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Normative Accounting: A Philosophy Perspective

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Abstract – Normative Accounting Theory is defined as a theory that requires and uses value judgments. The normative approach was unable to produce an accounting theory that was ready to be used in daily practice. This study aims to provide an overview of normative accounting theory based on the perspective of philosophy of science. This study analysis used five aspect of philosophy perspective, namely epistemology, ontology, axiology, ethics, and heuristics. From the ontological aspect, normative accounting has ontological foundations as a science. From the epistemological aspect, normative accounting theory is developed based on the epistemological underpinnings of the philosophy of science. From the axiological aspect, normative accounting was developed based on the axiological basis of the philosophy of science. The development of a professional code of ethics, a code of ethics for examining and disclosing fraud or management manipulation, as well as the development of accounting based on religious values (eg sharia accounting) can be classified under this ethical aspect. This showed that normative accounting has ethics and heuristics foundations as a science. Normative Accounting is a product of knowledge that does not have absolute truth, so there is no need for differences in perspectives in researching accounting to become a conflict which can override the nature of epistemology, ontology, axiology, ethics, and heuristics.

Keywords – normative, accounting, philosophy

I. INTRODUCTION

Accounting knowledge has developed quite rapidly. This is indicated by the number of accounting studies that have been increase. However, the debate about accounting as an art or science is still ongoing. Ghozali (2007) reveals that the debate on accounting as an art or science has started since the 1970s. Based on accounting textbooks written around the 1960s describing accounting as an art where it is explained that accounting is the art of recording and summarizing business transactions and interpreting their effects on economic unit activities (Ghozali, 2007). In its development, starting in the 1970s, many accounting academics began to reject the definition of accounting as an art and argued that accounting is a science. The development of accounting as a science requires the application of a scientific methodology in the development of accounting theory (Ghozali, 2007). The use of scientific methodology for the development of accounting theory cannot be separated from the philosophy of science, especially the notion of logical positivism. According this, science begins with empirical observation, each empirical observation will produce a singular statement and if certain conditions are met then it is justifiable to generalize from a singular statement to a universal law or theory (Ghozali, 2007).

According to Ghozali (2007) certain conditions that must be met in order to draw conclusions to become a universal law are: (1) the number of observation statements used as the basis for generalization must be large, (2) these observations must be repeated under a variety of different conditions, (3) the observation statement received must not conflict with the universal laws resulting from the statement. If a scientist has obtained a universal law or theory, then he can draw the consequences of the

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universal law as an explanation or prediction. Reasoning like this is referred to as deductive or normative reasoning and the method of drawing conclusions only uses logical principles or is referred to as syllogistic logic (Ghozali, 2007). Krismiaji and Murwani (2013) suggest that theory development begins when researchers think about explaining a phenomenon. For example, an explanation of using LIFO or FIFO would be chosen by a manager who is expected to minimize tax debt. From this understanding it can be understood that the purpose of the theory is to explain and predict. Explaining means giving reasons why a phenomenon takes place as observed. Predicting means giving confidence that if the assumptions required by the theory are met, it is very likely that a certain phenomenon will actually occur (Krismiaji and Murwani, 2013).

Hendriksen and Breda (2001), and Wolk et al. (2001) stated that accounting fulfills the nature and principles as a science that has a theory. The main objective of accounting theory is to provide a framework for explaining and predicting (predicting and explaining) accounting behavior, events or practices, including auditing practices.The development of accounting theory began with the emergence of Normative Accounting Theory which is defined as a theory that requires and uses value judgments. The development of accounting theory began with the emergence of Normative Accounting Theory which is defined as a theory that requires and uses value judgments. The normative approach experienced its heyday in 1960-1970, but was unable to produce an accounting theory that was ready to be used in daily practice. This is due to the lack of contribution made by Normative Accounting Theory, resulting in a shift in approach in accounting research in the 1970s. This paper aims to provide an overview of normative accounting theory based on the perspective of philosophy of science.

