Accounting Theory Formulation: the Methodological Approach

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DOI: https://dx.doi.org/10.47772/IJRISS.2023.7011129

Received: 03 November 2023; Revised: 14 November 2023; Accepted: 17 November 2023; Published: 19 December 2023

ABSTRACT

This study delves into the formulation of accounting theory and the various methodological approaches used in this endeavor. It explores the significance of accounting theory in the context of financial reporting, decision-making, and the development of accounting standards. The development of accounting theory from a methodological perspective is a difficult and pervasive subject that affects how financial statements are prepared and presented. The research methodology employed in this study includes a comprehensive literature review, content analysis, and empirical investigation. The findings contribute to a deeper understanding of the evolving nature of accounting theory formulation and its implications for the accounting profession. The study concludes that the positive and normative accounting theory is the first set of accounting theories that produce other accounting theories.

Keywords: Accounting theory; positive theory; Normative theory; methodological approached

INTRODUCTION

Concern over disagreements in accounting and financial reporting practice has grown significantly over the past few decades on a global scale. This diversity in accounting practices was due to the lack of a single, widely acknowledged accounting theory (Wolk *et al.*, 2019). There are numerous competing theories, each claiming to be the optimal strategy given the circumstances of accounting. However, conflicts between competing theories and values resulted from both methodological disagreements between theories and an incorrect understanding of how a priori and empirical research should be related. The political orientation of accounting policy-makers gives rise to further significant controversies (Gaffikin, 2016). Due to necessity, accounting's fundamental ideas and presumptions are more deeply ingrained in the moral framework of the culture in which it thrives (Hahn, 2007).

Historically, accounting theories have been developed through various methodological lenses, including quantitative, qualitative, and interdisciplinary approaches (Wolk *et al.*, 2019). However, there is a need to systematically examine and understand the methodological landscape of accounting theory formulation. By doing so, researchers and practitioners can gain insights into the strengths, weaknesses, and emerging trends in the methodologies used to develop accounting theories (Gaffikin, 2016).

Given this, accounting theory formulation plays a crucial role in shaping the accounting profession, financial reporting practices, and the broader business environment (Scott, 2015). Accounting theory formulation serves as the foundation for accounting standards, influencing how financial information is prepared and presented The development of accounting theory is an ongoing process, driven by various stakeholders such as academics, practitioners, regulators, and standard-setting bodies (IASB, 2022).

Before the 19th century, accounting was primarily seen as an internal task carried out for the benefit of

business owners with little to no impact on the general public. However, the expansion and popularity of publicly traded corporations meant that accounting started to take on importance as a crucial facet of business operations that the general public began to take an interest in. This served as the foundation upon which many experts in the field, like Patton (1962) and Broadbent (2002), suggest the fundamental notions upon which the principles of accounting should be established, i.e., generalized procedures to make suggestions. Eleven accounting postulates were created by Patton in 1962 to address concerns like entity and company continuity. The attention of many economists in the profession increased around this time, and several economic models that looked at the procedure's accountants employed and how models may be utilized effectively in the field began to appear. Reiter and Williams (2002) belonged to the positivist school of thinking, these economists included Patton (1962); Llewelyn (2003); Scott (2015), and Sunder (2017) as representatives of the normative approach.

During this time, researchers and academics weren't the only ones who were interested in establishing accounting ideas. Professional organizations started to arise, including The Institute of Chartered Accountants in England and Wales (1852) and the American Institute of Public Accountants (1887). However, it wasn't until the 1929 stock market disaster that organizations like these started to develop significant political clout, and accounting started to be recognized as a legitimate profession and discipline. The events of 1929 made it necessary to standardize accounting practices, and academic scholars started looking for a framework that could do this. This was followed by the recognition that accounting had social repercussions and the development of the European and the US regulatory systems. In contrast to the European perspective, which holds that regulations should be owned and carried out by the people, the United States views regulation as a process that should be carried out by independent institutions. In recent years, the US strategy has started to gain traction, and the Europeans have started to abandon the public ownership tenet in favor of the US model (Laughlin, 2007).

