

**Antoniuk O. R.** [1; ORCID ID: 0000-0001-5703-9115],  
Doctor of Economics, Professor

*<sup>1</sup>National University of Water and Environmental Engineering, Rivne*

## **POSITIVE ACCOUNTING THEORY (PAT): OVERVIEW OF CONCEPTUAL PROVISIONS**

**This paper reviews the positive accounting theory (PAT). The article reveals the basic provisions of the positive accounting theory. The philosophical objective of positive accounting theory is to explain and predict current accounting practice. Positive accounting theory seeks to understand why accounting practices are employed by accountants in different circumstances and by different firms. The three hypotheses of positive accounting theory were described: the bonus plan hypothesis, the debt covenant hypothesis, the political cost hypothesis. PAT emphasizes whether the accounting theory put forward in the accounting literature can explain the accounting practices carried out and predict the cause of the phenomenon that is happening now and its influence in the future.**

**Keywords:** positive accounting theory; PAT; normative accounting theory; accounting research; accounting.

**Formulation of the problem.** Accounting policies – specific principles, bases, arrangements, rules and practices applied by an entity in preparing and presenting financial statements. From the definition of accounting policy follows the possibility of the company to choose certain principles, methods and procedures (in accordance with Ukrainian law) or certain principles, bases, agreements and rules (in accordance with international law. Due to the importance of accounting policy, there are many scientific and practical publications on the formation of accounting policy. However, less attention is paid to the theoretical preconditions for the formation of accounting policies. From this point of view, the international experience is interesting, in particular the so-called positive accounting policy. In foreign practice, during the 1950s and early 1960s accounting research was done more on policy recommendations and what should be done, not on analysis and explanation of existing accounting practices. This normative theory is widely criticized because the rationale used to analyze this theory is considered too simple and does not provide a strong theoretical basis. Watts and Zimmermen provided an alternative approach to

research in accounting known as positive accounting theory (PAT). This topic remains relevant, as evidenced by publications in recent years, including 2020 [4; 7]. However, in Ukraine, this theory is less studied and covered.

**The purpose of the article.** The purpose of the article is to explore the essence of the concept of positive accounting policy, to identify its features and characteristics.

**Analysis of recent research and publications.** Positive accounting research was first discovered by William H. Beaver (1968) with the publication of an article entitled «The Information Content of Annual Earnings Announcements» (Jensen & Meckling, 1976) [4]. Furthermore, positive accounting theory was recognized when Watts & Zimmerman published his article entitled «Towards a Positive Theory of the Determination of Accounting Standards» in 1978 [4]. In recent years, there have been publications on the application of theory in practice. The study presented by C. T. Setyorini, Z. Ishak provides an examination of Indonesian corporate social and environmental disclosure in the Positive Accounting Theory (PAT) perspective. This study identified three key hypotheses such as management compensation hypothesis (bonus plan hypothesis), the debt hypothesis (debt/equity hypothesis), and the political cost hypothesis. The regression analysis shows that corporate social and environmental in Indonesia is associated with: ROA, firm' size, and firm's earning management. Thus, the result support the bonus plan hypothesis and political cost hypothesis, conversely debt/equity hypothesis cannot be support [1]. Another authors [6] found that analyzed companies had the incentives to preform opportunistic accounting choices, such as the ones predicted by the PAT hypothesis and had also done through several situations in its business life cycle that could have influenced it to perform opportunistic accounting choices. Ma Yisha wrote, that since positive accounting theory plays an increasingly important role in the economy, the article discusses the implications of positive accounting, the meaning, the theory of accounting; the efficiency perspective and opportunistic perspective; the consistency between two perspectives on the financial position basis [7].

**Outline of the main research material.** «Positive accounting theory seeks to explain a process, which uses the ability, understanding, and knowledge of accounting and the use of accounting policies that are most suitable for dealing with certain conditions in the future. Positive accounting theory in principle assumes that the purpose of accounting theory is to explain and predict accounting practices. The purpose of positive accounting theory is to explain (to explain) and predict (to

predict) accounting practices. Explanation means giving reasons for the observed practice. For example, positive accounting theory seeks to explain why companies continue to use historical cost accounting and why certain companies change their accounting techniques» [4].

Positive accounting theory (PAT) is concerned with predicting such actions as the choices of accounting policies de firm managers and how managers will respond to proposed new accounting standards. PAT takes the view that firm organize themselves in the most efficient manner, so as to maximize their prospects for survival – some firms are more decentralized than others, some firms conduct activities inside while other firms conduct out the same activities, some firms finance more with debt than others.

