

TYPES OF JUDGMENT WITHIN THE ACCOUNTING THEORIES

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Abstract

In the content of this article, we will briefly expose the explanation of the accounting theories classified on a general level, namely the positive and normative theories of accounting. The purpose of the present article is to provide the type of judgments that lay foundation to each type of accounting theory.

Also, we will highlight the documentation from the specialty literature regarding these demarches and we will build a pertinent research speech. The professional judgment represents an important concept in carrying the existing processes in the organizational environment and is dictated by a plethora of factors that are fitted and guided by these theories.

Keywords: *normative theory of accounting, positive theory of accounting, inductive judgments, deductive judgment, research.*

1. Introduction

Most of the times, the academic environment focuses on the present reality of the economic and social processes and not limited to but losing out of sight the fact that a real help is the recognition of the importance of the starting point of each phenomena. This starting point is represented by the laws that provide the development and trigger of phenomena and certain theories.

Below we will present the accounting theories focusing our attention on the positive and normative theories of accounting. An important role within our study is represented by the professional judgment that is shaped by these types of accounting theories.

2. General fitting of the professional judgment within the context of the positive accounting theory

An important aspect is represented by the fact that „the positive accounting theory occupies a central piece

in the contemporary process of founding the accounting research”¹ therefore the „researcher must remember the interest into the rigorous formalization of sentences, relationships, results of his scientific demarche starting from the agreed type of judgment and from the corresponding scientific methods of the investigated domain”².

The type of the judgments on which the positive accounting theory relies is *inductive*. The inductive judgment demarches are focused on getting new information and on issuing a new theory having as starting point the empirical posture. The direction of forming the knowledge starts from particular to general, from effects to cause leading to the extension of conclusive signification of the observed phenomena at a universal level.

„Studying asymmetries of information with the help of *game theory* allows examining numerous problems neglected by traditional microeconomics, such as: advantages which can be obtained by more informed agents, the manner of markets’ functioning in the conditions of information asymmetry, loss of resources involved by the functioning of these markets etc.”³

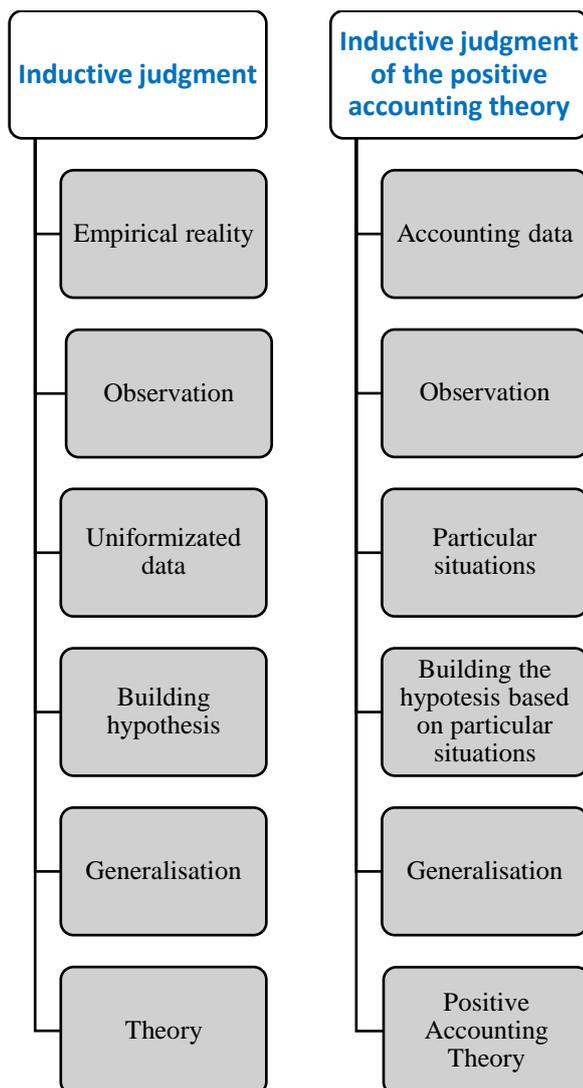
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¹ J. F. Casta, „Théorie positive de la comptabilité”, Encyclopédie de comptabilité, contrôle de gestion et audit, 2009, pg. 1393-1402, pg. 1394.