The fundamental reason for this has been the understanding that public groups can be too readily swayed by corporations and might not have the authority to enact challenging and divisive ideas. The private sector cannot be entirely trusted to implement norms that are in the best interests of the public, thus this may not be the best option either. Undoubtedly, the regulation of accounting has an impact on a variety of domains, both public and private, and it may be important to further study some of the theories (Sunder, 2017)

The methodological approach in accounting theory formulation encompasses a variety of techniques and strategies. These include positive approach, deductive approaches, inductive approaches, normative analysis, empirical research, historical analysis, and critical theory. Each approach offers distinct insights and perspectives, contributing to the richness and diversity of accounting theory (Dillard & Rigsby, 2013). Watts and Zimmerman (1986) propose positive accounting theory, the theory which focuses on explaining and predicting accounting practices based on the self-interest of individuals. Also, positive accounting theory seeks to understand and describe accounting phenomena without making judgments. Watts and Zimmerman (1986) present a seminal work in a book titled "Positive Accounting Theory". The deductive approach of accounting theory involves starting with a general theory or hypothesis and then testing it against specific instances or observations. In accounting, this might involve applying general accounting principles to specific situations to derive specific conclusions (Anthony & Reece,1996). Watts and Zimmerman (1986) opined that the inductive approach involves starting with specific observations or instances and then deriving general principles or theories from them. In accounting, this might involve studying specific accounting practices and deriving broader principles from those practices. Normative analysis involves the development and evaluation of accounting theories based on normative criteria. The work of Ijiri (1975) in "Theory of Accounting Measurement" is an example of normative analysis. Empirical research of accounting theory involves the use of real-world data to test and validate accounting theories. Watts and Zimmerman (1978) are pioneers in the empirical research methodology, and their work "Towards a Positive Theory of the Determination of Accounting Standards" is widely cited. Critical

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue XI November 2023

perspectives of accounting theory involve examining accounting practices from a socio-political context. Power (2003) in "Auditing and the Production of Legitimacy" offers insights into the critical perspectives on auditing. Scott (1987) in "Institutional Theory and the Study of Organizational Change" introduces institutional theory, which examines how institutions shape and influence organizational behavior, including accounting practices.

To gain a deeper understanding of accounting theory formulation, researchers have employed a combination of qualitative and quantitative methods. For instance, empirical investigations have been used to examine the practical implications of accounting theories, such as the impact of different accounting methods on financial statement users' decision-making. In contrast, normative analysis involves the evaluation of various accounting principles and their ethical underpinnings (Scott, 2015). The significance of accounting theory formulation is evident in its ability to guide the development of accounting standards. Standard-setting bodies like the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) rely on accounting theories to establish principles that govern financial reporting. These standards have global implications, affecting financial reporting practices worldwide (FASB,2022).

Despite the significance of accounting theory, there exists a gap in the literature regarding a systematic exploration of the methodological approaches employed in its formulation. The methodological landscape may be fragmented, and there may be limited integration of interdisciplinary perspectives (Deegan & Unerman, 2016). Ethical considerations, stakeholder involvement, and the adaptation of methodologies to technological and globalized business environments may not be adequately addressed. This study aims to address these gaps by conducting a comprehensive examination of the methodological approaches in accounting theory formulation, shedding more light on the positive and normative accounting theory. By critically examining the issues and prospects of the positive and normative accounting theories together with their contributions, this research will contribute to a deeper understanding of the role of accounting theory in shaping the financial reporting landscape.

ACCOUNTING THEORY CONCEPT

Accounting theory was described by the American Accounting Association (AAA) in 1960 as a unified collection of hypotheticals, conceptual, and pragmatic concepts that serve as a basic frame of reference for a field of study to explain and forecast. Accounting theory was described as a concentration distilled from experience (Deegan & Unerman, 2016). Analyzing experience with intelligence results in logical justifications and sheds light on the practice. The traditional theory has a descriptive tone. Therefore, rather than being made up of natural events, accounting theory is constructed of man-made constructs.