A firm can be viewed as a nexus of contracts, that is, its organization can be largely described by the set of contracts it enters into. For example, contracts with employees (including managers), with suppliers, and with capital providers are central to the firm`s operations. The firm will want to minimize the various contracting costs associated with these contracts. These include costs of negotiation, costs arising from moral hazard and monitoring of contract performance, costs of possible renegotiation or contract violation should unanticipated events arise during the terms of the contract, and expected costs of bankruptcy and other types of financial distress. Contracting costs also affect the firms cost of capital, since bonds and shares represent contracts between the firm and its capital providers. Contracts with the lowest contracting costs are called efficient contracts.

Many of these contracts involve accounting variables. Thus, employee promotion and remuneration may be based on accounting – based performance measures such as net income, or the meeting of pre-set individual targets, such as control. Contracts with suppliers may depend on liquidity and financing variables. Lenders may demand protection in the form of maintenance of certain financial ratios such as debts-to-equity or terms interest earned or minimum levels of working capital or equity. This recognition of the possibility of opportunistic behavior points out an important assumption. PAT assumes that managers are rational (like investors) and will choose accounting policies in their best interests if able to do so. That is, managers maximize their own expected utility. Thus, PAT does not assume that the manager will simply act so as to maximize firm profit. Rather, the manager will only maximize profits if he perceives this to be in his own best interests.

The optimal set of accounting policies for the firm then represents a compromise. On the one hand, tightly prescribing accounting policies beforehand will minimize opportunistic accounting policy choice by managers, but incur costs of lack of accounting flexibility to meet changing circumstances, such as new accounting standards that effect net income. On the other hand, allowing the manager to choose from a board array of accounting policies will reduce costs of accounting inflexibility, but expose the firm to the costs of opportunistic manager behavior.

PAT emphasizes the need for empirical investigation to determine how the trade off between cost of capital and contracting costs, the flexibility for managers to choose from a set of accounting policies and the corporate governance structure itself, varies from firm to firm depending on its environment. Ultimately the objective of the theory is to predict managerial accounting policy choice in different circumstances and across different firms.

Thus PAT does not attempt to tell individuals or constituencies what they should do. Theories that do this are called normative. Whether normative theories have good predictive abilities depends on the extent to which individuals actually make decisions as those theories prescribe. Certainly, some normative theories have predictive ability – we do observe individuals diversifying their portfolio investments, for example.

The predictions made by PAT are largely organized around three hypotheses, formulated by Watts and Zimmerman (1986) [2; 3]. We will give these hypotheses according to Watts and Zimmerman (1990) this is how they have most frequently been interpreted [2; 3]. We mean that managers choose accounting policies in their own best interests.

The bonus plan hypothesis [2; 3] – all other things being equal, managers of firms with bonus plans are more likely to choose accounting procedures that shift reported earnings from future periods to the current period. This hypothesis seems reasonable. Firm managers, like everyone else, would like high remuneration. If their remuneration depends, at least in part on a bonus related to reported net income, then they may be able to increase their current bonus by reporting as high a net income as possible. One way to do this is to choose accounting policies that increase current reported earnings. Of course, due to the nature of the accrual process, this will tend to lower future reported earnings and bonuses, other things equal. If the manager is risk-averse, he will prefer accounting policies that smooth reported earnings, since a less variable bonus stream has higher expected utility than a volatile one, other things equal.

The debt covenant hypothesis – all other things being equal, the closer a firm is to violation of accounting based debt covenants, the more likely the firm manager is to select accounting procedures that shift reported earnings from future periods to the current period [2; 3].

The reasoning is that increasing reported net income will reduce the probability of technical default. Most debt agreements contain covenants that the borrower must meet during the term of the agreement. For example, a borrowing firm may covenant to maintain specified levels of interest coverage, debt-to-equity, working capital and shareholders equity. If such covenants are violated, the debt agreement may impose penalties, such as constraints on dividends or additional borrowing.

Clearly, the prospect of covenant violation management's actions in running the firm. To prevent, or at least postpone, such violation, management may adopt accounting policies to raise current earnings. According to the debt covenant hypothesis, as the firm approaches default, it is more likely to do this. The manager may object to accounting policies that increase earnings volatility, since this increases the probability of future covenant violation.

The political cost hypothesis – all other things being equal, the greater the political costs by a firm, the more likely the manager is to choose accounting procedures that defer reported earnings from current to future periods [2; 3].

The political cost hypothesis introduces a political dimension into accounting police choice. For example political costs can be imposed by high profitability, which may attract media and consumer attention. Such attention can quickly translate into political «heat» on the firm, and politicians may respond with new taxes or other regulations. This has happened to oil companies during periods of restricted crude oil supply and rising gasoline prices. In the past, resulting public anger has led, in the United States, to special taxes on oil companies to take the excess profits. As a result, oil company managers may feel that, for example, switching to LIFO would reduce the likelihood of this happening again.

