OUTCOME OF PREVIOUS RESEARCH REGARDING NORMATIVE AND POSITIVE ACCOUNTING THEORIES: FINDINGS AND IMPLICATIONS

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Abstract: This paper contains a brief vision over the way of exposure and integration of the accounting theory as a whole within a continuous evolutionary environment. Since the issuance of the fundamental forming framework of accounting theories, the organizational environment has continuously focused on shaping these theories to ensure the optimal undergoing of activities. This aspect has a pronounced interest in present days and generates an important process in the development of the organizational framework both conceptually, theoretically, and practically, through targeted measures. Accounting theory consists of logical reasoning that aids in the evaluation, improvement and implementation of financial procedures and practices in companies, aiming to achieve optimal alignment within the economic-financial business environment. The purpose of this article is to compactly summarize the comprehensive critiques and analyses of different perspectives of accounting theory provided by important papers and studies, which represent valuable resources for researchers in the field and beyond.

Keywords: accounting theories, development, conceptual framework, companies, artificial intelligence, normative theories, positive theories

1. Introduction

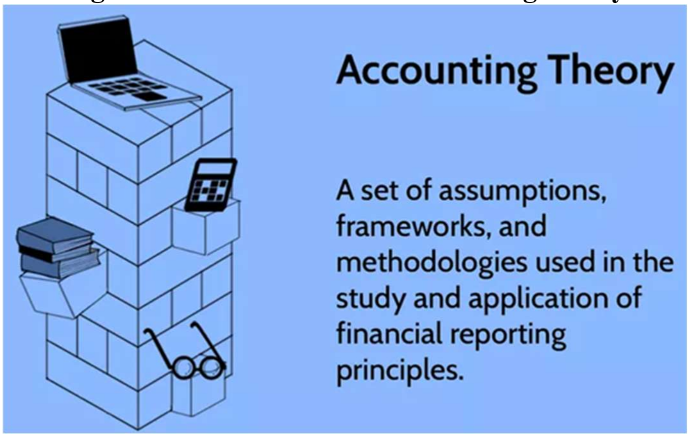
The accounting theory analyzed as a whole, represents a set of assumptions, frameworks and methodologies focused on the application and analysis of the regulation and accounting reporting principles. The accounting domain is under constant change therefore a review is needed to consider both the fundamentals of accounting practices, the current organizational and global environments.

The accounting theory is characterized by the guidance that it provides for the optimal execution of the financial process, having an important role in ensuring accuracy and consistency of data and also in enhancing its quality and comparability. The business environment brings new challenges in the market, making accounting theory a continuously evolving process that must adapt to existing financial mechanisms found in the reporting process. The conceptual framework of accounting represents a strong bond provided by an independent entity named the Financial Accounting Standards Board (FASB), who establishes the practices and objectives in financial reporting for both the private and public sectors.

An important characteristic of the accounting theory is the proper usage of document data that will lead to informed business decisions for those reviewing the financial statements, therefore in the corporate finance world it highlights the flexibility of accounting notions just to prove its efficiency when the environment changes.

The accounting theory is characterized by usefulness and also by the relevance of the information, comparability, reliability and consistency in the process of preparing the financial statements in companies.

Figure 1. The definition of accounting theory

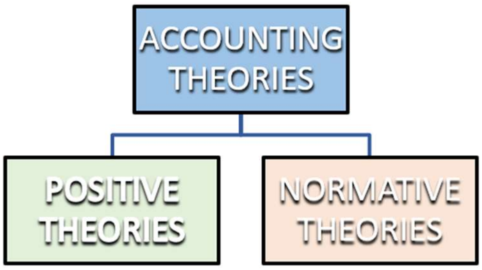


Source: Investopedia (Xiaojie Liu)

2. Initial definitions of accounting theories

Historically, accounting theories have been often described based on the normative or positive criterion of including and treating the information. These were oriented at establishing the rules and principles of accounting that the practicians need to apply in their activities and ensured basic characteristics such as data consistency, reliability and comparability. The main purpose of these theories is to provide a framework for accountants and other interested parties or other accounting information users in order to prepare and issue the financial statements that will accurately provide the financial position of the company along with its measurable performance indicators.

Figure 2. General representation of accounting theories



Source: created by the authors

2.1 Normative accounting theory

Normative accounting theory refers to a prescriptive character and proposes the manner in which accounting processes should be carried out through establishing the regulations and standards that the practitioners should follow.

”The normative theories have as starting point certain standards and principles that delimitate, in context, the development of a guide that comprises the accounting practices and procedures. In these theories the deductive judgment is used, having as purpose obtaining some improvement of the environment described” (Stefan-Duicu & Stefan-Duicu, 2014).

