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Positive And Normative Accounting Theory: Definition And Development

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Abstract: *This study aims to explain the definition rather than accounting theory, in this case, it is more focused on normative accounting theory and positive accounting theory. The author uses various sources, both from previous research journals and from articles on the internet. The conclusion of this research is that theory is often used as the basis for an action or practice. The development of accounting theory was initiated by the writings of Patton and Littleton (1940) entitled An Introduction to Corporate Accounting Standards. The result of normative accounting theory is a statement or proposition that requires or requires in accounting practice, normative accounting theory focuses on prescriptions (norms) and is not intended for theory development. While positive accounting theory seeks to explain and predict phenomena related to accounting. By using an approach that comes from positivism, empirical accounting research is developed to support and justify various accounting methods or practices in the real world. There are four periods of accounting theory, starting with the Pre-Theory period from 1492-1800. Then continued with the Pragmatic accounting period (general scientific period) from 1800-1955. The period 1956-1970 is labeled the 'normative period'. The last is the period of positive accounting theory from 1970 to the present.*

Keywords: *normative, positive accounting theory*

1. Introduction

The theory is often used as the basis for an action or practice. Gaffikin (2008:57-68) explains, in general, theories provide a reasoned basis for practical action. Thus, broadly the theoretical process is designed to gain an understanding and then provide a functioning explanation of phenomena. Manullang (2005) adds that in contrast to the natural sciences where theory is developed from empirical observations, accounting science tends to be developed based on value judgments which are influenced by the environment in which accounting is applied. Meanwhile, Suwardjono (2005:21) states, theory can also be interpreted as logical reasoning that underlies practice (in the form of actions, policies, or regulations) in real life.

Theories that can be expressed in the form of words and symbols are referred to in the philosophy of knowledge as semiology. Semiology consists of 3 elements of the theory, namely (a) Syntectic: dealing with grammar or the relationship between symbols and symbols, (b) Semantics: showing the meaning or relationship between words, signs, or symbols with objects that exist in the real world. (c) Pragmatic: showing the influence of words or symbols on someone. About accounting, accounting theory is closely related to pragmatic aspects, namely how accounting concepts and practices affect one's behavior (Manullang, 2005).

Accounting theory has developed since the early 20th century and it can be said that the development of accounting theory was initiated by the writings of Patton and Littleton (1940) entitled An Introduction to Corporate Accounting Standards. This paper had a major impact on the history of accounting theory formulation, which at that time focused on determining the basic postulate and developing a conceptual framework (Astika, 2009).

The term accounting theory itself is often associated to indicate accounting concepts that are relevant to existing accounting practices. Developments on accounting theory have been carried out, but none of these theories have been able to completely and thoroughly explain what is called accounting theory. Belkaoui (2004:56) says that until now there is no comprehensive accounting theory.

Based on its objectives, accounting theory can be divided into two types, namely normative accounting theory which provides a formula for accounting practice, and positive accounting theory which seeks to explain and predict accounting-related phenomena (Ghozali and Anis, 2007). The normative theory which is in the normative period, namely the period 1956-1970 (Harahap, 2008: 107) tries to explain what accountants should do in the process of presenting financial information to users and not explain what financial information is and why it happened. According to Nelson (1973) in Ghozali and Anis (2007), the normative theory is often referred to as a priori theory (from cause and effect and is deductive).

The normative approach that has been successful for a decade turns out to be unable to produce accounting theory that is ready to be used in everyday practice. The design of accounting systems resulting from normative research is not used in practice. As a result, there is a suggestion to understand descriptively the functioning of the accounting system in real practice. It is hoped that with an understanding of direct practice, a more meaningful accounting system design will emerge (Ghozali, 2000).

The demand for a positive approach to accounting occurred when Jensen (1976) stated that research in accounting (with one or two notable exceptions) was not scientific because the focus of the research was highly normative and well-defined. Furthermore, Jensen hoped for the development of a positive accounting theory that would explain why accounting is what it is, why accountants do what they do, and what influence phenomena have on the use of people and resources.

2. Discussion

2.1 Definition and Nature of Accounting Theory

The theory is the result of the crystallization of empirical phenomena, drawn from various researches, and at a conclusion that is universal, logical, consistent, predictive, and objective. The theory will be useful if the formulation of the theory can be used as a tool to predict something that might happen in the future. Accounting theory can be formulated as an arrangement of concepts, definitions, and propositions that present a systematic description of accounting phenomena, as well as explain the relationship between variables in the accounting structure, to be able to predict emerging phenomena (social and economic phenomena).