Often, sheer size can lead to political costs. Very large firms may be held to higher performance standards, for example with respect to environmental responsibility, simply because they are felt to be large and powerful. If the large firm are also highly profitable, such political costs will be magnified [5]. Also firms may face political costs at particular points in time. Foreign competition may lead to reduced profitability unless affected firms can influence the political process to grant important protection. One way to do this would be to adopt income

decreasing accounting policies in an attempt to convince the government that profits are suffering. These three hypotheses form an important component of PAT.

**Conclusions.** To understand managements interests in financial reporting, it is necessary to appreciate the concept of economic consequences, namely that accounting policies matter, and role of positive accounting theory (PAT) in explaining why they matter. PAT attempts to understand and predict accounting policy choices. At its most general level it asserts that accounting policy choice is part of the firms overall need to minimize its cost of capital and other contracting costs. The accounting policies that do this are largely determined by the firms organization structure, which in turn is determined by its environmental. Thus, accounting policy choice is part of the overall process of corporate governance.

1. Setyorini C. T., Ishak Z. Corporate social and environmental disclosure: A positive accounting theory view point. *International Journal of Business and Social Science*. 2012. Vol. 3. No. 9. May 2012. URL: [http://www.ijbssnet.com/journals/Vol\\_3\\_No\\_9\\_May\\_2012/17.pdf](http://www.ijbssnet.com/journals/Vol_3_No_9_May_2012/17.pdf). (дата звернення: 20.10.2020). 2. Deegan C. (2014). *Financial Accounting Theory*. Australia : McGraw-Hill. 3. Scott W. R. (2015). *Financial Accounting Theory*. Canada : Pearson Prentice-Hall. 4. Wiratama R., Marselinus A. A Literature Review: Positive Accounting Theory (PAT) (January 22, 2020). URL: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3523571](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3523571). (дата звернення: 20.10.2020). 5. *Accounting and Corporate Reporting. Today and Tomorrow*. Edited by Soner Gokten. Başkent University, Turkey, 2017. URL: <https://www.intechopen.com/books/accounting-and-corporate-reporting-today-and-tomorrow/accounting-choices-in-corporate-financial-reporting-a-literature-review-of-positive-accounting-theor>. (дата звернення: 20.10.2020). 6. Silva A. H. C., Sancovschi M., Santos A. G. C. (2019). The opportunistic approach of the Positive Accounting Theory (PAT) fails to explain choices made at OGX: An anomalous situation? *Revista De Contabilidade E Organizações*, 13. URL: <https://www.revistas.usp.br/rco/article/view/164412/161414>. (дата звернення: 20.10.2020). 7. Ma Yisha. Analysis on Efficiency and Opportunistic Perspective under the Pat. *The Frontiers of Society, Science and Technology*. (2020). Vol. 2. Issue 17. 71–79. URL: <https://francispress.com/papers/3254> (дата звернення: 20.10.2020).

## REFERENCES:

1. Setyorini C. T., Ishak Z. Corporate social and environmental disclosure: A positive accounting theory view point. *International Journal of Business and Social Science*. 2012. Vol. 3. No. 9. May 2012. URL: [http://www.ijbssnet.com/journals/Vol\\_3\\_No\\_9\\_May\\_2012/17.pdf](http://www.ijbssnet.com/journals/Vol_3_No_9_May_2012/17.pdf). (data zvernennia: 20.10.2020). 2. Deegan C. (2014). *Financial Accounting Theory*. Australia : McGraw-Hill. 3. Scott W. R. (2015). *Financial Accounting Theory*. Canada : Pearson Prentice-Hall. 4. Wiratama R., Marselinus A. A Literature Review: Positive Accounting Theory (PAT) (January 22, 2020). URL: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3523571](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3523571). (data zvernennia: 20.10.2020). 5. *Accounting and Corporate Reporting. Today and Tomorrow*. Edited by

Soner Gokten. Başkent University, Turkey, 2017. URL: <https://www.intechopen.com/books/accounting-and-corporate-reporting-today-and-tomorrow/accounting-choices-in-corporate-financial-reporting-a-literature-review-of-positive-accounting-theor.> (data zvernennia: 20.10.2020). 6. Silva A. H. C., Sancovschi M., Santos A. G. C. (2019). The opportunistic approach of the Positive Accounting Theory (PAT) fails to explain choices made at OGX: An anomalous situation? *Revista De Contabilidade E Organizações*, 13. URL: <https://www.revistas.usp.br/rco/article/view/164412/161414>. (data zvernennia: 20.10.2020). 7. Ma Yisha. Analysis on Efficiency and Opportunistic Perspective under the Pat. *The Frontiers of Society, Science and Technology*. (2020). Vol. 2. Issue 17. 71–79. URL: <https://francis-press.com/papers/3254> (data zvernennia: 20.10.2020).