² M. Niculescu, N. Vasile, „Epistemologie. Perspectivă interdisciplinară”, Ed. Bibliotheca, Târgoviște, 2011, pg. 40.

³ Grigore, M. Z., Information economics, instrument of analysis in new microeconomics. Lex ET Scientia International Journal (LESIJ), 16(2), 2009, 354-364, pg. 354.

Figure 1 The representation of the inductive judgment



Source: issued by the author

The professional judgment in the context of the positive theory of accounting imposes specificity both in the theoretical and practical framework.

Through the prism of the imposed principles of the positive theory of accounting, the employee uses his professional judgment under the aegis of an informational guidance that determines the actions carried at an organizational level.

A professional judgment seen through the positive accounting vision requires the application of the observation techniques of the accounting phenomena and also involves an ascertainment empirical side of the use of the professional judgment in practices and financial statements useful in the domain, generating a systemic evidence of particular situations that delimit the hypothesis meant to lead to the formalization of the initially established

problematic, meaning a generalization of the use of the professional judgment.

„ In the case of accountants, the marketing must provide a description of the services offered by professional accountant, and the description must concur to reality”.⁴

After the generalization of the principles that dictates the professional judgment through the filter of the positive theory of accounting, a standing rule is issued. This rule folds on the framework of the hypothesis validated at the beginning of the inductive demarche.

The result of this demarche takes the shape of a theory such as „a form of rational knowledge, an assembly of judgments systemically coming from each other or more general principles that offer together a

⁴ Sudacevschi, M., The promotion of the accounting services within the limits of professional ethics. Challenges of the Knowledge Society, 2016 718-722, pg. 718.

descriptions and an explanation”⁵ of using the professional judgments within the context of the accounting reality.

3. The normative theory of accounting and the professional judgment

3.1. Developments regarding the normative theory of accounting

„The normative theory of accounting consists into a general reference framework due to which it’s possible to evaluate the accounting practices, framework that serves as guidance for the development of new practices and new procedures (improvement)”⁶ and consists into „a logical production that takes the shape of a high principle assembly”⁷.

The normative theory draws the directions to be followed in order to solve issues and represents within its corpus pertinent expressions of practices. The utility of this theory derives from the standardization process of practices and from providing an improvement following the use of the principles on which relies on. These kinds of improvements can lead to the creation of a standard that, from compelling pragmatic reasons, departs from a principle stated within an applicable conceptual framework⁸ empowering the fact that the normative approach sustains the prescription of facts at a practical level.

Out of the normative theories we highlight *The theory of bureaucracy*⁹, *The theory of efficient markets*^{10,11}, *The theory of business revenue estimates*¹², etc.

The normative theory of accounting „relies on standards and principles that are applied in the accounting process and also implies a specific environment in which measurements are carried and the issued norms are verified”¹³.

„The normative theory of accounting is objective through the prism of base values and judgments of value which it incorporates and through the empirical testing of the accounting instruments recommended for reaching the pre-established mechanisms”¹⁴.

The normative theory of accounting was most used in the ‘70s and has supported the accounting research domain in the area of financial statements, representing a precursory element for the positive theory of accounting.

Jensen stated that „the answers regarding the normative questions always depend on the choosing of the criteria or objective functions that highlight self-values”¹⁵.

Professor Joel S. Demski states that „no normative theory of accounting can be build using a single set of standards in particular because this fact will lead to an incomplete or incorrect demarche in the accounting domain”¹⁶.

„The objective of the normative theory of accounting is to maximize the accuracy in the prediction related to the accounting reports trough concentrating over the crucial attributes of the accounting mechanism prescribed in the normative”¹⁷.

„The normative approaches are concentrated on highlighting the modality of decision taking and represents a basis for the examination of information carried by the investors and employees”¹⁸.

„The economic reality is, in fact, the cumulus of operations within an economy, and its normative representation involves the write down in accordance with the accounting regulations at the „economic reality” precisely to represent what it needs to and mainly what it supposes to”¹⁹.

From the predecessors of the normative theory of accounting we name: W.A. Paton, J. B. Canning, H. W. Sweeney, K. MacNeal, P. Gensse, E. O. Edwards, P. W. Bell, etc.