According to Vernon Kam (1936), a theory is a comprehensive system, which includes basic assumptions, definitions, goals, principles or standards, and procedures or methods. Therefore, theories are explanations, but not all explanations can be categorized as theories.

2.2 Normative Accounting Theory

APB statement No. 4 (1966) states the same thing that the characteristics and limitations of financial accounting and financial requirements, one of which is historical reporting. Accounting and financial statements are historical where information about events is the basis for financial accounting and financial statements.

The American Accounting Association (1977) states the same thing that the purpose of setting accounting standards is to provide a basis for assessing the validity or adequacy of accounting methods associated with the information produced and to provide a mechanism to determine the level of compliance required from information for certain purposes.

Suwarjono (2005:27) explains that the objective of normative accounting theory is only to produce an explanation of why accounting treatment is better or more effective than other accounting treatments, because "certain accounting objectives" must be achieved. For example, is historical cost accounting better than current cost accounting for achieving accounting objectives? To explain this normative accounting theory refers to the basis of "agreed goals to be achieved". Of course, in this case, the normative theory is full of value (value-laden), because to determine practice by the goals that have been set to be achieved is a subjective process that involves the ability to weigh (art) between the principles of benefits and risks.

Thus it can be said that the final result of normative accounting theory is a statement or proposition that requires or requires accounting practice. For example, normative accounting theory would result in a statement that fixed assets should be valued, recorded, and reported in the balance sheet based on historical cost.

Normative accounting theory seeks to explain how and what should be practiced in accounting. Deegan (2004:203) explains:

Normative theories prescribe how a particular practice should be undertaken and this prescription might be a significant departure from existing practice. A normative theory is generated as a result of the particular theorist applying some norm, standard, or objective against which actual practice should strive to achieve.

Ghozali and Chariri (2007:35) state the same thing as normative theory trying to provide guidelines for what should be done based on the value judgments used in formulating the theory. The normative theory is often called a priori theory (meaning cause and effect, or deductive). The reason is that normative theory is not generated from empirical research, but is produced from "semi research" activities. Normative theory only states hypotheses about how something should be practiced, without testing these hypotheses.

Furthermore, Ghozali and Chariri (2007: 53) explain that accounting tends to be developed based on a value judgment, which is influenced by environmental factors where accounting is practiced. The theory is then outlined in the form of policies as a basis for accounting practice. Suwardjono (2005:1) states the same thing that accounting that is practiced in a country's territory does not just happen naturally but is designed and developed intentionally to achieve certain social goals.

From the above understanding, normative theory seeks to explain what accounting information should be communicated to users of accounting information and how accounting information will be presented. So normative accounting theory focuses on prescriptions (norms) and is not intended for theory development, which is directed to explain and answer questions about "what and how should be done" by accountants.

Hendriksen and Sinaga (1994) explain that normative theories are partial and are intended to support conclusions about specific procedures only. There has long been a need to develop an accounting theoretical framework to encourage the logical development of accounting principles and practices and to assess current practices.

Watts and Zimmerman in Budiarto and Murtanto (1999) explain that the rationale for analyzing accounting theory in a normative approach is too simple and does not provide a strong theoretical basis. To reduce the gap in normative accounting theory, Watts and Zimmerman develop a positive approach that is more empirically oriented to justify some accounting techniques or methods currently used or look for new models for the development of accounting theory in the future.

2.3 Positive Accounting Theory

Belkaoui (2000) explains that for those who adopt a positive paradigm, the main problem is the current accounting practice and management's attitude towards these practices. Proponents of this view argue, in general, that techniques can be derived and justified based on their proven use or that management plays a central role in determining which techniques will be implemented. Consequently, the objective of accounting research related to the positive paradigm is to understand, explain and predict current accounting practices.

Positive accounting theory according to Watts and Zimmerman in Deegan (2004: 203) states the same thing as follows:

...is concerned with explaining accounting practice. It is designed to explain and predict which firms will not use a particular method... but it says nothing as to which method a firm should use.

Deegan (2004:204) explains that positive accounting theories, such as those developed by Watts and Zimmerman and others, are based on the assumption based on a central economy, that all individual actions are controlled by self-interest and that individuals will act opportunistically to a degree where the action will improve their well-being.

Mariya (2006:49) states that: Positive accounting theory seeks to explain the observed accounting phenomena based on the reasons that led to the occurrence of an event. In other words, positive accounting theory is intended to explain and predict the consequences that occur if managers make certain choices. Explanations and predictions in positive accounting theory are based on contractual processes or agency relationships.

