reporting circumstances, stakeholder relationships, and accountability objectives under which it is most useful; the points at which it conflicts with other perspectives; and the reviewed studies that support this specification.

Proprietary theory is most useful where the reporting question concerns changes in the owners' wealth. Entity theory is most useful where the organization itself is the object of accountability and where the boundary of the reporting unit is at issue (Bayne, 2022; Moore, 2017a, 2017b). Residual equity theory fits general-purpose reporting oriented to the decisions of current and prospective common shareholders, the orientation van Mourik (2014) identified in the IASB framework and that the decision-usefulness debate presupposes (Georgiou et al., 2021; Sutton et al., 2015). Enterprise theory is most useful where the objective is to distribute the value created

to a wider constituency, as in value-added and social reporting (Hegde et al., 1997) and in proposals to broaden the audience for corporate reports (Veldman & Jansson, 2020). Fund theory remains suited to resources restricted to specified purposes, notably in the public sector, where accountability to citizens competes with the usefulness of investment decisions (Ellwood & Brown, 2026).

The perspectives lead to conflicting conclusions at identifiable points. Under proprietary theory, interest and income tax are expenses deducted in arriving at owners' income, whereas under entity theory they are distributions of the entity's income (van Mourik, 2010). The reporting boundary varies depending on whether the accounts reflect the owners' interests or the organization as a unit (Moore, 2017a). At the debt–equity boundary, entity theory treats all capital providers alike, while residual equity theory separates specific from residual claims (van Mourik, 2014). Finally, enterprise theory treats payments to employees, the government, and the community as distributions of value added rather than costs, thereby changing what counts as performance. Making these conflicts explicit is the framework's main contribution: it identifies the points at which a standard-setter or researcher must choose a perspective and justify that choice.

Table 4: Contingency Framework: When Each Perspective Is Useful and Where Perspectives Conflict

Reporting circumstance	Stakeholder relationship	Accountability objective	Most useful perspective	Conflict with other perspectives	Supporting studies
Owner-managed and closely held entities	Owners as principal claimants	Measure change in owners' wealth	Proprietary	Interest and income tax are expenses rather than distributions (entity)	van Mourik (2010)
Reporting where the unit or its boundary is at issue (groups, complex structures)	All capital providers and the organization itself	Report the organization as a unit	Entity	Boundary drawn around the organization rather than the owners' interests (proprietary)	Moore (2017a, 2017b); Bayne (2022)
General-purpose reporting by listed companies	Current and potential common shareholders	Information for residual claimants' decisions	Residual equity	Specific vs residual claims, against the symmetrical treatment of capital providers (entity)	van Mourik (2014); Sutton et al. (2015); Georgiou et al. (2021)
Value added, social, and sustainability reporting	Employees, capital providers, government, and community	Distribution of value created to a wider constituency	Enterprise	Wages, taxes, and community payments as distributions rather than expenses (proprietary, entity)	Hegde et al. (1997); Veldman & Jansson (2020)
Public sector and other restricted resources	Resource providers, citizens, and beneficiaries	Stewardship of resources restricted to purposes	Fund	Accountability to citizens vs investment-decision usefulness (proprietary, residual equity)	Ellwood & Brown (2026)

Source: Author's synthesis.

Theoretical Implications

The findings have three theoretical implications. First, they qualify the narrative that classical accounting theories have been superseded by positive accounting theory and conceptual framework projects. Explicit engagement has largely disappeared, but the questions the theories address remain at the center of current debates on measurement, the purpose of reporting, and reporting boundaries. Accounting theory appears to be characterized less by linear progression than by layering, in which older frameworks persist beneath newer ones without being acknowledged.

Second, the findings highlight the need for greater theoretical reflexivity. Because the core questions are interdependent, debates conducted on one question in isolation, such as fair value measurement, risk adopting a reporting perspective by default. Van Mourik's (2014) finding that the IASB framework espouses one perspective while operationalizing another illustrates this risk, and researchers should make the perspective underlying their arguments explicit.