II. NORMATIVE ACCOUNTING THEORY

Normative accounting theory wants to answer what accounting should do in daily practice (Ghozali, 2007). Normative accounting theory seeks to provide guidelines for what should be done based on value judgments used in formulating theories. Normative accounting theory only states hypotheses about how something should be practiced, without testing those hypotheses. Based on this, normative accounting 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 at explaining and answering questions about "what and how should be done" by accountants.

Normative accounting theory uses value judgments which at least contain a premise that says that this is the way things should be. For example, a premise stipulating that accounting reports should be based on the net realizable value of assets will indicate a normative system (Krismiaji and Murwani, 2013). It is this normative accounting theory that underlies the birth of various standard setters to formulate accounting standards. The main purpose of accounting (financial) is to provide financial information about an entity, which can be used by interested parties as material for consideration in making economic decisions. The communication media commonly used by companies to convey financial information are financial statements. Because there are many interested parties outside the company and each has different interests, the financial reports produced by accounting must be intended for the public (general purpose financial statements). For this reason, accounting standards are needed which are a set of principles that can be used as a reference (guidelines), both for companies in compiling and presenting financial reports, as well as for users in interpreting or interpreting financial reports (Krismiaji and Murwani, 2013).

III. NORMATIVE ACCOUNTING THEORY FROM PHILOSOPHY PERSPECTIVE

Philosophy of science is a branch of philosophy that is widely used as a basis for developing science which is part of epistemology (philosophy of knowledge) which specifically examines the nature of science (Abdullah, 2011). Lako (2004) argues that all knowledge, whether it is science, art, or any kind of knowledge, basically has three foundations, namely ontological, epistemological and axiological. Ontology discusses what one wants to know or in other words is a study of the theory of being. The ontological basis of science is closely related to the material that is the object of study of science. Based on the object studied, science can be called empirical knowledge because the object is something that is within the reach of human experience which covers all aspects of life that can be tested by the five human senses (empirical in nature). Epistemology discusses in depth all the processes involved in the effort to acquire knowledge. In other words, epistemology is a theory of knowledge obtained through a certain process called the scientific method. The axiological basis of science is an analysis of the application of scientific findings and the benefits that humans derive from the knowledge they acquire. Lako (2004) added that the philosophy of science needs to be directed to ethical and heuristic aspects as well as to the cultural dimension. The ethical aspect means that science is applied to increase human dignity so that the application of science needs to be done responsibly. Heuristic aspects are non-scientific factors

that influence the development of science or that lead to the birth of new branches of knowledge.

Philosophy of science is a branch of philosophy that has been widely used by accounting experts to develop accounting theory, including normative accounting theory. Normative accounting theory is often called a priori theory which means from cause to effect or is deductive in nature. Normative Accounting Theory results from "semi-research" activities not from empirical research and only states hypotheses about accounting that should be practiced without testing these hypotheses. The hypothesis in this theory is how accounting is practiced, and tends to be structured to produce accounting postulates. Lako (2004) describe at least four postulates or basic accounting assumptions. The four postulates are:

1. Postulates of business entities

   This postulate reveals that every corporation is an accounting (business) unit that is separate and distinct from its owners and other companies. This postulate defines the accountant's area of concern and limits the number of objects, events and event attributes that must be included in the financial statements. This postulate also enables the accountant to distinguish between business and individual transactions, where the accountant reports transactions of the company not those of the owners of the company; and recognize the responsibility of management services to shareholders.

2. Postulate of going concern

   This postulate reveals that accounting entities will continue to operate to carry out ongoing projects, commitments, and activities. This postulate assumes that the entity is not expected to be liquidated in the foreseeable future or that the entity will continue to operate for an indeterminate period of time.

3. Postulate of monetary units

   This postulate reveals that accounting is the measurement and process of communicating company activities that can be measured in monetary units. This postulate has implications for the main limitations of accounting, namely accounting is limited to predicting information expressed in monetary units; does not record and communicate other information that is relevant but non-monetary in nature. This view encourages the profession to define accounting information as 'quantitative, formal, structured, auditable, numerical and past-oriented', and to define non-accounting information as 'qualitative, informal, narrative, unaudited and future-oriented'.