The reason underlying the emergence of positive accounting theory according to Ghozali and Chariri (2007:4) is that the normative approach that has triumphed for a decade cannot produce accounting theory that is ready to be used in daily practice. As a result, there is a suggestion to understand descriptively the functioning of the accounting system in real practice. Another reason is to "move" the accounting research community which focuses on economic and behavioral approaches.

Riduwan (2007) says that positive accounting theory puts forward propositions that are nothing but descriptions of accounting practices in the real world, for example, (1) the characteristics of entities that choose to apply certain accounting methods, and (2) the impact of applying accounting standards. on the behavior of humans or entities with an interest in accounting information.

Gaffikin (2008:57-68) explains that positive accounting theory is an expression of neoclassical economic theory. Its basis is a belief in rational choice theory, namely self-interest – materially referred to as opportunistic behavior. Furthermore, it is said that ontologically empirical research – positive accounting theory adopts realism. Methodologically, this is positivist or modernism, meaning a commitment to using the methods of the physical sciences. The epistemological foundation of positive accounting theory is empiricism.

Hery (2009:131) says that positive accounting theory is a further study of normative accounting theory because of the normative failure to explain practical phenomena that occur in real terms. Scott (2009:284-294) explains that positive accounting theory is concerned with the prediction that some companies will respond to the submission of new accounting standards. From the above understanding, positive accounting theory aims to explain and predict accounting practices. Explain the reasons why an accounting practice is carried out, for example, positive accounting theory explains why some companies prefer to use the FIFO method over using the LIFO method. Predicting means that theory must be able to predict various phenomena of practice that have not been implemented. The phenomenon that has not been carried out is not always a future phenomenon, but a phenomenon that has occurred but there is no empirical evidence to justify the phenomenon.

By using an approach that comes from positivism, empirical accounting research is developed to support and justify various accounting methods or practices in the real world. Then the results of the empirical research are in the form of statements or propositions that will later become positive accounting theories.

2.4 Difference between Normative and Positive Accounting Theory

The normative theory is considered a subjective personal opinion, so it cannot be taken for granted and must be empirically tested to have a strong theoretical basis. In practice, professionals in the accounting field have fully realized that positive accounting theory is more likely to be applied than normative accounting theory. Positive accounting theory has problem-solving characteristics that are adapted to the reality of accounting practice. The approach used in positive accounting theory is the economic and behavioral approach.

The positive accounting theory approach aims to explain and predict accounting practice. One example is the use of positive theory in the hypothesis about the bonus program. This hypothesis shows that management whose remuneration is based on bonuses will try to maximize its bonuses through the use of accounting methods that can increase profits and ultimately increase bonuses. This theory will be able to explain or predict management behavior in terms of bonus programs.

The scientific view will produce a positive accounting theory and the technological view will produce a normative accounting theory. This classification occurs because of the different goals to be achieved or generated by accounting theory. A positive explanation contains a statement about something (event, action, or deed) as it is by the facts or what happened based on empirical observations. Positive explanations are directed to provide answers to whether a statement is true or false based on scientific criteria. Normative explanations contain statements and reasoning to judge whether something is good or bad or relevant or irrelevant about certain economic or social policies. Normative explanations are directed to support or produce political policies so that they are policy-making.

According to Suwardjono (2002), the difference between Positive Accounting Theory and Normative Accounting Theory is as shown in the table as follows:

Table 1.
Difference between Positive and Normative Accounting Theory

Pembina	*Positives*	*Normative*
Form of the Statement	*Is*	*Should*
Question Tone	*Descriptive*	*Perspective*
Problem areas	*Facts*	*Values /idealism*
Conclusion Base	*Objective/ empirical*	*Subjective*
Criteria for acceptance of a theory	*True/false*	*Good/bad*
Testing Method	*Science*	*Art*

Source: Theresia H. B. 2017

From the table above it can be concluded that the goals of:

1. Positive Accounting Theory is an explanation or reasoning to show scientifically the truth of accounting statements or phenomena as they are according to facts. Facts as targets. according to Friedman (1953), it is essentially free from the bonds of various ethical aspects as stated by Keynes. He refers more to the term 'what it is (what it is) than to the term 'it should be. This theory aims to explain predict and provide answers to accounting practices. In addition, this theory also predicts various accounting phenomena and describes how

accounting variables interact in the real world. The validity of positive accounting theory is assessed based on the suitability of the theory with facts or what happened (what it is).