Third, the classical theories offer a common vocabulary for connecting debates that are currently fragmented. Framing the fair value debate (Dean et al., 2025; Biondi, 2011), the decision-usefulness debate (Georgiou et al., 2021), and the reporting boundary debate (Bayne, 2022) as different expressions of the choice of perspective would allow their implications for one another to be examined.

Practical Implications

For standard-setters, the framework identifies the points, such as the debt–equity boundary and the treatment of interest and tax, at which a choice of perspective must be made, and suggests that the perspective chosen should be stated rather than left implicit (van Mourik, 2014). For practitioners, awareness of the perspective underlying a standard can inform professional judgment where standards are silent, as illustrated by the use of accounting theory to determine the treatment of cryptocurrencies and credit card rewards programs (Brink & Steenkamp, 2024; Klopper & Brink, 2023). For public sector regulators, the framework clarifies that the competing schools of government financial reporting rest on different perspectives (Ellwood & Brown, 2026). These implications follow from conceptual arguments rather than from empirical evidence of effects, and they should be read accordingly.

LIMITATIONS

This review has several limitations. First, the search was limited to the Scopus database and to the specified query; studies that engage the classical theories but do not use the query terms, or that are indexed only in other databases, may have been missed. Second, screening and coding were based on titles, abstracts, and author keywords, which may understate the extent of explicit engagement in the full texts. Third, coding was performed by a single author; the coding for every study is reported in Supplementary Table S1 for verification. Fourth, the review is conceptual in nature, and its critical orientation reflects the author's theoretical commitments.

FUTURE RESEARCH DIRECTIONS

Building on the findings and limitations of this review, several directions for future research are identified:

Empirical investigation of theoretical choices: Research is needed to examine how the choice of perspective affects financial reporting outcomes, corporate decision-making, and user perceptions. Such research could employ experimental, archival, or survey methods.

Integration across debates: Future research should examine measurement, purpose-of-reporting, and reporting-entity questions together, using the classical theories to trace how a position on one implies positions on the others.

Revisiting neglected theories: Enterprise, fund, and residual equity theory receive no explicit attention in the reviewed literature. Their potential contributions to sustainability reporting, public sector reporting, and the debt–equity distinction merit investigation.

Full-text and multi-database analysis: Extending the review to full texts and to other databases would test whether the low level of explicit engagement observed here reflects the literature or the limits of abstract-level coding.

CONCLUSION

This critical literature review has examined the relevance and transformation of classical accounting theories, namely proprietary theory, entity theory, enterprise theory, fund theory, and residual equity theory, in contemporary accounting research. The analysis of 99 studies, identified through a documented screening of 265 Scopus records, shows that these theories are rarely engaged explicitly but that the questions they were designed to answer remain central to contemporary debates.

Explicit engagement is confined to three studies, all concerning entity theory, whereas 42 studies address the theories' core questions implicitly, most often regarding measurement and the purpose of financial reporting. Enterprise, fund, and residual equity theory are not engaged explicitly at all. The review proposes a contingency framework that specifies when each perspective is useful and where the perspectives conflict, as a basis for more explicit and justified theoretical choices.

The conclusion that emerges is that classical accounting theories deserve renewed attention from accounting scholars, standard-setters, and practitioners, not as rival claimants to a single correct theory but as a structured set of perspectives that make the assumptions of contemporary accounting visible. These conclusions rest on abstract-level evidence from a single database and should be read as a map of where the classical theories are used, and where they could be used, rather than as evidence of their effects.

DECLARATION OF AI USE

AI tools were used to assist with preparing selected figures and diagrams, performing dictionary-based pre-classification and checking records, and improving the manuscript's language. The author remains fully responsible for the coding decisions, analysis, interpretation, and conclusions.

