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NORMATIVE THEORY AND EMPIRICAL THEORY IN ACCOUNTING AND AUDITING RESEARCH

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ABSTRACT
In the realm of accounting and auditing, both normative theory and empirical theory hold significant positions in the research process and the application of research methodologies. This paper delves into the examination and analysis of these two theories, while also proposing potential directions for the advancement of empirical accounting research in Vietnam.

Keywords:
Normative theory, empirical theory, accounting, auditing, Vietnam.

1. INTRODUCTION

In the fields of accounting and auditing, the application of appropriate theories is crucial for a deeper understanding of complex issues within financial systems and business management. Throughout the research and analysis process, the two most important theories that researchers often focus on are normative theory and empirical theory. Normative theory focuses on identifying principles, rules, and standards that should be applied in the fields of accounting and auditing. It provides a framework for what should be done based on established regulations, principles, and standards. On the other hand, empirical theory emphasizes the collection of real-world data and its utilization to draw conclusions and predictions based on actual circumstances. By combining both normative theory and empirical theory, researchers can gain a deeper understanding of how regulations and standards are applied in practice, while also providing insights into the real-world situations and trends within businesses and financial systems. This helps generate research with high applicability and practical value for both the accounting and auditing fields.

2. NORMATIVE ACCOUNTING THEORY

Normative accounting theory is the theory that is formed based on applying logical arguments from identifying the objectives of accounting information to forming assumptions, concepts, and fundamental accounting principles. The foundational logic for normative accounting theory inherits and develops basic frameworks such as decision theory, measurement theory, and information system theory. Historically, normative accounting theories flourished and became dominant trends in the 1950s and 1960s, contributing significantly to the formation of global accounting regulations. Some typical accounting theories embodying normative theories include Mattessich and Chamber's research in the 1960s, which addressed aspects of the nature of accounting. Particularly, Mattessich's work "Accounting and Analytical Methods," published in 1964, expanded the scope of accounting to include measurement theory, valuation theory, behavioral science, and management. This laid the foundation for general accounting theory. In this work, he also mentioned 18 basic assumptions that he deemed necessary and sufficient in accounting. These assumptions include currency value, accounting period, structure, dual aspect, synthesis, economic objects, debts, economic agents, accounting units, economic transactions, valuation, realization, classification, input data, term, expansion, significance, and allocation. Similarly, R.J Chambers also discussed basic assumptions in accounting, presenting 13 assumptions and definitions in his book "Accounting, Evaluation, and Economic Behavior" in 1966. Moonitz, in his study published in 1962, "Orientations of accounting principles applicable to businesses," also focused on accounting assumptions and principles. Additionally, many accounting theory researchers during this period had influential studies contributing to the flourishing development of normative accounting theory, such as E.O Edward and P.W Bell's "Theory and measurement of business results" in 1961; Geoger Stabus with "Accounting Theory for Investors" in 1961; Pallen Hensen with "Concepts of profit accounting" in 1962; Ijijri with "Measurement bases in accounting"… Normative accounting theory explains the provisions of the accounting framework and accounting standards. Normative accounting theory dictates how transactions should be recognized and disclosed. This means that normative accounting theory answers the question "what should financial report preparers do." In accounting, normative accounting theory prescribes accounting procedures that accountants should follow without relying on real-world observations.

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3. EMPIRICAL ACCOUNTING THEORY

Empirical accounting theory emphasizes testing assumptions or identifying relationships between assumptions or theories and real-world events to explain and forecast the dynamics of accounting practices. Historically, empirical accounting theories have been developed and become popular since the 1970s. The mission of empirical theories is to explore the relationship between theory and practice while providing forecasts about the trends of accounting practices. Moreover, empirical research also focuses on studying the interaction of accounting with other economic issues such as stock markets, corporate governance, and societal behaviors. Pioneering researchers who made significant contributions to the development of empirical accounting theory include Watts and Zimmerman with their study "Toward a Positive Theory of the Determination of Accounting Standards" in 1978 and their work "Positive Accounting Theory" in 1986. An outstanding aspect of empirical accounting during this period is the relationship between accounting information and the capital market, particularly the impact of the stock market on accounting information. Researchers Ball and Brown conducted an important empirical study on "An Empirical Evaluation of Accounting Income Numbers."

Empirical accounting theory explains and forecasts daily accounting activities in practice. It helps us answer questions like "what is happening every day, why do financial report preparers behave this way, what motivates them to do so?" Therefore, instead of focusing on regulations to be implemented in normative accounting, empirical accounting theory provides opportunities to explore and explain phenomena that have not yet occurred or have been observed but not in the financial and accounting world.

