

The Normative Demarche – a Theoretical Description of the Accounting Normalization

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Abstract: *Through this paper we aim to describe the base definitions of the accounting normalization and of the normative theory of accounting that guides this demarche. One main purpose is to explain the comprising elements of the accounting normalization and the historical and conceptual trail of the creation of the normative demarche. An important role in historical highlighting of the accounting regulation had the theoreticians and academics that have enriched and helped the accounting practices. In this paper we exemplify the structures and institutions that have led the normative demarche over time through the present. The accounting normalization into a normative vision issues a connection of complement with the accounting practices following a process of determination between the two conceptual entities, both at a disjunctive level, when the novelty of the accounting practices require the issuance of regulation and also at a completion level when the accounting regulations generate new practices. The approached subject permanently rise questions over aiding and enhancing the accounting practices being considered necessary the addition and involvement of the targeted institutions and the academics in issuing and formulate new theories that will aid the accounting normalization process. The accounting normalization confirms the access at information of multiple users, tracking the generation of a pertinent, rational decisional process, defining a high trust environment for the managers and investors and also the initiation of arbitration between issuers of the accounting information, auditors and other categories of users.*

Keywords: - *normative demarche, normative theory of accounting, regulatory institutions for accounting regulation, practitioners, users of accounting information.*

1. Introduction

Accounting, seen as a systematic assembly of data that directs the activity of a company has as basis the accounting information. The structuration of the accounting information has required, in accordance with Professor *Bernard Colasse*, a “*normative codification*”. Professor *Ion Ionascu* has explained this concept in one of his reference papers “*The epistemology of accounting*” through assimilating the process of “*normative codification*” with the normalization or standardization of accounting.

The normalization of accounting is based on a forming process of norms and regulations that impose their compliance within companies through the prism of presentation and formation of the accounting information with the purpose of harmonizing the accounting documents in order to obtain a practice improvement.

Thru accounting normalization it regarded as “the process of deliberate application of the accounting norms in order to correctly solve the problems regarding the production and use of accounting information.” (*Horomnea et al., 2008*).

Another expression of the normalization process, beside the strictly dispositive one is that the accounting normalization is also “an activity of scientific research, of substantiation and conclusion of concepts, procedures and accounting terminology.” (*Matiș, 2005*)

Norms form a normative science of accounting, meaning an assembly of systemized knowledge regarding to the criteria of “what it accounting is supposed to be.” As a normative science, accounting represents a logical

instrument of knowledge based on: a system of norms regarding ethics (the science of “what accounting should be”); an assembly of norms or prescriptions which judgment must follow in order to realize an objective; an assembly of practical norms that comprise the real action, art or accounting technique (Ionașcu, 1997).

Accounting normalization, in a normative vision, issues a connection of completion with the accounting practices following a determination process between the two conceptual entities, both at a disjunctive level, when the novelty of accounting practices require new norm issuance and also at an addition level when accounting norms generate new practices.

2. Normative Theory of Accounting

“The validity of the normative theory of accounting is not given by the verification with the facts, as in the case of accounting positivism but given by the acceptability provided to the norms by all participants to the accounting normalization“(Ionașcu, 1997, 74), as a result of a consensus between all categories of users. The accounting normalization has an extended character, intervening in most of the world’s countries by issuing, reuniting and imposing an assembly of accounting norms compiling into a significant theoretical framework for the normative theory of accounting.

The main pillars that hold the normative theory of accounting are represented by the national accounting plan, the general accepted accounting principles and the posture created by the conceptual framework of accounting.

A *national accounting plan* provides three important aspects of normalization: the general framework, its utility as a key instrument within the accounting standardization activity and its certification under the form of a theory or doctrine that provide guidance for the accounting practice.

The accounting plan can be described as being “ the syntax of the whole representation and calculation mechanism for the patrimony’s situation and the result obtained; an instrument thru which are represented, as a value, the patrimony of a company in its wholeness and on component parts, relationships between the patrimonial elements, economic processes and its financing sources; the whole accounting system matrix in which, each account, on various grades of inclusion of patrimonial experiments is delimited thru a description an numerical symbol being included into a class and group in respect of a certain classification criteria.” (http://www.contra.ro/dictionar_online_plan%20de%20conturi.html)

The issue of the first accounting plan has been realized by the accounting theoretician Eugen Schmalenbach, in Germany in 1927; he was aiming to describe an economic vision over accounting thru targeting the elements from the company’s economics regarding the informational flow fixed after the schematics of goods movement within the company. The demarches of Schmalenbach were considered of high importance in the German companies and exceeded the country’s borders, expanding its influence in normalizing the socialist economies such as Austrian, Swiss, Sweden, France etc.