2. Normative Accounting Theory is an explanation or reasoning to justify the feasibility of an accounting treatment that is most in line with the stated objectives. Better explain accounting practices that should apply (it should be) and value is used as the main target.

2.5 Periodization of Accounting Theory

Periodization of Accounting Theory can be classified into:

2.5.1. Pre-Theory

Before the formalization of the double-entry system in the 1400s, very little was written about the theory underlying accounting practice. During the developmental period of the double-entry system, the main emphasis was on practice. Until 1494 a Franciscan monk, Pacioli, wrote the first book to document the double-entry accounting system as we know it. The title of his work is Summa de Arithmetica Geometria Proportioni et Proportionalita (A review of arithmetic, geometry, and Proportions). For 300 years after Pacioli's 1,494 treatises, accounting developments.

This is known as the 'pre-theory period'. No accounting theory has been created from Pacioli's time in the early nineteenth century. Theoretical suggestions emerged from various aspects, but not to the extent necessary to place accounting systematically. Until the 1930s development of specialized accounting theory began to develop.

This development is due to justify certain practices. However, developments in the 1800s led to the formalization of existing practice in textbooks and teaching methods. The rapid expansion in technology, accompanied by a massive separation of ownership from control over the means of production, increased the demand for management and financial accounting information.

2.5.2. Pragmatic Accounting

The period 1800-1955 is often referred to as the 'general scientific period'. During this period the development of the theory was most concerned with providing practical explanations. The emphasis is on providing an overarching framework for explaining and developing accounting practice. Theories developed are mainly based on empirical analysis, the method most often adopted in the physical sciences. The empirical analysis relies on real-world observations rather than relying solely on logic.

It involves developing a theory based on what is observed. For example, during the general scientific period of accounting theory, theories about how the accounts were developed using empirical analytical methods. Because theories aim to provide an overall framework for all accounting problems and because they are developed empirically, they are labeled 'generally scientific'.

The general scientific method gave rise to well-known publications. In 1936 the American Accounting Association (AAA) released a Tentative Statement of Accounting Principles Affecting Corporate Reports. In 1938 the American Institute of Certified Practicing Accountants (AICPA) made an independent study of accounting principles and released A Statement of Accounting Principles written by Sanders, Hatfield, and Moore.

In the same year, the AICPA formed the Accounting Procedures Committee, which publishes a series of accounting research bulletins. The nature of the bulletins that published accounting theory at that time is summarized in the introduction to Bulletin No. 42. Forty-two bulletins issued during the period 1939-1953, eight of these reports are terminology. The other 34 was the result of research conducted by the accounting procedures committee which was directed to the segments of accounting practice with which problems were most demanding and with which business and the accounting profession were most concerned at the time.

2.5.3. Normative Accounting

The period 1956-1970 is labeled the 'normative period'. It is called the formative period because it is the period when accounting theory seeks to establish norms for best accounting practice. In contrast to the general scientific period, during this period, researchers were less concerned about what happened in practice and more concerned about developing theories that dictated what should happen. In the period before 1956 several authors produced early normative work dealing primarily with issues surrounding the proper basis for asset valuation and owner claims.

Normative theory adopts goals, attitudes and then determines how to achieve the stated goals. They provide resolutions on what must be done to achieve the stated goals. The main focus of normative accounting theory during 1956-1970 was the impact of price changes on asset values and profit calculations.

Two groups dominate the normative period of historical cost accounting critics and proponents of conceptual frameworks. There is some overlap between the two groups, especially when historical cost critics seek to develop an accounting theory in which the measurement of assets and the determination of income are dependent on inflation and certain price movements.

During the formative period, the notion of a 'conceptual framework' was a structured theory of accounting. The framework is intended to cover all components of financial reporting and is intended to guide practice. For example, in 1965 Goldberg was commissioned by the AAA to investigate the nature of accounting.