Empirical accounting research is the premise for explaining accounting events in reality, especially in the Vietnamese stock market, where financial reporting significantly impacts investor decisions and interests. It also provides opportunities to explore and explain phenomena that have not yet occurred or have been observed but not in the financial and accounting world. Empirical accounting often applies advanced statistical or econometric methods to verify hypotheses.

Some branches of empirical accounting research include studies on accounting in capital markets and studies on earnings management behaviors. In the Vietnamese stock market, if our accounting researchers apply empirical accounting theory, they may verify and conclude the fluctuations in stock prices under the impact of accounting information, such as those of Vinaconex or Vinashin. Research on earnings management behaviors, turning losses into profits and vice versa, seems to be more relevant to the Vietnamese stock market. Many intentional actions to mask profits/losses of listed companies are adjusted by auditors. Empirical accounting theory investigates the causes and explanations for these actions. Typically, empirical accounting research studies opportunistic behaviors based on the interests of different groups, such as the owner-manager-lender relationship, or the Agency Theory. Each group has different interests, and their actions usually serve the interests of the group.

Empirical accounting theory also studies the impact of earnings on factors such as Political Costs. Political costs for businesses are considered non-contractual costs. For example, the company's trade union may pressure the leadership for higher wages when the company earns high profits. This motivates the leadership to manipulate profits through accounting tricks. A specific example in the Vietnamese stock market is the case of Bong Bach Tuyet Joint Stock Company, which manipulated losses into profits in two years before listing to meet the prerequisites for listing shares on the stock market. Or, the Vietnam Electricity Group (EVN) claimed losses and demanded a price increase while salaries and bonuses are among the highest in Vietnam.

Empirical accounting theory helps us explain the causes of these events. Therefore, different users of accounting information will take different actions. If, as an auditor, one identifies that if all auditors deeply understand the causes of profit impact and its effect on the market, audit risks can be minimized. Investors who understand the trends of stock price fluctuations before accounting information will take appropriate actions. Or, policymakers, accounting policy makers can issue appropriate policies to transparentize the market, thereby enhancing market quality.

4. Development directions of empirical accounting in Vietnam

Empirical accounting theory becomes necessary when accountants find standard accounting theory disappointing, as the latter focuses solely on regulations to answer “what should financial report preparers do?” without explaining “why do they do it?” or “how is accounting actually conducted?" In Vietnam, some researchers have shown interest in empirical accounting theory. Phan Le Thanh Long's study (2010) suggests that empirical accounting theory explains and predicts daily accounting activities in reality, thereby explaining the reasons for the existence of those events, thus answering questions about what is happening and why it is happening. This researcher also proposed that empirical impact studies would be the best basis for policymakers in introducing new accounting policies or amending and refining existing ones. Le Ha Nhu Thao's research (2012) also provided

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an overview of some studies on empirical accounting theory, affirming the necessity of empirical accounting theory for the accounting and finance field. Nguyen Huu Anh (2013), in his study on the contributions of accounting theory schools, pointed out that empirical accounting theory is the dominant contemporary research stream.

Currently, the issuance of new accounting regulations in Vietnam still relies on the experiences of relevant individuals. Empirical studies in the market have had little impact on establishing new accounting policies, such as issuing standards on financial instruments. This also significantly affects the development of empirical accounting in Vietnam. The development of empirical research is seen as a crucial premise for the development of the accounting industry in Vietnam, towards a more sophisticated accounting system that not only complies with international accounting standards but also suits the practical context of Vietnam. Moreover, the integration of empirical accounting theory into policymaking processes can lead to more informed and effective decisions, ensuring the relevance and applicability of accounting practices in Vietnam's dynamic business environment. Thus, fostering further research and application of empirical accounting theory is essential for the continued growth and advancement of the accounting profession in Vietnam.

CONCLUSION

In the fields of accounting and auditing, applying both normative and empirical theories is crucial to gain a comprehensive and profound understanding of complex issues in financial systems and business management. Normative accounting theory provides a framework of regulations, principles, and standards that should be applied, while empirical theory uses real data to evaluate and draw conclusions based on actual situations. By combining both theories, researchers can produce highly applicable studies that provide practical value to both accounting and auditing fields. Understanding regulations, principles, and standards, combined with grasping the real situations in enterprises and financial systems, helps ensure that decisions and analyses are accurate and effective. In summary, the integration of normative and empirical theories is extremely important in the research process in the accounting and auditing fields and contributes to bringing about new and meaningful advancements for both the industry and the research community.

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