In the vision of French theoreticians, the *General Accounting Plan* has taken multiple changes of content making it a success of the normative activity. The French vision was a reference point in the accounting development for a plethora of countries of the European Union that includes also Romania. In the French approach of the General Accounts Plan from 1982 represented an important core of influences over the development of accounting structures from numerous countries and states several fundamental aspects, according to Professors *Niculae Feleagă* and *Ion Ionașcu* (1998):

- the objective of accounting to represent a fair image;
- the accounting principles as meanings to achieve the objective;
- the accounting harmonization by legal framework;
- the presentation of terms that explain and exemplify the terms and notions used;
- the mechanism that incorporates three presentation systems for the accounting information: a core system, a simplified system and a developed system that contains details of accounting information;
- an accounts plan with a decimal classification structure;
- rules for goods evaluation;

- analysis methods used for assuring access to micro and macroeconomic information;
- specific rules for computing the result;
- rules that dictate the functioning of accounts;
- rules regarding the issue and presentation of synthesis documents.

A General Accounting Plan has the label of a normative-inductive demarche that led to the conclusion that the generalities resulted from the observations of the particular situations do not lead to solving a wide range of practices, this fact representing a limitation of normalization thru the Accounting Plan. Taking into consideration this aspect and the fact that an Accounting Plan does not provide a clear image of the accounting's objectives and the users of the accounting information, the French theoreticians presented the ideas of an accounting normalization based on a *theory of normative-deductive type*. This theory implies the existence of a *conceptual framework* that can explain in its content the objectives of accounting, the need to inform the users of accounting information and represents a foundation in issuing accounting norms.

After the '70 the American organism FASB - „Financial Accounting Standards Board” issued in the accounting normalization domain a conceptual framework of accounting in order to clarify the application of accounting principle. The definition provided by this organism within the conceptual framework was: “the conceptual framework represents a coherent system of objectives and fundamental principles that lead to the formation of substantial norms; in its content there are described the nature, functions and limits of the financial accounting and financial statements” (http://www.sagepub.com/upm-data/49880_ch_7.pdf). Because of the general addressed utility, a conceptual framework can be considered an assembly of norms and principles that coordinate other sub-assemblies of norms and principles.

The American conceptual framework had as purpose the formation and explanation of the accounting's objectives, prior to the elaboration of accounting norms, acting as guidance element for the normalizers. In the content of this framework there are presented details regarding the fact that there are certain privileged users (investors, creditors) and the fact that there are certain economic characteristics of the accounting information (the decisional utility – forecast of future cash-flows regarding the profitability – the retrospective value of information, fidelity, neutrality and its verifiability).

The financial statements on which the American conceptual framework is based are the Balance Sheet, the Income Statement, Cash-flow and Equity Sheets.

A limitation of the American conceptual framework has been represented by the creation of the accounting objectives, by the determination of privileged users and the excessive normalization of the content. The existence of a small number of norms has made it harder for its interpretation at a theoretical level while at a practical level an impossibility was recorded for the complete assimilation of the presented information, fact that generated the provision of a significant accumulation of resources for its study.

The American accounting framework is considered an advance approach of the doctrine accounting process and has influenced the development of accounting theories at the level of the international accounting normalization organism (IASC – International Accounting Standard Council – the International Normalization Comity, the European Community) and at the level of the Anglo-Saxon countries, aiming this way at obtaining improvements of accounting practices.

The International Accounting Normalization (IASC) was assembled in 1973 as a private organism that represented the assembly of accounting profession organizations from all developed countries that had as purposes the issue, publishing and ensure the distribution of the international norms at a global level while, finding that the American financial market has a privileged place in the globalization of the financial markets and has a significant percentage of the global financial resources of commercial entities. The SEC (The Securities and Exchange Commission) has as purpose the expansion of using as a reference element the American accounting principles (US GAAP - Generally Accepted Accounting Principles).

The general accepted accounting principles have represented, after the 50s, the image of a normative-inductive type of theories by naming not only the principles as a whole, but a complete accounting mechanism that includes practice in the domain, the procedures and methods used. These principles have evolved in order to satisfy the accounting practice's needs and have been supported in the process of its application by the elaboration the accounting conceptual framework issued by the FASB,

At a contemporary level, “the general accepted accounting principles determines an assembly of norm that correspond to a good accounting practice, issued by the current organism or their predecessors with attributes in the accounting normalization” (Ionaşcu, 1997, 92).