The result was the publication of An Inquiry into the Nature of Accounting which aims to develop a theoretical framework for accounting by providing a discussion of the nature and meaning of accounting. One year later the AAA released A Statement of Basis Accounting Theory, with the stated aim of providing a unified statement of basic accounting theory that would serve as a guide for educators, practitioners, and others interested in accounting. The normative period began to draw to an end in the early 1970s. It has now been replaced by the period of the 'certain scientific theory' or 'positive era' (1970). The two main factors that led to the collapse of the normative period were:

a. The unlikelihood of acceptance of any particular normative theory
b. Availability of financial economics principles and test methods

Because normative accounting theories define how accounting should be done, they are based on subjective opinions of what accounts should be reported, and the best way to do it. Opinions regarding the appropriate objectives and methods of accounting vary between individuals and a large part of the dissatisfaction with the normative approach is that it does not provide a means to resolve differences of opinion. Henderson, Peirson, and Brown outline two major criticisms of normative theory in the early 1970s:

a. The normative theory does not involve hypothesis testing
b. The normative theory is based on the assessment of a value

Normative theory cannot be tested empirically because it is impossible to prove empirically what it should be. Furthermore, the assumptions underlying some of the normative theories are untested, and it is not clear whether the theories have a solid foundation. The fact that normative theory is based on discontent judgments increases with the normative approach as it becomes clear that it is difficult, and perhaps impossible, to gain general acceptance of any particular normative accounting theory.

2.5.4. Positive Accounting

Dissatisfaction with normative theory combined with increasing access to empirical data and increasing recognition of economic arguments in the accounting literature led to a shift to a new form of empiricism operating under the broad label of positive theory. The purpose of positive accounting theory is to explain and predict accounting practice. An example of positive accounting theory would be the theory that leads to what is known as the bonus plan hypothesis.

The theory relies on managers to maximize more wealth, even at the expense of shareholders. If managers are paid in part with bonuses based on reported accounting earnings then managers have an incentive to use accounting policies that maximize revenue.

The theory also leads to the prediction that managers who are paid through bonus plans use the income-increasing accounting method more than managers who are not paid through bonus plans. Theories are important because they explain economic or wealth effects, accounting, and accounting reasons are important for various parties such as shareholders, creditors, and managers.

By explaining and predicting accounting practice, Watts and Zimmerman consider that positive theory has given rise to clear confusion regarding the choice of accounting technique. They argue that positive accounting theory helps in predicting the reactions of market players such as shareholders to management actions and reporting accounting information.

One benefit of such research is that it allows regulators to assess the economic consequences of the various accounting practices they perceive. Positive literature involves developing hypotheses about reality which are then tested by observing reality.

The approach has attracted criticism that is based largely on a seemingly biased fashion in which positive theory ignores alternative viewpoints. This resulted in a particularly revival in the 1980s in behavioral research. Behavioral research is primarily concerned with the broader sociological implications of accounting numbers and the related actions of key actors such as managers, shareholders, creditors, and governments as they react to accounting information.

Behavioral accounting theory tends to focus on the psychological and sociological influences on individuals in the use and preparation of accounting. While behavioral research has grown in acceptance, positive accounting theory still currently dominates the accounting research literature. The trends in accounting theory that have been described so far relate to both:

a. Academic, research conducted and emphasized by academic researchers
b. Professional, research that has been emphasized and either sponsored or carried out by those in practice, who seek theory to explain or prescribe accounting practice.

Based on observations there is no logical assessment of what accountants do. It does not allow for endless changes and tends to focus more on the behavior of accountants than on measuring company attributes.

3. Conclusion

The theory is often used as the basis for an action or practice. Gaffikin (2008:57-68) explains, in general, theories provide a reasoned basis for practical action. Thus, broadly the theoretical process is designed to gain an understanding and then provide a functioning explanation of phenomena. Accounting theory has developed since the early 20th century and it can be said that the development of accounting theory was initiated by the writings of Patton and Littleton (1940) entitled An Introduction to Corporate Accounting Standards. Accounting theory has three dimensions, namely: Reductionism, Instrumentalism, and Realism

The result of normative accounting theory is a statement or proposition that requires or requires in accounting practice. For example, normative accounting theory would result in a statement that fixed assets should be valued, recorded, and reported in the balance sheet based on historical cost. The normative theory seeks to explain what accounting information should be communicated to users of accounting information and how accounting information will be presented. So normative accounting theory focuses on prescriptions (norms) and is not intended for theory development, which is directed to explain and answer questions about "what and how should be done" by accountants.

By using an approach that comes from positivism, empirical accounting research is developed to support and justify various accounting methods or practices in the real world. Then the results of the empirical research are in the form of statements or propositions that will later become positive accounting theories.

There are four periods of accounting theory, starting with the Pre-Theory period from 1492-1800. Then continued with the Pragmatic accounting period from 1800-1955, which is often referred to as the 'general scientific period'. The period 1956-1970 is labeled the 'normative period', called the formative period because it was the period when accounting theory attempted to establish norms for best accounting practice. Lastly is the era of positive accounting theory.

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