The goal of accounting theory is to provide a framework for assessing present financial reporting practices and creating new ones. Whenever a new application of practices is required, the general framework of references of accounting theory should give accounting advice on the most suitable processes to adopt in the situation. Accounting procedures have been put to the test for a reason, consistency, and utility if they result from the application of a carefully developed accounting theory. There is currently no one widely acknowledged accounting theory that all practitioners agree can achieve the goal. According to Patton (1962), current accounting thoughts and actions are drawing more attention from the ideas accumulated through the experience of many people than is consciously realized because of the wide availability of growing technical literature. As a result, many alternative theories have been put forth that continue to draw interest and support.

In line with this, the traditional method of accounting focuses on what accountants do. It placed a focus on accounting standards as the foundation for theory development. It has a descriptive tone. However, Godfrey et al, (2016) thought that rather than being composed of natural events, the topic of conventional accounting

theory was made up of man-made constructs. Accounting theory is still empirical because the topic must at the very least be on the scientist's mind. No matter the method chosen. According to Chau (2016), a study of the historical evolution of accounting thinking and practice is necessary to comprehend the contemporary situation of accounting theory.

Given this, both inductive and descriptive theories may be normative or descriptive (Gaffikin, 2016). The descriptive theory makes an effort to define and clarify what, when, and how financial information is displayed and sent to users of accounting data. The normative theory makes an effort to define what information should be transmitted and how it should be presented. That is an explanation of what ought to be rather than what is. According to Boland and Gordon (2012), the fact that accounting is a social science makes it feasible to convey certain data in a variety of ways, the best of which can be illuminating and beneficial. However, due to the differences in how the same facts are presented, it may be false and deceptive, distorting both the accounting picture and the financial judgment and choice of the many readers of financial reports.

Hahn (2007) opined that it is possible for two businesses that are engaged in the same line of business to present their financial reports in a way that they deem appropriate, but that makes it challenging to conduct an insightful analysis and evaluation of their performance and financial position. Without complete knowledge of the accounting techniques that have been applied, it is impossible to compare and analyze the financial results of other organizations. Therefore, accounting regulations are necessary. Wolk *et al.* (2019) also looked at the requirement for uniformity in the handling of similar accounting transactions. Roslander (2016) opined that many businesses revalued their assets outrageously throughout the asset appraisal process to raise the price at which the new shareholders would have to pay for the shares that would be given to them. The ensuing revaluation surplus received several different accounting treatments, which made the regulatory body ask why accountants would cause such confusion (Roslander, 2016).

LITERATURE REVIEW

This section reviews an in-depth understanding of positive and normative accounting theory of methodological approach together with their criticism, prospects, and the comparative study of positive and normative accounting theory.

Positive Methodology Approach

The positive methodology is also known as descriptive methodology, positive accounting theory, and "the Rochester school of accounting." The central claim of the positive theory of accounting is that the majority of normative theories of accounting now in use are not grounded in science and ought to be replaced by positive theories that depict actual accounting procedures and the development of regulated standards through time. It makes an effort to define and clarify what, how, and to whom financial information is presented and conveyed to users of accounting data. Empiricism or positivism refers to the process of putting accounting theories or hypotheses to the test or connecting them to real-world data or experiences. It does not specify which method a firm should employ; instead, it is intended to explain and forecast which firms will and which firms will not utilize a specific way of valuing assets.

In the 1960s, the idea of positive theory was just recently introduced to the accounting literature. Through their numerous papers, the most recent of which is Positive Accounting Theory (1986), Watts and Zimmerman have offered the strongest defense of positive accounting theory. Watts and Zimmerman (1990) asserted that "the goal of positive accounting theory is to explain and anticipate accounting practices to entail giving justification for observable behaviors. Positive accounting theory, for instance, tries to explain why businesses keep using historical cost accounting and why some businesses migrate between various accounting methods. The positive accounting theory foretells unobserved phenomena when it forecasts

accounting practice.

Unobserved phenomena include events that have already happened but for which systematic data has not been gathered. They are not always present-day events, however. For instance, positive theory research looks for empirical data to compare the characteristics of firms that employ the same accounting techniques year after year to those of firms that frequently alter accounting techniques. We would also be curious to know how businesses will respond to a proposed accounting standard and why they might advocate for or against it, even after the standard has already been published. Testing these hypotheses yields data that can be used to gauge the effects of accounting legislation before their implementation.