⁵ N. Vasile, „Introducere în logica științei”, chapter in ”Epistemologie. Perspectivă interdisciplinară”, M. Niculescu, N. Vasile, Ed. Bibliotheca, Târgoviște, 2011, pg. 40.

⁶ M. Niculescu, Seminar de cercetare doctorală cu titlul „Marile școli de gândire în contabilitate”, 8 februarie 2012.

⁷ Ibidem.

⁸ „Accounting theory and conceptual frameworks”, „The IASB conceptual framework”, pg. 121.

⁹ M. Weber, „Legitimate authority and bureaucracy”, Organization Theory. Selected Readings, 1947, pg. 3-15.

¹⁰ B. G. Malkiel, E. F. Fama, „Efficient capital markets: A review of theory and empirical work”, The Journal of Finance, Vol. 25, No. 2, 1970, pg. 383-417.

¹¹ B. G. Malkiel, E. F. Fama, „Efficient capital markets: A review of theory and empirical work”, The Journal of Finance, Vol. 25, No. 2, 1970, pg. 383-417.

¹² E. O. Edwards, P. W. Bell, „The theory and measurement of business income”, University of California Press, 1965.

¹³ J. S. Demski, „The general impossibility of normative accounting standards”, Accounting Review, 1973, pg. 718-723, pg. 718.

¹⁴ R. Mattessich, „Conditional-normative accounting methodology: incorporating value judgments and means-end relations of an applied science”, Accounting, Organizations and Society, Vol. 20, No. 4, 1995, pg. 259-284, pg. 259.

¹⁵ M. Jensen, „The Accounting Review”, Vol. 58, No. 2, 1983, pg. 319 - 339, pg. 320.

¹⁶ J. S. Demski, „The general impossibility of normative accounting standards”, Accounting Review, 1973, pg. 718-723, pg. 718.

¹⁷ A. Riahi-Belkaoui, „Accounting theory”, Cengage Learning EMEA, 5th ed, 2004, pg. 366.

¹⁸ M. W. E. Glautier, B. Underdown, „Accounting theory and practice”, Pearson Education, Glautier, Michel William Edgard, and Brian Underdown. Accounting theory and practice. Pearson Education, 2001, 7th ed., 2001, pg. 20.

¹⁹ M. M. Voinea, „Contabilitatea - o reprezentare normativă a realului economic?”, Management Intercultural, Vol. 28, 2013, pg. 108-114, pg 109.

Table 1. Structure of the normative theory as seen by K. MacNeal (1939)

Postulates of environment	<ul style="list-style-type: none"> • Numerous uninformed title owners • The existence of a free and competitive market • The continuity of the operational activities of entities
Objectives	The objective of accounting is to supply information regarding an entity and useful information for shareholders and creditors in taking decisions regarding investments and credits.
Information needs	Managers, creditors and shareholders are interested in knowing the net value of the business and in having information regarding all the profits and losses.
Recognition and accounting evaluation	<ul style="list-style-type: none"> • The balance sheet must be reported at the economic value of its assets and liabilities. • Profit and loss account must report losses, current and capital profits realized and unrealized. • The principle of realization is abandoned. (The principle of realization is the concept that refers tot the fact that revenues can be recognised just at the moment in which the goods or services on which it relies have been delivered or respectively rendered.)

Source: issued after Md. Humayun Kabir²⁰

Table 2 – the structure as in accordance with the vision of Paton and Littleton (1940)

Postulates of environment	<ul style="list-style-type: none"> • Existence of numerous passive investors. • Existence of various groups of shareholders within the company.
Purposes of accounting	The purpose of accounting is to provide reliable information (relevant) regarding the economic entity.
Base concepts	<ul style="list-style-type: none"> • The entity as a business environment. • Continuation of activity. • Cost attachments. • Efforts and realization. • Objective, verifiable evidence.
Accounting evaluation	<ul style="list-style-type: none"> • Transactions are recorded at fair value of the attributed importance. • Accounting records should not be adjusted with the modification of prices.

Source: issued after Md. Humayun Kabir²¹²⁰ M. H. Kabir, "Normative accounting theories", Social Science Research Network, 2005, pg. 7.²¹ Ibidem pg. 13.