REFERENCES

1. Alexander, D., Fiondella, C., Maffei, M., & Spanò, R. (2019). Reporting comprehensive income: The incoherencies of the IASB system and the possible contribution of economia aziendale. *Accounting in Europe, 16*(3), 340–359. https://doi.org/10.1080/17449480.2019.1624923
2. Alshamari, A., Ridley, G., & Wills, D. (2026). The functional use of theory in accounting research: Evidence from leading journals. *Journal of Accounting & Organizational Change, 22*(7), 362–387. https://doi.org/10.1108/jaoc-09-2025-0394
3. Baker, C. R. (2017). The influence of accounting theory on the FASB Conceptual Framework. *The Accounting Historians Journal, 44*(2), 109–124. https://doi.org/10.2308/aahj-10555
4. Bayne, L. (2022). Understanding reporting boundaries in annual reports: A conceptual framework. *Accounting Auditing & Accountability, 35*(5), 1316–1348. https://doi.org/10.1108/aaaj-01-2020-4387
5. Biondi, Y. (2011). The pure logic of accounting: A critique of the fair value revolution. *Accounting, Economics and Law - A Convivium, 1*(1). https://doi.org/10.2202/2152-2820.1018
6. Brink, S., & Steenkamp, G. (2024). Using accounting theory to develop a theoretical model for credit card rewards programme transactions. *Journal of Applied Accounting Research, 25*(2), 264–278. https://doi.org/10.1108/jaar-10-2022-0278
7. Capalbo, F., & Clarke, F. (2006). The Italian economia aziendale and chambers' CoCoA. *Abacus, 42*(1), 66–86. https://doi.org/10.1111/j.1467-6281.2006.00191.x

8. Chahed, Y. (2021). Words and numbers: Financialization and accounting standard setting in the United Kingdom. *Contemporary Accounting Research, 38*(1), 302–337. https://doi.org/10.1111/1911-3846.12614
9. Chambers, R. J. (1993). Positive accounting theory and the PA cult. *Abacus, 29*(1), 1–26. https://doi.org/10.1111/j.1467-6281.1993.tb00419.x
10. Dean, G. W., Persson, M. E., & Wells, M. C. (2025). 50 years of accounting thought: the revolutionary antecedents of fair value accounting. *Accounting History Review, 35*(3), 233–257. https://doi.org/10.1080/21552851.2025.2532476
11. Ellwood, S., & Brown, R. (2026). Government financial reporting: A study of nested controversy. *Financial Accountability and Management, 42*(3), 461–478. https://doi.org/10.1111/faam.70032
12. Georgiou, O., Mantzari, E., & Mundy, J. (2021). Problematising the decision-usefulness of fair values: empirical evidence from UK financial analysts. *Accounting and Business Research, 51*(4), 307–346. https://doi.org/10.1080/00014788.2020.1814687
13. Hegde, P., Bloom, R., & Fuglister, J. (1997). Social financial reporting in India: A case. *The International Journal of Accounting Education and Research, 32*(2), 155–172. https://doi.org/10.1016/s0020-7063(97)90023-6
14. Klopper, N., & Brink, S. M. (2023). Determining the appropriate accounting treatment of cryptocurrencies based on accounting theory. *Journal of Risk and Financial Management, 16*(9), 379. https://doi.org/10.3390/jrfm16090379
15. Kogan, G., Stampone, A., Boyle, D. M., & Hermanson, D. R. (2026). Accounting theories: An introductory resource for new scholars. *Journal of Accounting Education, 73*(100990), 100990. https://doi.org/10.1016/j.jaccedu.2025.100990
16. Mattessich, R. (2003). Accounting research and researchers of the nineteenth century and the beginning of the twentieth century: An international survey of authors, ideas and publications. *Accounting Business & Financial History, 13(*2), 125–170. https://doi.org/10.1080/0958520032000084978
17. Moore, L. (2017a). Carving nature at its joints: The entity concept in an entangled society. *The Accounting Historians Journal, 44*(2), 125–138. https://doi.org/10.2308/aahj-10556
18. Moore, L. (2017b). Revisiting the firm, reporting entity, and going concern concepts in light of financial crisis. *Accounting and the Public Interest, 17*(1), 130–143. https://doi.org/10.2308/apin-51919
19. Mulawarman, A. D., & Kamayanti, A. (2018). Towards Islamic Accounting Anthropology: How secular anthropology reshaped accounting in Indonesia. *Journal of Islamic Accounting and Business Research, 9*(4), 629–647. https://doi.org/10.1108/jiabr-02-2015-0004
20. Nagdee, Z. (2016). Accounting bases of theory: Why they matter. *Risk Governance and Control Financial Markets & Institutions, 6*(4), 167–174. https://doi.org/10.22495/rcgv6i4c1art8
21. Orthaus, S., Pelger, C., & Kuhner, C. (2023). The eternal debate over conservatism and prudence: A historical perspective on the conceptualization of asymmetry in financial accounting theory. *Contemporary Accounting Research, 40*(1), 41–88. https://doi.org/10.1111/1911-3846.12812
22. Parker, L. D., & Ritson, P. (2011). Accounting's latent classicism: Revisiting classical management origins: Accounting's latent classicism. *Abacus, 47*(2), 234–265. https://doi.org/10.1111/j.1467-6281.2011.00340.x
23. Paton, W. A. (1922). *Accounting theory: With special reference to the corporate enterprise*. Ronald Press.
24. Paton, W. A., & Littleton, A. C. (1940). *An introduction to corporate accounting standards.*
25. Rambaud, A. (2024). How can accounting reformulate the debate on natural capital and help implement its ecological approach? *International Journal of Political Economy, 53*(1), 67–95. https://doi.org/10.1080/08911916.2024.2321428
26. Rodrigues, L. L., Schmidt, P., & Santos, J. L. dos. (2012). The origins of modern accounting in Brazil: Influences leading to the adoption of IFRS. *Research in Accounting Regulation, 24*(1), 15–24. https://doi.org/10.1016/j.racreg.2011.12.003
27. Rutherford, B. A. (2019). Metaphysics, methodology and theory in classical accounting thought. *Meditari Accountancy Research, 27*(3), 416–447. https://doi.org/10.1108/medar-06-2018-0358
28. Staubus, G. J. (1959). The residual equity Point of View in accounting. *The Accounting Review, 34*(1), 3–13. https://doi.org/10.2308/tar-7130913