Riahi-Belkaoui (2004) opined that positive accounting's main goal is to forecast and explain management's choice of standards by weighing the costs and advantages of financial disclosures about various stakeholders and the distribution of resources throughout the economy. The premise of the positive theory is that managers, shareholders, regulators, and politicians are rational actors who seek to maximize their utility, which is directly correlated with their return and, consequently, their wealth. Stakeholders will base their decision on an accounting policy on an assessment of the relative costs and advantages of various accounting procedures in a way that maximizes their utility. For instance, it is assumed that management takes into account how tax law, political cost, and constraints included in bond-indenture conditions will be impacted by the reported accounting of figures. Similar theories could apply to academics, auditors, standard-setters, and other professionals.

Positive accounting theories are predicated on presumptions about human behavior that make: (i) assumed that directors have the option to adjust the firm's financing, investment, and production strategies to indirectly maximize their self-interest or to pick accounting practices that directly maximize their utility (self-interest); (ii) assumed that managers make decisions that increase the firm's worth, and (iii) it assumed that stakeholders are rational and utility maximizers (Watts & Zimmerman, 1986). The main goal of the positive approach is to create hypotheses about the facts that affect accounting practices and to empirically assess the viability of these assumptions to (i) increase the accuracy of predictions made using the observed smoothed series of accounting numbers along a trend that management deems to be best or normal, and (ii) lessen systematic risk in particular by minimizing the covariances between the firm's return and market returns, and to lessen uncertainty brought on by income member changes in general.

Criticism of Positive Accounting Theory (PAT)

One of the main criticisms of positive accounting theory is its reliance on simplified assumptions about human behavior. It often assumes that individuals, particularly managers, act solely in their self-interest, which may not always reflect the complex and nuanced motivations of real-world decision-makers (Watts & Zimmerman, 1990). Deegan (2022) opined that positive accounting theory does not provide normative guidance on what accounting practices should be. It primarily focuses on explaining and predicting current practices without addressing questions of ethical or optimal accounting standards. Healy and Palepu (2021) argue that positive accounting theory often assumes that capital markets are efficient and that accounting practices reflect this efficiency. However, in reality, capital markets are not always perfectly efficient, which can challenge the assumptions underlying PAT. Solomons (2021) examined overlooks ethical considerations in accounting practices as another major criticism of PAT. PAT focuses primarily on explaining observed behavior without addressing questions of ethical conduct, potentially leading to situations where unethical practices are rationalized. In the same view, Watts (2017) supported that positive accounting theory has been criticized for its limited ability to predict the behavior of managers in different contexts. The theory may not adequately account for factors like social norms, corporate culture, and the influence of regulatory bodies. Positive accounting theory often overlooks the psychological and behavioral aspects of decision-making, which are crucial in understanding why managers make certain accounting choices. It assumes a purely rational and self-interested approach, neglecting cognitive biases and bounded

rationality (Libby & Luft, 2013). Sunder (2017) asserted that positive accounting theory traditionally assumes that accounting practices remain static over time. In reality, accounting practices are subject to change due to technological advancements, regulatory updates, and shifts in economic conditions. PAT may not adequately address the dynamics of change in accounting practices. Deegan (2022) opined that PAT does not inherently incorporate ethical considerations in its framework. It often assumes that accounting choices are made solely to maximize wealth, potentially ignoring ethical responsibilities and societal expectations.