Table 1: Highlights regarding the normative accounting theory

THEORIES	DEFINITION	KEY STUDIES	FINDINGS
Historical Cost Accounting	This theory presents the utilization of historical costs as a fundamental element for financial reporting.	Paton, W. A., & Littleton, A. C. (1940). "An Introduction to Corporate Accounting Standards"	Historical cost accounting provides a stable and objective measurement of asset values, although it presents a limited relevance.

Decision-Usefulness Theory	This theory suggests that accounting information should be created to be useful for decision-making of investors and other users of accounting information.	Staubus, G. J. (1961). "A Theory of Accounting to Investors"	Accounting standards should prioritize the needs of investors. This aspect can be solved through providing relevant information for decision-making in the financial reports.
Conceptual Frameworks	These frameworks comprise of principles and objectives of financial reporting aiming the development of accounting standards.	FASB (1978). "Statement of Financial Accounting Concepts No. 1: Objectives of Financial Reporting by Business Enterprises"	The conceptual framework represents the foundation for standard-setting based on the qualitative characteristics of useful financial information (relevance, reliability, comparability, and consistency).
Fair Value Accounting	This theory recommends the measurement of assets and liabilities at their current market values.	Barth, M. E. (1994). "Fair Value Accounting: Evidence from Investment Securities and the Market Valuation of Banks"	Fair value accounting brings a higher relevance of financial statements by taking into consideration the current economic conditions, despite a possible volatility.

Source: Authors' computations based on academic library research

Table 2: Other normative accounting theory highlights

	KEY STUDIES	FINDINGS	IMPLICATIONS
NORMATIVE ACCOUNTING THEORY	Gray, R., Dey, C., Owen, D., Evans, R., & Zadek, S. (1997). "Struggling with the Praxis of Social Accounting: Stakeholders, Accountability, Audits and Procedures"	Analyze the challenges in accounting practices from the perspective of introducing a social accounting and auditing aspect.	Consider the need for more strong regulations that effectively comprise stakeholder's interests into accounting practices.
	Power, M. (1997). "The Audit Society: Rituals of Verification"	Auditing practices develop an image of legitimacy and safety.	Explains the importance of the audit processes and the importance of the transparency methods in auditing.
	Sikka, P., & Willmott, H. (1997). "The Power of 'Independence': Defending and Extending the Jurisdiction of Accounting in the United Kingdom"	Describes the concept of 'independence' in accounting.	Brings up front the need of transparency of the accounting information to ensure the independence of the public interest.
	Gray, R., Kouhy, R., & Lavers, S. (2001). "Corporate Social and Environmental Reporting: A Review of the Literature and a Longitudinal Study of UK Disclosure"	Examines trend in social and environmental disclosures.	Explains the need for standardized and rigorous reporting practices that combines both organization's social and environmental impact.

	Spence, C., & Carter, C. (2011). "Accounting for the General Intellect: Immaterial Labor and the Social Factory"	Presents the concept of immaterial labor and how this notion is important in accounting.	Highlights the need of a new vision for accounting frameworks to a better understanding for the value and the importance of the immaterial labor.
	Bebbington, J., Unerman, J., & O'Dwyer, B. (2014). "Sustainability Accounting and Accountability"	Sustainability accounting has a fundamental role in enhancing the transparency of the accounting theory.	Calls for the need of robust sustainability accounting frameworks to improve the practice.
	Adams, C. A. (2015). "The International Integrated Reporting Council: A Call to Action"	Describes the importance of the International Integrated Reporting Council (IIRC) in explaining the integrated reporting practices.	Pledge for a generally adoption of integrated reporting to ensure a great transparency and to provide an important view of performance.
	Rinaldi, L., Unerman, J., & De Villiers, C. (2020). "Evaluating the Integrated Reporting Journey: Insights, Gaps, and Agendas for Future Research"	Integrated reporting has the potential to provide a good image of organizational performance, but it encloses implementation challenges.	Exposes the need for clarity in guidelines and frameworks within the process of integrated standardization reporting practices.

Source: Authors' computations based on academic library research

2.2 Positive accounting theory

Positive accounting theory is a descriptive theory with a foundation based on observation, description and explanation of accounting practices in contrast with the normative theory that prescribes specific practice methods. The positive theory of accounting focuses on understanding the information described and on the inclusion of working processes of accountants within the general organizational environment.

„The positive theory of accounting is the theory that has as main purpose the explanation of the accounting corpus as a science and as practice in order to evidence the meaning that all operations have, starting from each integrated element of the economic and social dimension including even the human resources that monitor and act accordingly to the guiding principles (Stefan-Duicu & Stefan-Duicu, 2013).