---

**Антонюк О. Р.** [1; ORCID ID: 0000-0001-5703-9115],  
д.е.н., професор

<sup>1</sup>Національний університет водного господарства та природокористування, м. Рівне

## **ПОЗИТИВНА ТЕОРІЯ БУХГАЛТЕРСЬКОГО ОБЛІКУ (PAT): ОГЛЯД КОНЦЕПТУАЛЬНИХ ПОЛОЖЕНЬ**

У статті розглядається позитивна теорія бухгалтерського обліку (PAT), її основні положення. Філософська мета позитивної теорії бухгалтерського обліку – пояснити і передбачити поточну бухгалтерську практику. Позитивна теорія бухгалтерського обліку прагне зрозуміти, як бухгалтерська практика реалізується бухгалтерами при формуванні облікової політики з врахуванням виду діяльності підприємства. Позитивна теорія бухгалтерського обліку прагне пояснити процес формування облікової політики, яка є найбільш придатною для вирішення певних умов підприємства у майбутньому. Мета позитивної теорії бухгалтерського обліку – пояснити та передбачити бухгалтерські практики. У статті, на основі опрацювання міжнародного досвіду показано, що теорія позитивного бухгалтерського обліку включає передбачення таких дій, як вибір облікової політики керівників фірм та реакція менеджерів на запропоновані нові стандарти бухгалтерського обліку. У статті описано три гіпотези позитивної теорії бухгалтерського обліку: гіпотеза бонусного плану, гіпотеза боргових угод, гіпотеза політичних витрат. Гіпотеза бонусного плану вказує, що за інших рівних умов керівництво фірм, що мають плани, швидше за все вибирає процедури бухгалтерського обліку, які переносять валовий дохід із майбутніх періодів на поточний. Гіпотеза про борговий договір передбачає, що, якщо фірма має боргові зобов'язання і договори, тим більша ймовірність того, що керівництво фірми обирає бухгалтерські процедури, які валовий дохід переносять із майбутніх періодів на поточний. Гіпотеза політичних витрат – за інших рівних умов, чим більші політичні витрати фірми, тим більша ймовірність того, що менеджер

вибере процедури бухгалтерського обліку, які переносять дохід (прибуток) поточного періоду на майбутні періоди. Позитивна теорія бухгалтерського обліку підкреслює, що теорія бухгалтерського обліку, запропонована в бухгалтерській літературі, може пояснити застосовувані методи бухгалтерського обліку і передбачити причину змін, які відбуваються зараз, її вплив при формуванні стандартів обліку та фінансової звітності.

**Ключові слова:** позитивна теорія бухгалтерського обліку (PAT); бухгалтерські дослідження; бухгалтерський облік.

---

**Антонюк Е. Р.** [1; ORCID ID: 0000-0001-5703-9115],  
д.э.н., профессор

<sup>1</sup>Национальный университет водного хозяйства и природопользования, г. Ровно

### **ПОЗИТИВНАЯ ТЕОРИЯ БУХГАЛТЕРСКОГО УЧЁТА: КОНЦЕПТУАЛЬНЫЕ ПОЛОЖЕНИЯ**

В этой статье рассматривается позитивная теория бухгалтерского учёта (PAT), основные положения позитивной теории бухгалтерского учета. Цель позитивной теории бухгалтерского учета – объяснить и предсказать текущую бухгалтерскую практику. Позитивная теория бухгалтерского учета направлена на понимание того, как бухгалтерская практика реализуется бухгалтерами при формировании учётной политики в соответствии с видом предприятия и родом его деятельности. В статье описаны три гипотезы позитивной теории бухгалтерского учета: гипотеза бонусного плана, гипотеза о долговом соглашении, гипотеза политических издержек. Позитивная теория бухгалтерского учёта подчеркивает, может ли теория бухгалтерского учета, предложенная в бухгалтерской литературе, объяснить применяемые методы бухгалтерского учета и предсказать причину изменений, которые происходят сейчас, её влияние на формирование стандартов учёта и финансовой отчётности.

**Ключевые слова:** позитивная теория бухгалтерского учета (PAT); бухгалтерские исследования; бухгалтерский учет.

Стаття надійшла до редакції 01.11.2020 р.