Prospects of Positive Accounting Theory (PAT)

Positive accounting theory can benefit from integrating insights from behavioral economics, which explores how individuals' cognitive biases and emotions influence their decisions. Combining PAT with behavioral economics can provide a more comprehensive understanding of accounting choices (Thaler & Sunstein, 2018). Ball (2016) asserted that the practical applicability of positive accounting theory in financial reporting and regulation is another prospect of PAT. By understanding how managers may make accounting choices in their self-interest, standard-setters, and regulators can design rules and disclosure requirements that align with economic realities. PAT has the potential to bridge the gap between accounting and other disciplines such as economics, psychology, and sociology. Collaboration with other fields can lead to a more holistic approach to studying accounting practices (Watts & Zimmerman, 1990). Dechow and Skinner (2000) supported that PAT is a valuable teaching tool in accounting education, as it helps students understand the rationale behind accounting practices and encourages critical thinking about the economic and behavioral factors that drive decision-making in the corporate world. Researchers have integrated positive accounting theory with other theories, such as Institutional Theory and Stakeholder Theory, to provide a more comprehensive understanding of accounting practices. This allows for a more nuanced analysis of decision-making in various organizational contexts (DiMaggio & Powell, 2013). Nelson and Tan (2015) concluded that PAT continues to evolve as researchers address its limitations. New research avenues are exploring the role of cognitive biases, social psychology, and behavioral economics in accounting practices, which may lead to a more robust and realistic version of the theory. In the same direction, Watts and Zimmerman (1986) opined that Despite PAT limitations, PAT has led to a wealth of empirical research in accounting. Researchers have used the framework to explore various accounting practices, which has advanced our understanding of how firms make accounting choices. In certain contexts, PAT still offers valuable insights into managerial behavior. Understanding how managers may act in their self-interest to help investors and stakeholders make more informed decisions.

Normative Methodology Approach

The "golden age" of normative accounting study occurred between 1950 and 1960. Instead of examining and elucidating the existing recognized practices, accounting researchers began to focus more on policy recommendations and what should be done during this time. During this time, normative theories mostly focused on describing the kinds of accounting and information that would help make economic judgments. Normative methodology, often referred to as normative accounting theory, makes an effort to specify what information should be conveyed and how it should be presented; in other words, normative theory tries to describe "what should be" rather than "what is." The concept of normative means it is related to rules or makes people obey rules, especially rules of behavior. Within the field of accounting theory, normative accounting examines the distinctions between various accounting systems and the potential advantages of one over the other. Normative accounting theory developers and practitioners aim to comprehend the practical goals of accounting and evaluate how well it satisfies those goals in comparison to alternative systems. Comparatively speaking to alternative approaches to accounting theory, normative accounting theory is typically more prescriptive.

The majority of financial accounting theory is normative (prescriptive). Most accounting theory researchers

(AAA, 1966; Buckley *et al.,* 1968; Mattessich, 1992; Broadbent, 2002; Roselander, 2016) focused on how businesses should account, for or what information should be included in published financial statements. The accounting theory researchers argue that government accounting and reporting regulations are a significant factor in generating demand for normative accounting theories that use public interest justifications, that is, for theories that claim to show that a particular accounting procedure should be used because they result in better investor decisions, a more efficient capital market, etc. Furthermore, a variety of recommendations and suggestions are preferred over a single (normative) theory. Normative researchers described their methodology for developing theories as scientific, and they typically founded their theories on both analytic (syntactic) and empirical (inductive) assumptions. Conceptually, the 1950s and 1960s normative theories started with a description of the domain (scope) and objective of accounting, the underlying presuppositions of the system, and definitions of all essential terms. Based on their findings, the normative theorists also established assumptions about the nature of the firm's operations. A logical justification for the accounting result was provided, together with clear and specific accounting principles and procedures. The analysis principles used in the deductive framework had to be exacting and consistent.

Scott (2003) opined that "the extent to which individuals follow the recommendations made by normative theories will determine whether or not they have excellent predictive skills''. We can see the public diversifying their investment portfolios, thus certain normative theories do have some predictive power. Even if it might not be able to make accurate predictions, a good normative theory is nevertheless possible. One explanation is that individuals could need some time to understand the theory.

Society might not adhere to a normative theory. They do not comprehend it, because they prefer another theory, or just out of inertia. Because they trust technical analysis, for instance, investors could not employ a broad investment plan and instead focus their money on companies that the analysts recommend. But as more individuals become aware of a normative theory, we ought to see it become more widely accepted. Predictability is not the primary standard by which a normative theory should be assessed, in contrast to a positive theory. Instead, it is evaluated according to how well it follows the fundamental presumptions of how a rational person ought to behave.