3. Summary of the outcome of previous research regarding normative and positive accounting theories: findings and implications

These examples show the difference between positive accounting theories, which have the purpose to explain and predict actual accounting practices based on observed behavior, and normative accounting theories, which prescribe the manner regarding how accounting should be conducted to achieve certain results, such as decision-usefulness or fair representation.

Table 3: Positive accounting theory highlights

THEORIES	DEFINITION	KEY STUDIES	FINDINGS
Capital Market-Based Accounting Research	This research explores how accounting information influence the capital markets and the	Ball, R., & Brown, P. (1968). "An Empirical Evaluation of	The information about earnings generates stock price movements and has

	decision making for investors.	Accounting Income Numbers"	an important value in capital markets.
Agency Theory	This theory investigates the relationship between principals (shareholders) and agents (managers), highlighting on the debates created by the conflicts of interest and the solution to solve them.	Jensen, M. C., & Meckling, W. H. (1976). "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure"	Agency costs appear as a consequence of conflicts between shareholders and managers. Verifying and offering guidance as a secure mechanism, such as performance-based compensation, can help align interests.
Contracting Theory	This theory describes how accounting numbers are used in contracts.	Watts, R. L., & Zimmerman, J. L. (1986). "Positive Accounting Theory"	The choices of accounting practitioners are influenced by their impact on contractual agreements. Companies can choose the accounting methods in order to diminish the likelihood of breaching regulations.
Earnings Management Theory	This theory focuses on how managers use and manipulate the financial reports to influence specific financial results.	Healy, P. M., & Wahlen, J. M. (1999). "A Review of the Earnings Management Literature and Its Implications for Standard Setting"	Managing personnel uses discretion in accounting to manage earnings from a variety of reasons, including achieving targets, meeting analyst's expectations or to influence the stock prices.

Source: Authors' computations based on academic library research

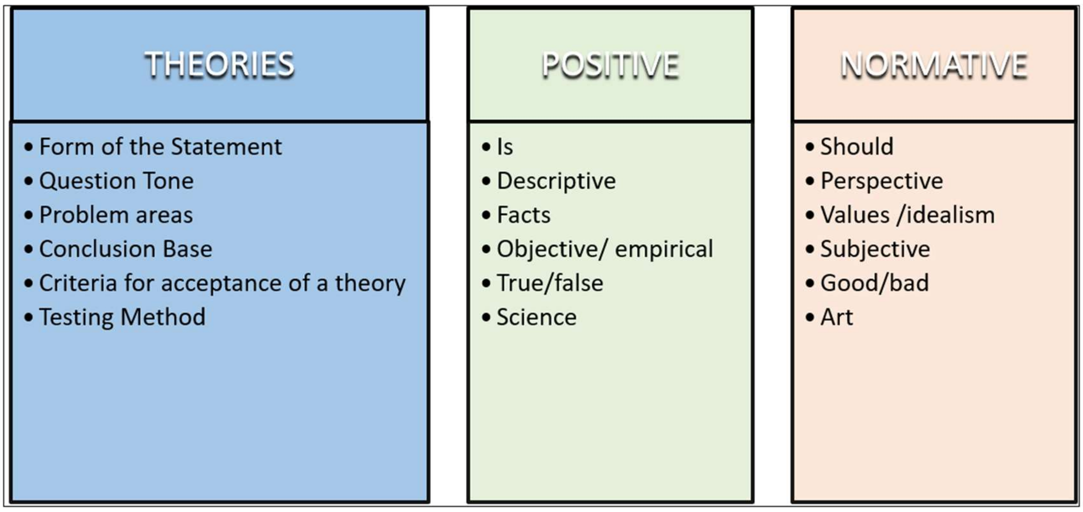
Table 4: Other highlights of positive accounting theory

	Key Studies	Findings	Implications
POSITIVE ACCOUNTING THEORY	Watts, R. L., & Zimmerman, J. L. (1990). "Positive Accounting Theory: A Ten-Year Perspective"	Reviews the development and posture of the Positive Accounting Theory (PAT) over a decade, explaining its predictive power and empirical support in research.	Explains the importance and the relevance of PAT in understanding accounting choices and behaviors conducted by economic purposes.
	Holthausen, R. W., & Watts, R. L. (2001). "The Relevance of the Value-Relevance Literature for Financial Accounting Standard Setting"	Investigates critically the value - relevance in literature and the effects for the financial accounting standard-setting.	Highlights that value-relevance research provides useful views and suggests to be completed with other studies to complete standard-setting.
	Ball, R., & Shivakumar, L. (2005). "Earnings Quality in UK Private Firms: Comparative Loss Recognition Timeliness"	Discuss the quality of earnings in UK private sector regarding the loss recognition compared to public firms.	Describes the importance of regulatory environment and organizational structure