29. Sterling, R. R. (1981). Costs (historical versus current) versus exit values. *Abacus, 17*(2), 93–129. https://doi.org/10.1111/j.1467-6281.1981.tb00104.x
30. Sterling, R. R. (1990). Positive accounting: An assessment. *Abacus, 26*(2), 97–135. https://doi.org/10.1111/j.1467-6281.1990.tb00249.x
31. Stewart, J. P. (1989). The significance of an 'orientation postulate.' *Abacus, 25*(2), 97–115. https://doi.org/10.1111/j.1467-6281.1989.tb00224.x
32. Sunder, S. (2005). Minding our manners: Accounting as social norms. *The British Accounting Review, 37*(4), 367–387. https://doi.org/10.1016/j.bar.2005.08.007
33. Suojanen, W. W. (1954). Accounting theory and the large corporation. *The Accounting Review, 29*(3), 391–398. https://doi.org/10.2308/tar-7110323
34. Sutton, D. B., Cordery, C. J., & van Zijl, T. (2015). The purpose of Financial Reporting: The case for coherence in the Conceptual Framework and standards: Standards and conceptual framework coherence. *Abacus, 51*(1), 116–141. https://doi.org/10.1111/abac.12042
35. van Mourik, C. (2010). The equity theories and financial reporting: An analysis. *Accounting in Europe, 7*(2), 191–211. https://doi.org/10.1080/17449480.2010.511885
36. van Mourik, C. (2014). The equity theories and the IASB conceptual framework. *Accounting in Europe, 11*(2), 219–233. https://doi.org/10.1080/17449480.2014.949278
37. Vatter, W. J. (1946). *The fund theory of accounting and its implications for financial reports*. The University of Chicago.
38. Veldman, J., & Jansson, A. (2020). Planetary boundaries and corporate reporting: The role of the conceptual basis of the corporation. *Accounting Economics and Law - A Convivium, 10*(2). https://doi.org/10.1515/ael-2018-0037