4. Postulate of periodicity

   This postulate emerged in response to requests from users of financial statement information about the financial position and performance of companies to make short-term decisions. This postulate states that financial statement information that describes changes in the company's welfare should be disclosed periodically. The length of the time period may vary depending on the fiscal year or calendar year used.

From the ontological aspect of the philosophy of science, namely questioning what are the assumptions of science regarding material objects and formal objects, and whether objects are physical or psychological in nature), then normative accounting theory shows that accounting has a number of postulates or basic assumptions regarding material and object objects. formal, and the object can be physical (evidence of financial transactions or the like) and behavior. In other words, accounting has ontological foundations as a science.

From the epistemological aspect of the philosophy of science, namely discussing the objects of knowledge, sources and tools for obtaining knowledge, awareness and methods of inquiry, the validity of knowledge, and the truth of knowledge, normative accounting theory shows that accounting is a science with multiple paradigms. Each paradigm of accounting science has its own object of knowledge, images of the subject matter, theories, methods and instruments. In addition, this also shows that accounting has a number of principles or standards that are used as a method of assessment and testing and recognition of an object or item. These principles or standards are historical cost, revenue recognition, matching principle, objectivity, consistency, full, fair and adequate disclosure; conservatism; materiality; uniformity and comparability. Thus, accounting theory is developed based on the epistemological underpinnings of the philosophy of science.

From the axiological aspect of the philosophy of science, namely the benefits that humans get from the knowledge they acquire, the development of accounting science (theory) is meant to: (1) guide standards-setting bodies to set accounting

standards, (2) provide a frame of reference for solving specific problems accounting in preparing an accounting standard, (3) determining the limits for consideration in the preparation of financial statements, (4) increasing the understanding and confidence of users of financial statements, and (5) increasing or achieving comparability. Parties who need and enjoy the benefits of accounting information or services are investors and shareholders, employees, lenders/creditors, suppliers and other business creditors, customers, the government and its agencies, the public and management. They need accounting information for decision making or for certain purposes. The conceptual framework requires that accounting information that is useful to users is information that meets the qualitative requirements of relevance and reliability. Thus, accounting was developed based on the axiological basis of the philosophy of science.

Normative accounting theory postulates can also consider ethical and heuristic aspects. The ethical aspect of the accounting process is that the accounting process is intended to produce relevant and reliable accounting information (ethical and moral aspects) about an organization's financial performance over a certain period of time for further presentation to interested parties. The process of accounting and reporting of accounting information is also intended as management's responsibility for the management of a number of economic resources entrusted to the owner or shareholders. So the output and outcome of the accounting process are intended to increase the human dignity of the wearer. The development of a professional code of ethics, a code of ethics for examining and disclosing fraud or management manipulation, as well as the development of accounting based on religious values (eg sharia accounting) can be classified under this ethical aspect. The heuristic aspect in the development of accounting science is that in investigating a phenomenon or event related to the public or market response to accounting results, researchers need to consider non-scientific factors that influence or become anomalies. This shows that the current development of accounting science leads to a multi-paradigm science, where to answer a number of actual problems or challenges, accounting begins to adopt methods, approaches or theories from other scientific disciplines, such as psychology, sociology. , anthropology, economics, finance and others.

IV. Conclusion

The development of accounting science as an art into accounting as a science cannot be separated from the philosophy of science. At the beginning of the development of accounting science, it used a normative approach where accounting wanted to answer what accounting should do in daily practice. This is the background to the emergence of normative accounting theory. This theory uses the deductive method and is basically a closed system, non-empirical and its conclusions are based on premises. The results of accounting research need not be seen as a dubious value or theoretically imperfect. Accounting is a product of knowledge that does not have absolute truth, so there is no need for differences in perspectives in researching accounting to become a conflict which can override the nature of epistemology, ontology and axiology, ethics, and heuristics.

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