Table 3. The structure of the normative theory as seen by Chambers (1966)

Postulates of environment	The enterprise wished to adapt to the market conditions.
Relevant information in taking decisions	The relevant decision relies on knowing multiple possibilities for an entity, possibilities expressed in current monetary units.
Accounting function	The accounting function is to supply contemporary financial information as a guide for future actions.
Evaluation and accounting recognition	<ul style="list-style-type: none"> • Assets and liabilities should be recognized at the current cash equivalents. • The principle of realization is abandoned. (The principle of realization is the concept that refers to the fact that revenues can be recognised just at the moment in which the goods or services on which it relies have been delivered or respectively rendered.)

Source: issued after Md. Humayun Kabir²²

Over time, theoreticians have divided in two major categories: the ones that support the concept of „historical cost” out of which we name Paton and Littleton and the ones that support the concept of „market value”, represented by MacNeal and Chambers. „Historical cost is the assessment base most commonly adopted by companies to prepare their financial statements”²³.

In MacNeal’s opinion, the role of accounting is to highlight the economic reality by stating that the economic statements do not represent a specific truth, having the possibility to misguide the creditors and investors. MacNeal states that the principle of historical cost prevents the real presentation of the financial status and the operational results in the company’s financial statements. This links the development of the accounting principles to the economic and business conditions found in medieval Europe and through reconstruction, he points that the accounting principles have followed the natural development of those conditions, conditions that have stopped from existence. Therefore, the accounting principles did not keep up with the changed conditions.

Paton and Littleton aimed at developing a presentation regarding the accounting standards that will provide guidance for the accounting practice.

At a methodological level, Paton and Littleton carried within their research deductive demarche, supporting their theories on more basis structures: the entity in the business environment, the continuity of the

activity, attached costs, efforts and achievements and the evidence of achieving the proposed goals. The matters presented did not led to a complete verification of the forwarded proposals but the work they put in was characterized as coherent, objective and with a high contribution.

The proposals forwarded by Paton and Littleton are different from MacNeal’s because the difference in grading the importance of the relevance and trust in the accounting information. MacNeal stated that the accounting practice doesn’t always have a common point with the investors and creditors’ need of information while the proposals of Paton and Littleton were highlighted by the need of providing reliable information at corporation’s level especially for investors.

Following the normative demarches, Chamber’s proposal is based on the idea of the entity’s adaptation to the dominant market through engaging it to the changes imposed by the environment. In his opinion, the role of accounting consists in providing contemporary financial information (prices/current values) that will direct the actions carried by the entity.

„Accounting axiomatization products produce change because are based on the arrangement of users of financial information and on their information evolutionary needs”²⁴.

Theoreticians have different opinions when discussing the construction of the normative theory. Differences mainly appear due to debated concepts and

²² Ibidem pg. 16.

²³ Cristea, V. G., The necessity to introduce the accounting rules and fair value in the conceptual framework. *Procedia economics and finance*, 26, 2015, pg. 515-521, pg. 517.

²⁴ Cristea, V. G., Accounting Paradigms which Favor Historical Cost. *Challenges of the Knowledge Society*, 2014, 488-493.pg. 489.

mainly from the notions given to the role of accounting. For example, Chambers states that the central problem of an entity is whether it can adapt or not to the environment the market involves, having as base the information provided by accounting at current level, contemporary, while Littleton considers that the entity has as purpose to provide goods and economic service, the performance of the entity being measured as it reaches the proposed objectives.

The development of the normative theory consists in assimilation the contributions provided by the theoreticians through the revision of accounting practices and through debating the ways of improving the accounting system. These lead to supplying an accounting framework that supports the regulating authorities in establishing a measuring accounting basis.