Compared to the American principles, the norms issued by IASC expose a higher acceptability level, IASC managing this way to bring together several national accounting cultures that unite into an accounting convergence point at a global level. In this posture, in accordance to *Gilbert Gérald* (1997), IASC becomes “a warranty opposed to adoption, to assemblies of financial communities, of American norms issued by Americans, without balancing overlapping, taking into consideration the valid ideas that can be issued by non-Americans”.

A significant result of the accounting normalization process led by IASC consists into the elaboration of the IAS (International Accounting Standards) that subsequently have been directed towards IFRS (International Financial Reporting Standards) and a conceptual accounting framework.

The conceptual framework issued by the IASC represents a more evolved version of the framework issued by FASB and as differences it contains the employees, clients, suppliers, state authorities and the wide public within the group of users of information and uses more evaluation basis (historical price, actual price etc) when taken into consideration the accounting measurement without bias towards a certain category.

A limitation of the conceptual framework issued by the IASC is that the purpose of the norms issued is mainly theoretical having a significant impact over the financial accounting. IASC recognizes that in the case of a conflict emerged between the conceptual framework and an international accounting norm, the last one will impose as obligations over the statements of the conceptual framework.

Another step in the international accounting normalization was carried by the European Union that imposed to its members accounting regulations issued as European Accounting Directives that appeared also under the influence of the Anglo-Saxon doctrine and also under the influence of the continental doctrine. These Directives address to SMEs while the IASC addresses towards publicly traded companies.

A distinctive attention was given in settling a process that will ensure the compatibility between the European accounting norms and the international accounting norms.

The European Comity introduced in 2001 the obligation to use the IAS referential for the publicly traded European entities, the main purpose being to establish the compatibility between Directives and IAS norms.

The European Union expressed its opinion regarding the necessity of a high quality financial reporting sustaining the elimination of the differences between the American reporting norms (US GAAP) and the IASB ones (IFRS). Since 2005, the European Union imposed to the publicly traded companies the application of IFRS into the issue of the consolidated financial statements, creating this way a precedent for a high number of countries such as Australia, China, Russia etc.

The selection of the IAFR in Europe is highlighted thru two aspects: ”thru the intrinsic characteristics of the IFRS: norms are issued by an international organism – IASB – these norms having the vocation of being broadcasted worldwide, oriented toward the needs of investors, being recommended by the International Organization Of Securities Commissions (IOSCO) for all the international quotations; and thru the political decision to move away from the American norms (US GAAP), Europe having no influence into the elaboration of these norms issued mainly for the American economy.” (Tabără et al., 2010, 123).

3. Conclusions

The normative theories have as starting point an assembly of standards and principles out of which we name IFRS/IAS, assembly that delimits, in the established context, the development of a guide that contains accounting practices and procedures. Within these theories the *deductive judgment* is used as purpose to obtain an improvement of the described environment. “A theoretical normative system needs a valued judgment in order to be validated. This inclusion of valued judgment makes the difference between the notion of “normative” and “positive” (Schreuder, 1983, 3). “Theories are essentially normative and formative, meaning that it assumes value judgments and model future actions. In *Steve Smith*’s words, “theories not only explain or forecast it provides what possibilities for action or human intervention exists; it defines not only our explicative possibilities but also our ethical and practical horizons.” (Todorean, p. 45).

The accounting practices, into the normative vision, impose the compliance with the standards and legislation in order to achieve its major objective to obtain and prescribe of solutions and improvements of the accounting treatment. The professional judgment, guided by the existing norms, is strictly directed by the regulated framework, fact that leads to the highlighting of the idea that the professional judgment has the tendency of overlapping from a decisional utility point of view with the normative theory of accounting.

Realizing an abstracting of the concepts “professional judgment” and “normative character” of the accounting theories we can state that there is a slight inclination towards the equivalency of these theoretical constructions. This equivalency emerges as a consequence of understanding the professional judgment as a professional conduit element pre-established and provided in the normative acts.

The interests of building an accounting normalization don't always converge, being biased purposes for each category of users: the state is after the disposition of resources by taxation, big companies want an improvement of market exposure thru a significant stock quote, auditors seek to bend the content of the norms towards underlining the need of their services and the financial analysts seek that thru the formation of accounting norms to obtain certain analytical information.

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