			in managing earnings quality.
	Bushman, R. M., & Piotroski, J. D. (2006). "Financial Reporting Incentives for Conservative Accounting: The Influence of Legal and Political Institutions"	Analyzes how different institutions modifies financial reporting incentives for conservative accounting practices.	Explains that institutional factors have a significant role in determining the conservatism of financial reporting.
	Beyer, A., Cohen, D. A., Lys, T. Z., & Walther, B. R. (2010). "The Financial Reporting Environment: Review of the Recent Literature"	Investigate the contemporaneous literature on the financial reporting environment, outlining the role of standards and regulations.	Brings a big picture of factors influencing financial reporting for the incoming research.
	Chen, Q., & Schipper, K. (2016). "Comments and observations regarding the relation between theory and empirical research in contemporary accounting research".	Examines the connection between theory as study and the empirical research.	Launches the idea that the process of collaboration between regulators and practitioners is very important in obtaining great results.
	Christensen, H. B., Hail, L., & Leuz, C. (2018). "Economic Analysis of Widespread Adoption of CSR and Sustainability Reporting Standards"	Describes the economic aspects of applying corporate social responsibility (CSR) and sustainability reporting standards.	Explains the importance of regulations in this field, with both the benefits and challenges of widespread adoption.

Source: Authors' computations based on academic library research

Figure 3. Difference between positive and normative accounting theories



Source: Authors' computations based on Theresia H. B. (2017)

Table 5: Recent results from accounting theories research

	KEY STUDIES	FINDINGS	IMPLICATIONS
ACCOUNTING THEORIES	Juusola, K., & Srouji, R. (2023). "Challenges associated with sustainability accounting and reporting practices: a legitimacy perspective"	This study highlights the negative parts in sustainability reporting, explaining that the current frameworks do not adequately reflects the real results of sustainability appliance.	The study identifies the need for the development of more rigorous and standardized sustainability reporting frameworks.
	Dillard, Jesse & Shivji, Alysha & Bianchi, Lara. (2023). "Rights-based, worker-driven accountability in the	The paper reflects the field research in critical accounting.	This paper proposes extended research on environment measures.

	fields: Contesting the uncontested contestable"		
	Saji, T. G. (2022). "Asymmetric financial reporting quality and firm size: conditional evidence from an emerging market"	The paper describes an improved transparency in managing the international accounting standards and calls for a better regulations support in implementation process.	The main idea reflects the need for an enhanced support to ensure effective implementation of international standards.
	Albuquerque, F., & Dos Santos, P. G. (2023). "Recent Trends in Accounting and Information System Research: A Literature Review Using Textual Analysis Tools"	This paper examines the impact of textual analysis tools in accounting.	The main purpose of the paper is to show the importance of treating the information with close attention in order to be prepared for the future crises.
	Fomina, O., Zadniprovsky, O., Korol, S., & Romashko, O. (2022). "Professional judgement in accounting: contents and conditions of application"	In this paper is presented the professional judgment as a fundamental base despite the subjective views and the inconsistencies of the information in the financial reports.	The authors describe a mechanism of guidance in decision-making in order to reduce the professional judgment issues.
	Caraiman, A. C., & Mates, D. (2020). "Risk management in corporate governance"	Discuss the connection between corporate governance implications and the practices of risk management.	Offers a view in which strong governance frameworks can increase the resilience in companies and the risk management.
	Moser, D. V., & Martin, P. R. (2020). "A Broader Perspective on Corporate Social Responsibility Research in Accounting"	Offers details about the state of CSR research in accounting.	Recommends more interdisciplinary research to understand the changes of CSR in accounting.
	Higson, A., (2020). "A Critique of the Conceptual Framework for Financial Reporting"	The aim of the paper concerns the current Conceptual Framework for the issues about relevance and other quality characteristics.	The study comes with the suggestion for the Conceptual Framework to be revised.

Source: Authors' computations based on academic library research

These references discuss important information on both normative and positive theories in accounting, outlining their findings and implications for the field in order to provide valuable insights for practice and for the academic structures into past and current challenges, offering a set of recommendations and establishing some directions for future.

4. Conclusion

Over time, accounting theories have known an extended approach that incorporates broader perspectives in a multidisciplinary frame: economical, social, geopolitical and financial field. The high rate of changes has determined an evolution of the information reflected in the dynamic of business environments and called for the need of a more tailored and comprehensive theoretical frameworks.

Nowadays, accounting theories represent a multidisciplinary process that aims to not only examine and predict accounting practices but also to bring a great awareness on different impacting notions such as sustainability, artificial intelligence development, ethical behavior, post pandemic adaptation etc.

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