The primary goal of normative accounting theorists is to support a certain accounting system that they believe to be better than others, in addition to a standardized accounting system. The existence of value judgment is a fundamental component of normative theory. Normative theories frequently defend what should be as opposed to what is. Instead of just reporting what someone else has requested, it places the burden on deciding what ought to be disclosed by the accountant (Hendriksen, 1982; Riahi-Belkaoui 2004). Accounting and business experts have harsh criticisms of normative accounting theory. According to this method, theorists frequently rely too much on circumstantial evidence (such as fraud), which typically fails to pass academic consistency tests. This suggests that there may be difficulties in creating a set of accounting concepts that can be deemed objectively superior to one another (Deegan & Unerman 2006).

Criticism of Normative Accounting Theory (NAT)

Normative Accounting Theory, as opposed to Positive Accounting Theory, is concerned with establishing a framework for what accounting principles and practices should be, rather than explaining current practices. Here are some of the critics associated with Normative Accounting Theory: Normative Accounting Theory often faces challenges related to subjectivity in determining what is "right" or "ethical" in accounting practices. Different stakeholders may have conflicting views on what constitutes ethical accounting, leading to dilemmas (Littleton, 1933). The normative theories proposed by different scholars and standard-setting bodies may not always find universal acceptance. This can create challenges in harmonizing accounting standards globally (IASB, 2022). Whittington (2018) argues that since normative theories are well-grounded in accounting principles, their practical implementation can be complex. This gap between theory and practice can hinder the effectiveness of normative accounting standards. Zeff (2017) argues that normative

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue XI November 2023

accounting theory lacks an empirical basis for its normative recommendations. It may not sufficiently consider the practical implications and feasibility of applying its proposed accounting standards. In addition, Wyatt (2008) views normative theories as rigid, potentially stifling innovation and adaptability in accounting practices. The theory may not always account for evolving business models, financial instruments, and economic conditions. Normative accounting theory is often criticized for being overly theoretical and detached from real-world accounting practices. Critics argue that its principles might not be practical or adaptable to the dynamic and complex business environment (Solomons, 2021).

Prospects of Normative Accounting Theory (NAT)

Normative Accounting Theory provides an ethical foundation for the accounting profession. It encourages accountants and organizations to consider not only the economic impact but also the ethical and social implications of their accounting choices (MacNeal, 2019). Solomons (2021) argues that normative accounting theories serve as a benchmark for evaluating and improving accounting standards and practices. They provide a reference point for assessing the quality and integrity of financial reporting. IASB (2022) opined that normative accounting theories can contribute to the development of consistent and harmonized accounting standards across the globe. By emphasizing the importance of ethical and transparent accounting practices, they can facilitate international convergence. Gray (2015) emphasized that normative accounting theories advocate for greater accountability and transparency in financial reporting, and promote the disclosure of relevant information to various stakeholders, which can enhance trust and confidence in financial markets. Normative theories can evolve to address the changing business environment. It provides a foundation for adapting accounting standards to better accommodate emerging industries and technological advancements (IASB, 2022). In the view of Flower (2018), normative theories emphasize on the importance of accountability in financial reporting. This focus on accountability can lead to greater corporate responsibility and improved corporate governance. Normative theories can incorporate a stronger emphasis on ethical considerations, encouraging accountants and organizations to make accounting choices that align with ethical principles and social responsibility. Deegan (2002) admits that normative theories can incorporate a stronger emphasis on ethical considerations, encouraging accountants and organizations to make accounting choices that align with ethical principles and social responsibility. Gray et al. (2015) concluded that normative theories shift toward a more stakeholder-oriented approach, considering the interests of a broader range of stakeholders, including employees, communities, and the environment.