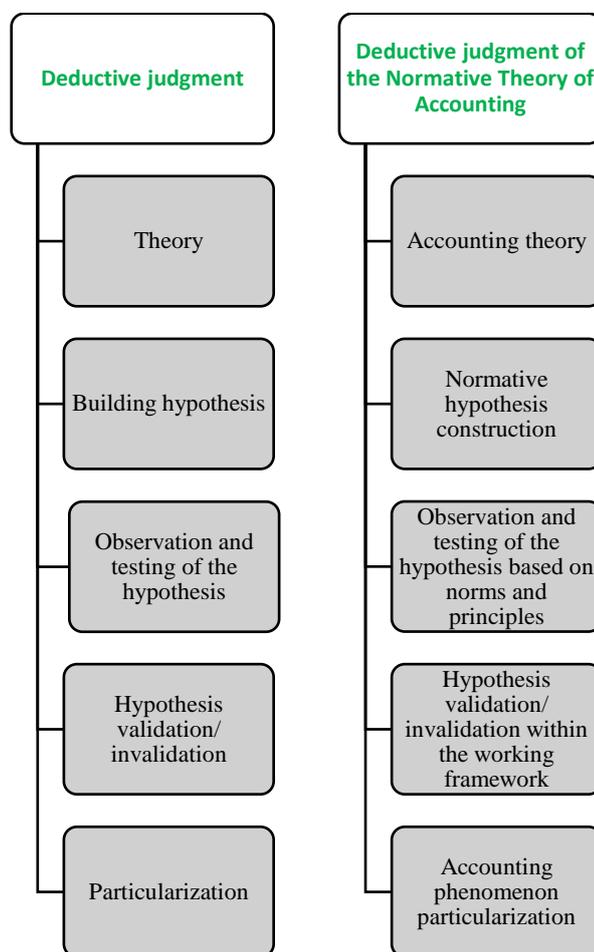
3.2. The normative theory – deductive judgment – professional judgment relationship

The normative theories have as starting point an assembly of standards and principles out of which we name IFRS/IAS, an assembly that delimits, in the named context, the development of a guide that contains accounting practices and procedures. Within these theories the deductive judgment is being used, having as purpose the gain of improvements of the described environment.

„Judgment is a diluted and hierarchical informational structure in which thinking starts from certain data (judgments) and reaches the gain of new ideas (conclusions)”²⁵.

„The hypothetical-deductive demarche for research starts by studying the theory (theories), followed by the selection of hypothesis, test and validity check through observations, experiences and measurements”²⁶.

Fig. 2. The representation of the deductive judgment



Source: issued by the author

²⁵ Definition from the paper „Gândirea, un proces psihic” available at: <http://www.ipedia.ro/gandirea-un-proces-psihic-79/>.

²⁶ M. Niculescu, N. Vasile, „Epistemologie. Perspectivă interdisciplinară”, Ed. Bibliotheca, Târgoviște, 2011, pg. 111.

4. Conclusions

„A normative theoretical system needs a judgment of value in order to be validated. This inclusion of judgment of value differentiates the notion of „normative” from “positive”²⁷. „Theories are essentially normative and formative, meaning that it assumes the judgments of value and shape future actions. In Steve Smiths’ words, „theories not only explain or predict, it tells us what human action and intervention are possible: it defines not only our explicative possibilities but also our practical and ethical horizons”²⁸.

In Milton Friedman’s opinion, the positive vision „is independent from the situations that imply ethics of normative judgments”²⁹. Explaining this statement, professor D. Wade Hands highlights the identification

of the normative judgment with the ethics represented as documentary basis at an economical level in the economy³⁰.

The professional judgment in the context of the normative theory of accounting represents a set of linked logical judgments that serve to obtain conclusive results for the carried activities taking into account certain circumstances, knowledge, evidences, methods, criteria and proper regulations.

Accounting practices, in the normative vision, impose the compliance of standards and regulations in order to achieve the major goal and namely gain and prescription of solutions or improvements of the accounting treatments.

The professional judgment, guided by existing norms, is strictly directed by the regulatory framework which leads to shaping the idea that the professional judgment tends to overlap from a utility point of view with the normative theory of accounting.

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²⁸ O. Todorean, „Teoria relațiilor internaționale”, Notes improved and modified by B. Radu, C. Greab, pg. 45.

²⁹ M. Friedman, Milton, „The methodology of positive economics”, *Essays in Positive Economics*, Chicago, University of Chicago Press, 1953, pg. 3-43, pg. 4.

³⁰ D. W. Hands, „The positive-normative dichotomy and economics”, *Philosophy of economics*, 2012, pg. 219-240, pg 8.

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