Table 1: Summary of Comparative Study on Positive Theory and Normative Theory

Areas	Positive Accounting Theory	Normative Accounting Theory
Complementary roles	PAT explains the observed behavior in the accounting field.	NAT provides a normative foundation for guiding accounting practices in an ethical and socially responsible manner.
Practical implications	PAT has practical implications for investors, regulators, and accounting professionals by helping them understand and anticipate managerial behavior.	NAT, on the other hand, has practical implications for standard setters and policymakers in crafting ethical and transparent accounting standards.
Flexibility vs rigidity	PAT is often viewed as more flexible, adapting to different contexts and market conditions.	NAT, with its focus on ethical principles, can be perceived as more rigid and less adaptable to changing economic circumstances.
Realism vs idealism	PAT is often criticized for being too simplistic and overly reliant on assumptions	NAT can be criticized for being overly idealistic and detached from real-world complexities.

Practicality	PAT is more concerned with practical applications, as it seeks to explain existing practices.	NAT, while providing a strong ethical foundation, may be criticized for its limited practicality in the business world.
Approach	PAT takes a descriptive and empirical approach, focusing on explaining and predicting actual accounting practices based on self-interest and wealth maximization	NAT is normative and prescriptive, emphasizing what accounting practices should be based on ethical and societal considerations.
Scope	PAT primarily addresses the behavior of managers and the role of accounting information in decision-making.	NAT considers a broader range of stakeholders and ethical considerations.
Empirical vs conceptual research	PAT relies heavily on empirical research to support its claims and hypotheses. It uses observations of actual accounting practices and financial data to explain managerial behavior.	NAT often involves the development of conceptual frameworks for accounting that outline the principles and values that should guide accounting standards. These frameworks provide a foundation for ethical accounting practices.
Nature and focus	PAT is primarily descriptive and explanatory in nature. It aims to describe and explain accounting practices as they are observed in the real world. It focuses on understanding the factors influencing the choices made by managers, such as self-interest and the desire to maximize their wealth.	NAT is normative in nature, meaning it prescribes what accounting principles and practices should be. It is concerned with establishing ethical and ideal accounting standards. It emphasizes what ought to be done based on ethical considerations and societal values.
Globalization and harmonization	PAT's is a market-driven approach	NAT's ethical foundation can have contrasting impacts on convergence efforts
Education and professional development	PAT-based curricula may emphasize empirical analysis.	NAT-based programs may focus on ethical decision-making and principles.

Source: Researcher Compilation (2023)

RESEARCH DESIGN

The research design employed for this study is exploratory-based library research design. An exploratory-based library research design for this study is appropriate because it enables the researcher to do a depth review of the documentary information on the subject matter ''Accounting Theory Formulation: The Methodological Approach". The secondary source of information was engaged such as relevant journal articles, government publications, bulletins, relevant unpublished papers, accounting theory textbooks, and internet-based materials.

CONCLUSION AND RECOMMENDATIONS

The study of accounting theory formulation, with a focus on the methodological approach, reveals a dynamic and evolving landscape within the accounting profession. Both Positive Accounting Theory (PAT) and Normative Accounting Theory (NAT) have played significant roles, but they are not without their

challenges. PAT, despite its empirical basis, faces criticism for its simplifications and assumptions. It may not fully capture the complexities of human behavior and decision-making in real-world accounting contexts. On the other hand, NAT's ethical and normative principles, while providing a strong foundation for accounting standards, can be criticized for their subjectivity and lack of practicality. The accounting profession stands at a crossroads, where the theories used to guide accounting practices are subject to ongoing debate and evolution. The methodological approach to accounting theory formulation continues to adapt to better align with the dynamic nature of the business environment, societal expectations, and advances in the field.

Based on the conclusion of this study, the following recommendations were made: (i) Future research on accounting theory formulation should consider the integration of both PAT and NAT perspectives, as this could lead to a more balanced and comprehensive approach to understanding and guiding accounting practices; (ii) accounting theory should incorporate insights from behavioral economics and psychology to better understand and predict the behavior of individuals within organizations to bridge the gap between theory and practice; (iii) further studies should focus on how accounting theory can contribute to the harmonization of accounting standards across different jurisdictions for fostering consistency and comparability in financial reporting; (iv) research in accounting theory formulation should place a stronger emphasis on ethical considerations. The integration of ethical frameworks into accounting theory can help address societal demands for transparency, accountability, and ethical accounting practices.

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ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue XI November 2023

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